BDC
Entrepreneurs first

RESILIENCE
AMBITION
INNOVATION

Annual Report 2012

Canada

ENTREPRENEURS:
RESILIENT, AMBITIOUS, INNOVATIVE

HOW CAN WE HELP?

ASKING THE RIGHT QUESTIONS

ONE ENTREPRENEUR AT A TIME

DO YOU WANT TO GROW?

DO YOU KNOW HOW TO INNOVATE?

DO YOU HAVE THE RESOURCES YOU NEED?

SHA NADARAJAH
ASHOK PARAMESWARAN

Co-founders
SEDNAVOICE
Toronto, ON

"BDC helped us innovate to attract more clients to our website."

SednaVoice sells low-cost business phone systems that place calls over the Internet.

It had a problem that is common for small and medium-sized enterprises and crucial to its own competitiveness: its website wasn't attracting customers.

Says Sha:
"The Internet is where people are looking for services these days—everything from a barber shop to phone services. But we weren't reaching people on the Web!"

HOW DID BDC HELP?

BDC helped Sha and Ashok:

> plan and develop relevant, interesting content aligned with their business strategy, which people will find interesting and want to share;

> select and place precise keywords throughout the website content to attract Google's radar; and

> design a strategy to attract people who are using social media like Facebook, Twitter and YouTube by posting compelling information and encouraging others to share it widely.

RESULTS

Number of visitors to website

Duration of visits to website

SednaVoice sales

QUESTIONS FOR JOHN A. MACNAUGHTON, CHAIRMAN

BDC'S MANDATE IS TO SUPPORT ENTREPRENEURS, WITH PARTICULAR CONSIDERATION GIVEN TO THE NEEDS OF SMALL AND MEDIUM-SIZED ENTERPRISES. DID IT DELIVER ON THIS MANDATE?

Yes, it did. It supported more than 28,000 Canadians who are creating, managing, and growing small and medium-sized businesses.

WHY ARE INDIVIDUAL ENTREPRENEURS **SO IMPORTANT?**

The ambitions, decisions and actions of individual entrepreneurs are the basis of an innovative, competitive national economy. Simply put, Canada needs entrepreneurs who make innovation and growth part of their business strategy—and who succeed.

They're more than important. They're irreplaceable.

Remember as well that their competitors are often people like them in other countries who are targeting consumers in Canada. This means that some of our entrepreneurs are facing international competition here in Canada. Others, ambitiously, are looking to grow their businesses overseas.

LAST YEAR, THE GOVERNMENT ASKED BDC TO HELP ENTREPRENEURS USE INFORMATION AND COMMUNICATIONS TECHNOLOGIES IN THEIR BUSINESS PLANS AND OPERATIONS. **DID BDC DELIVER?**

Yes. Entrepreneurs boost their competitiveness when they innovate by using information and communications technologies. These technologies help them succeed in today's Internet-driven, automated world.

For those who want to know more about how these technologies are relevant to and useful for business, BDC now offers free information. For those who want to know whether their firm can profit from these technologies or whether their strategy and website are effective, BDC now offers free assessments. Finally, for entrepreneurs who want consulting advice and financial support designed for this purpose, BDC now offers both.

I am pleased at how BDC quickly innovated to meet this shareholder request. It wasn't an easy task. Providing this service requires the use of a sophisticated network. Because small and medium-sized firms are spread unevenly across Canada, some parts of the country have a very limited supply of service expertise.

In fiscal 2012, more than 16,000 entrepreneurs benefitted from these new, specialized services.

HOW DID BDC HELP SUPPORT THE GOVERNMENT'S ECONOMIC ACTION PLAN?

It helped in three significant ways: through the Business Credit Availability Program (BCAP), the Canadian Secured Credit Facility (CSCF) and BDC's venture capital investments.

First, with BCAP, BDC worked with Export Development Canada and private sector financial institutions to help entrepreneurs who were having difficulty getting business credit, which had become harder to find and more expensive to obtain. To help, BDC lent a historically high volume of money.

In total, BCAP supported more than 10,000 clients through the difficult period. The entrepreneurs who benefited the most from BCAP were those in the manufacturing, wholesale and retail, tourism, and natural resources sectors, and those with commercial properties.

BDC has wound down its BCAP activities, and lending has returned to pre-recession levels.

Second, to help re-establish the public term securitization market, BDC created and managed the CSCF and bought almost $3.7 billion in asset-backed securities. As planned, this helped stimulate investor interest in the Canadian automobile asset-backed securities market. BDC then started offering support for smaller players in the market. The Multi-Seller Platform for Small Originators (MSPSO), which collaborates with private sector players, helps businesses improve productivity with vehicles, machinery and equipment.

The CSCF, which ended on March 31, 2010, was successful. Market players have attested to this. Also, as the amount of capital needed to help restore investor confidence was less than first anticipated, BDC has already returned the unused capital to the government.

Third, BDC continued to support entrepreneurs in the venture capital ecosystem. While most other sources of capital retreated, BDC continued investing in technology companies and private sector funds. Very significantly, it also refined its strategy so that it would have greater positive impact as an industry catalyst.

WHAT'S AHEAD FOR BDC?

Credit availability has improved, but there is still a demand for BDC's services.

As always, BDC has to ensure that its services remain relevant, effective and efficient, and that these services evolve in tandem with the needs of entrepreneurs. Also, its services have to continue to complement those of private sector financial institutions.

We are looking forward to the next steps in the legislative review of the *Business Development Bank of Canada Act*. This review, which began in autumn 2010, is an opportunity for the Minister of Industry, in consultation with the Minister of Finance, to examine the provisions of the Act to determine whether they are still appropriate for the support BDC is to provide entrepreneurs. This process involves many interested parties, and the discussions have covered much ground.

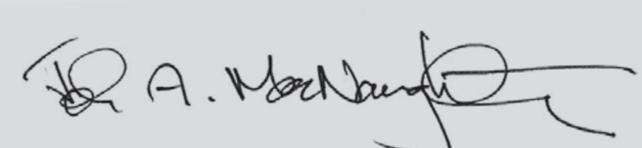
In my view, it's fundamentally important that Canada's entrepreneurs tackle the competitive challenges of the complex, fast-changing global marketplace, as well as benefit from the opportunities found there. To succeed, they must be ambitious and innovative. They also need the desire, skills, capital and networks to grow. Achieving these goals may require our support.

We've recommended that BDC be granted flexibility to match that required of entrepreneurs, and we are encouraged by the general agreement and support that this proposal has attracted.

ANY FINAL WORDS?

Yes—I'd like to thank my board colleagues for their continued support. I was delighted to have been re-appointed to this role and am happy as well to welcome back Brian Hayward for another term. I believe this continuity serves BDC well.

Also, on behalf of the board of directors, I'd like to thank everyone at BDC for their dedication to entrepreneurs, their professionalism and their hard work.



John A. MacNaughton
Chairman

"**BDC took a risk**—it stood by me while I worked to put my business back on track."

ROBERT STEGMEIER

President
KAYMOR MACHINING AND WELDING
Clairmont, AB

Robert's company is a machining and welding business.

When the Albertan economy calmed, sales suddenly dried up—this at a time when the firm was in debt, largely because of a new building it had moved into just before the downturn.

Robert says he came agonizingly close to losing the company he had spent years building into an industry leader. But he wasn't ready to give up.

HOW DID BDC HELP?

BDC helped Robert by:

> recognizing his efforts to save his business and validating his plan to cut costs and make Kaymor more efficient;
> supporting the plan and providing financing adapted to it; and
> communicating with him regularly to track progress.

RESULT

Robert's business is profitable again.

QUESTIONS FOR JEAN-RENÉ HALDE, PRESIDENT AND CEO

HOW DID BDC’S 28,000 ENTREPRENEUR CLIENTS DO LAST YEAR?

I am very pleased to report that our clients did quite well. They’ve shown resilience through the recession and, as a whole, improved their financial positions.

YOU ENCOURAGE ENTREPRENEURS TO INNOVATE. WHAT DO YOU MEAN BY THIS?

I mean that they should deliberately place innovation at the heart of their business strategy. This means discovering what their clients want, and innovating to develop the product or service that meets this need and innovating in how they bring it to market. It also means they should grow their business and be as good as the best in the world.

Mind you, I certainly don’t mean that everyone should strive or expect to develop the next globally best-selling high-tech device. Most innovations happen when people improve or refine existing products, services, processes and methods. This sort of “incremental” innovation is where much of the gold is found.

CAN YOU GIVE ME AN EXAMPLE?

Certainly. One of our clients, Pierre Martell in Moncton, has a traditional business: he builds houses. He innovated by using the Web, and social media like Facebook and Twitter, to attract clients and coordinate suppliers. Indeed, he uses a website for each project to draw clients and suppliers together in ways that both find efficient and effective.

Pierre’s clients love it, efficiency is up and his business is strong. He’s a terrific example.

YOU COMPARE ENTREPRENEURS TO OLYMPIC ATHLETES— AND SAY THAT WE CAN “OWN THE PODIUM,” TOO. WHAT DO YOU MEAN BY THIS?

We saw in Vancouver that the right support made a real difference. We—Canadians—gave targeted, tailored support to athletes who had already shown they had the ambition, skill and stamina to win, and the result was a record number of Canadians walking to the podium.

The same can be true for our entrepreneurs. **We have plenty who are just as ambitious as our gold-medal athletes—audacious, innovative and itching to sell to consumers around the world.** What they sometimes need is help with specific skills, access to international networks and financial support.

LAST YEAR, BDC REFINED ITS VENTURE CAPITAL STRATEGY AND APPROACH. IS IT WORKING?

We’re implementing the new strategy. These are still early days, but we’ve accomplished quite a bit. We’ve added to our solid team more very able and experienced people, increased our investments in private sector venture capital funds, restructured our direct investment business and—in collaboration with private sector players—increased our support of early-stage start-up funding.

We support technology entrepreneurs through investments in 22 private sector funds, and this part of our results is driven by private sector results. The returns on our direct investments in their companies are generally in line with those of private sector funds. So overall, our financial results match those of the industry. Also, we had profitable sales of some of our portfolio companies.

WHAT IS BDC'S FINANCIAL SITUATION?

BDC was profitable again this year.

The crucial thing to understand about this profitability is what it says about our clients' improved financial health. The improvement in their financial positions over last year's resulted in a significant reduction in the amount of money BDC had to set aside for potential losses. This reduction in the provision for credit losses triggered, in turn, a rise in BDC's overall profitability.

The most important thing to know is that our clients are doing very well. That's the fundamental good news.

So, this year, we will be paying a dividend of $68.6 million to our shareholder, the Government of Canada.

Also, we were able to send back to the federal government an additional, significant amount of capital: $656 million.

IS BDC'S PROFITABILITY AT ODDS WITH ITS MANDATE TO SUPPORT ENTREPRENEURS?

No. Our commercial viability is a necessary and good thing. Our portfolio is public money. We have a responsibility to manage it prudently.

More fundamentally, for an instrument of public policy such as BDC, commercial viability is a subtle, powerful incentive to innovate. Because we must attract entrepreneurs with services they are willing to pay for, we are constantly striving to be both relevant and efficient.

The key is in appropriately pricing for risk, so that we do not undercut other, private sector players.

Keep in mind, however, that the size of BDC's portfolio—$16.9 billion—is such that even a slight change in economic conditions or profitability can produce striking results. In fiscal 2010, for example, we made a modest $6 million in profit, due to economic conditions.

WHAT'S AHEAD FOR BDC?

We have started a review of our consulting services because we want them to have greater, lasting impact. We also want to focus our limited resources on what entrepreneurs need most, and offer higher-quality, more efficient services.

Another crucially important goal is to provide better and faster financing services for our clients. We have the will; we just have to choose the way. So our focus is on finding and choosing the methods or tools that will enable us to improve.

But there may well be other changes—we are constantly striving to find new ways to help!

WHAT'S TOUGH?

The labour market is tough. We need to attract and keep the right employees—motivated, knowledgeable, business-savvy professionals who are drawn to our mandate.

Remember that this is the world our clients live in—a speedy, wired and globalized market. As it gets tougher for them, we have to get even better at what we do. All that matters is that we stay relevant and useful.

ANY CLOSING WORDS?

To begin, thank you to our entrepreneur clients. It's a privilege to serve you.

Also, I'd like to send heartfelt thanks to all the dedicated, professional, hard-working people who keep BDC running well, from the board of directors and my management colleagues to employees across the country. You are a terrific team.

Jean-René Halde
President and Chief Executive Officer

“We have a longstanding relationship with BDC. When we thought about financing this large growth step, it was natural for us to think of them.”

TRACEY CLARK

President
BRIDGEHEAD (2000) INC.
Ottawa, ON

Tracey’s firm, Bridgehead, offers fair trade coffee and baked goods in Ottawa.

Tracey’s plan was to establish a nerve centre for her company, combining a new roastery, coffeehouse, warehouse, and support and training centre, as well as a Community Room.

Her challenge: obtain the capital needed for this growth without diluting her ownership in the firm.

HOW DID BDC HELP?

BDC provided subordinate financing: a hybrid kind of financing that is part debt and part equity.

RESULTS

Tracey and the Bridgehead team are growing the business.

1,990 EMPLOYEES

103 LOCATIONS ACROSS CANADA

1 MANDATE: SUPPORT CANADIAN ENTREPRENEURS

WE ARE CANADA'S BUSINESS DEVELOPMENT BANK.

OUR ROLE

Promote entrepreneurship, with special consideration for the needs of small and medium-sized enterprises (SMEs)

Entrepreneurs first

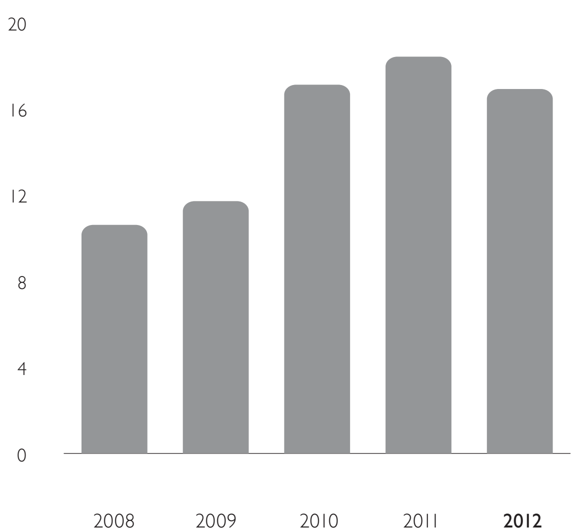
WE DO ONE THING:

Support entrepreneurs

EVERY DOLLAR IN OUR PORTFOLIO IS USED **TO SUPPORT CANADIAN ENTREPRENEURS.**

Total BDC Portfolio

as at March 31 ($ in billions)



	2008	2009	2010	2011	**2012**
	Canadian GAAP			IFRS	
	10.6	11.7	17.1	18.4	**16.9**

Based on loan portfolio before allowances for credit losses, plus BDC Subordinate Financing, BDC Venture Capital and asset-backed securities portfolios at fair value.

Small and medium-sized businesses are the engine of the Canadian economy. They account for 64% of private sector employment, including the lion's share of new job creation.

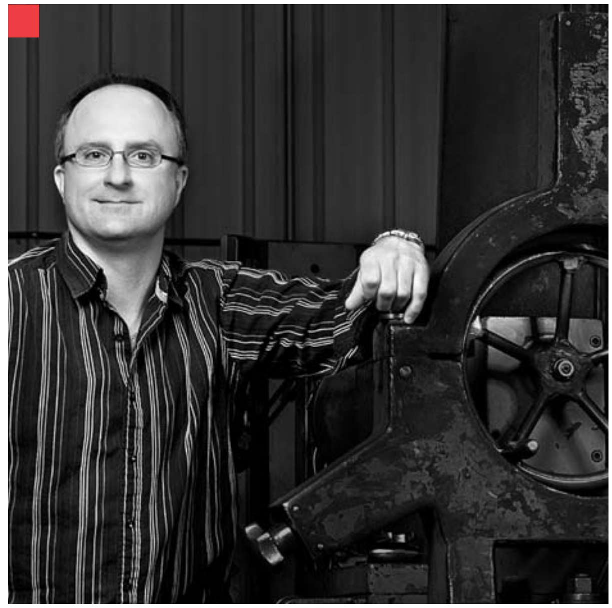
To a remarkable degree, Canada is a country of small businesses. Fully 55% of all businesses have four or fewer employees while 98% have fewer than 100 employees. *(Statistics Canada's definition of small).*

Behind every entrepreneurial firm—small, medium or large—is a person or, in larger firms, a team, who has the imagination and guts to make difficult decisions.

The sum of their choices is incredibly important to our economy. It's how new ideas become products and services, how markets get developed, how supply chains get built and, most importantly, how jobs get created.

Challenge after challenge, through and out of recessions: these are the people who keep our economy going.

WE SUPPORT ENTREPRENEURS AT EVERY STAGE OF THEIR BUSINESS, INCLUDING **TURNAROUNDS.**

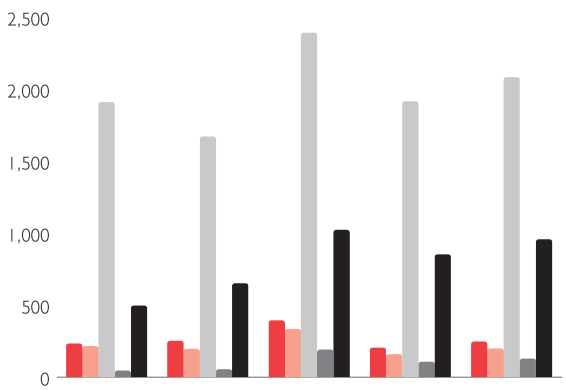


ROBERT STEGMEIER
President

KAYMOR MACHINING AND WELDING
Clairmont, AB

BDC Financing, by Stage of Development

for the years ended March 31 ($ in millions)



Acceptances

	2008	2009	2010	2011	**2012**
Start-up	234	253	395	205	**248**
Development	216	197	335	160	**200**
Expansion	1,913	1,674	2,396	1,919	**2,087**
Turnaround	46	55	192	107	**129**
Mature	498	653	1,025	854	**959**
Total	2,907	2,832	4,343	3,245	**3,623**

Starting a business is only the first step. The next competitive hurdles are to develop and grow. (Canada's economy would benefit from a greater number of larger firms.)

And when entrepreneurs encounter difficulty, they need to know their banker will stand by them.

Our client Robert Stegmeier is an example of a client who steered his firm through a rough patch and emerged stronger.

WE SUPPORT ENTREPRENEURS WHO WANT TO **GROW THEIR BUSINESS.**

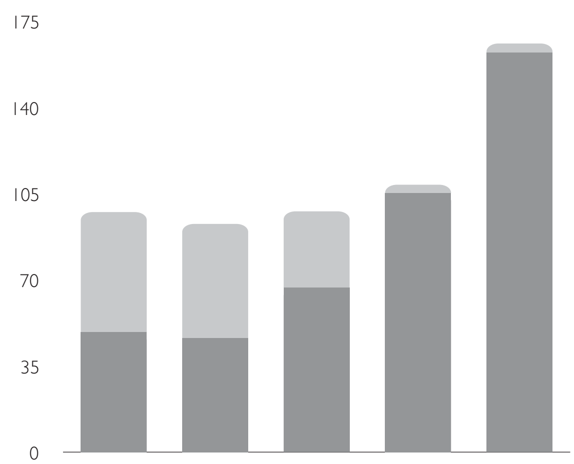
For entrepreneurs who need capital to grow but lack the tangible security that conventional lenders need, we offer a hybrid of debt and equity financing called subordinate financing. This financing is also sought by entrepreneurs who do not want to sell a share of their business to another person simply because they need money to grow. Our client Tracey Clark is an example of an entrepreneur whose business benefitted from access to subordinate financing.

TRACEY CLARK
President

BRIDGEHEAD (2000) INC.
Ottawa, ON

BDC Subordinate Financing

for the years ended March 31 ($ in millions)



Acceptances	2008	2009	2010	2011	**2012**
BDC portion	48.7	46.3	66.7	105.1	**162.1**
Caisse portion(1)	48.7	46.3	31.0	1.4	**1.7**
Total	97.4	92.6	97.7	106.5	**163.8**

(1) We previously offered this service through partnership funds with the Caisse de dépôt et placement du Québec (the Caisse). As these funds are fully committed, BDC now funds new subordinate financing transactions on its own.

WE HELP ENTREPRENEURS **BECOME MORE COMPETITIVE.**

SHA NADARAJAH
Co-founder

SEDNAVOICE
Toronto, ON

ASHOK PARAMESWARAN
Co-founder

SEDNAVOICE
Toronto, ON

The key to a more prosperous Canada is a more productive Canadian economy. The basis of a productive economy: innovative entrepreneurs making their businesses more competitive.

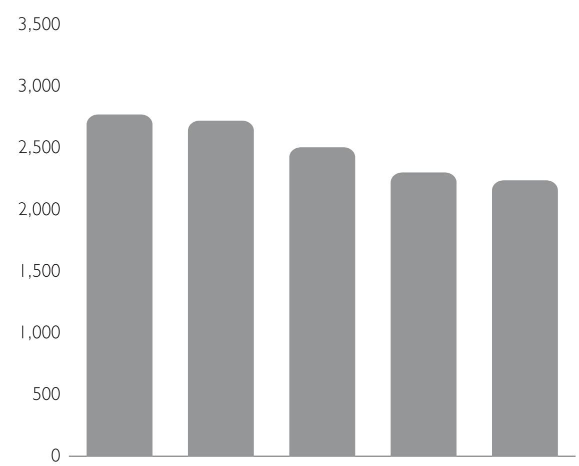
We offer tailored, quality consulting services at a price entrepreneurs can afford. Our goal is to help them improve the management of their businesses and become more competitive.

Our clients Sha Nadarajah and Ashok Parameswaran are examples of entrepreneurs who used our consulting services to make their business more competitive. In their case, they improved their use of information and communications technologies.

While we have been generally pleased with the consulting support we offer, we want to do better. For this reason, we have launched a review of our consulting services. We will complete this review in fiscal 2013.

BDC Consulting Mandates

for the years ended March 31 (in numbers)



2008	2009	2010	2011	**2012**
2,770	2,720	2,504	2,300	**2,236**

BDC Financing Acceptances—Information and Communications Technologies (ICT) Initiative

for the year ended March 31, 2012 (percentage of number of acceptances)

Hardware	36%
Software	26%
Internet	19%
Services	12%
Other	7%
Total	**100%**

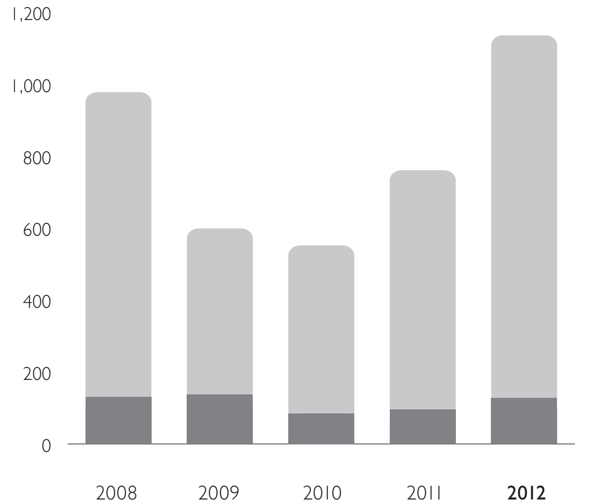
WE HELP ENTREPRENEURS **COMMERCIALIZE THE FRUITS** OF PUBLIC R&D.

Canada needs entrepreneurs to turn the fruits of R&D into products and services that people around the world want to buy. The risks are very high, but so are the rewards. Entrepreneurs who do it need support, so supporting them is in the national interest.

With a patient, stable investment presence and expert support, we work with technology entrepreneurs and other investors to help build strong global Canadian companies that generate growth and prosperity.

To this task we bring a national presence and history—a network of venture capital industry players across Canada and the world, and expertise enriched by the lessons learned from having lived through several economic cycles.

Total Value of Venture Capital Authorizations in Which BDC is a Partner
for the years ended March 31 ($ in millions)



	2008	2009	2010	2011	**2012**
BDC Venture Capital	130	137	85	99	**127**
Other sources	848	462	467	662	**1,009**
Total project value	978	599	552	761	**1,136**

Data prior to fiscal 2011 are based on Canadian GAAP.

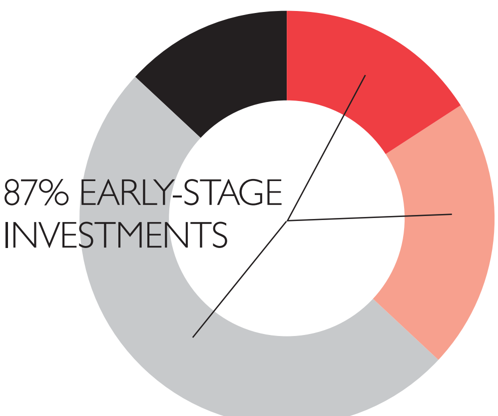
We dedicated last year to implementing our new strategy. We have added to our team a group of people who draw on decades of private sector and entrepreneurial success. We have restructured our direct investment businesses to align them with the private sector and rationalized our focus via our dedicated funds to several fields: health, information technology, and energy and clean tech.

We have also created a new group, Strategic Initiatives and Investments, and mandated it to help stimulate the Canadian venture capital and innovation ecosystems through strategic investments and key partnerships.

And, notably, we have begun to build on our unique role as an industry catalyst. Our goal is to help strengthen certain functions of the venture capital "ecosystem"—especially the relationships and networks that entrepreneurs need to learn from experienced peers and to find business partners and financiers.

BDC Venture Capital Direct Investments Authorized, by Stage of Development

for the year ended March 31, 2012 (percentage of dollar value)



Seed	16%
Start-up	21%
Development	50%
Expansion or turnaround	13%
Direct investments	**100%**

BDC SUPPORTS ENTREPRENEURS WHO LEASE VEHICLES AND EQUIPMENT

It is important that smaller finance companies be able to provide financing for the vehicle and equipment needs of businesses. During the economic crisis, several market players identified a market gap affecting smaller players in the independent financing and leasing market.

In response, BDC created the Multi-Seller Platform for Small Originators (MSPSO), which began as a partnership with TAO Asset Management in early fiscal 2011. As of March 31, 2012, total MSPSO authorizations reached $440 million.

Also, recall that during the economic crisis, at the request of the government, BDC worked with private sector partners to offer the Canadian Secured Credit Facility (CSCF). The goal of the CSCF program was to increase liquidity in the market and boost investor confidence in asset-backed securities for auto and equipment loans and leases, which was desirable because its effect was to expand the credit available to small and medium-sized businesses.

The CSCF program, having served the purpose required by the shareholder, is now over. We are receiving repayments and have returned all unused capital to the government.

Sean, who is Métis, is a former participant in BDC's Aboriginal youth entrepreneurship program. Fifteen years ago, he started a four-person shop making Aboriginal-designed mukluks and moccasins. Today he sells his products in 22 countries around the world–and employs 50 people.

WE **PROMOTE** ENTREPRENEURSHIP

BY CHAMPIONING CANADIAN ENTREPRENEURS, BDC PROMOTES AN ENTREPRENEURIAL CULTURE.

SEAN McCORMICK
President

MANITOBAH MUKLUKS
Winnipeg, MB

ABORIGINAL

We help promote economic development through the Aboriginal Business Development Fund. Our strategy includes management training, ongoing mentorship and loans of $2,000 to $20,000 with terms that vary depending on the cash flow of the project.

To raise entrepreneurship awareness among Aboriginal youth, we also organize E-Spirit, an Aboriginal youth business plan competition. To date, about 5,900 students have participated, and former competitors have gone on to operate their own businesses based on their E-Spirit plans.

RURAL

We have partnerships with more than 220 Community Futures Development Corporations, a cross-country network of contact points located mostly in rural areas. Through it, we supported more than 1,000 entrepreneurs in fiscal 2012.

YOUNG CANADIANS

Many young entrepreneurs find it hard to secure financing because they have little or no management experience, financial resources or track record. With our Entrepreneurship Centres across Canada, we offer lending, consulting and other business resources aimed specifically at meeting the needs of younger and smaller businesses. In fiscal 2012, the centres granted $184 million in loans.

We celebrate the creativity and success of young entrepreneurs with our annual Young Entrepreneur Awards. Over the past eight years, we have authorized over $1.2 billion in financing to them.

As examples, we support:

> the Junior Achievement program for high school students interested in developing entrepreneurial skills;

> the Canadian Youth Business Foundation, which offers pre-launch coaching, resources, start-up financing and mentoring to people between 18 and 34 (we co-finance their business ventures and, in fiscal 2012, we did more than 260 loans for a total of $6 million);

> Advancing Canadian Entrepreneurship (ACE), which helps stimulate an entrepreneurial mindset among students in colleges and universities; and

> the Vanier College–BDC Case Challenge, in which students from Ontario and Quebec compete for medals in a competition focusing on entrepreneurial skills.

CORPORATE SOCIAL RESPONSIBILITY

WHAT DOES IT MEAN TO BDC?

BDC's *purpose* and first responsibility is to support entrepreneurs. We strive to do this in a way that builds trust and respects the environment.

Responsibility is an operating principle, not a stand-alone program or initiative.

We strive to have it present in everything we do, from policies and practices to performance measures.

ENTREPRENEURS

We do what Canadians, through Parliament, created BDC to do: support Canadian entrepreneurship, with particular consideration for the needs of small and medium-sized enterprises (SMEs).

We use performance indicators to track our organization's record in doing this job. We create and constantly refine these indicators in consultation with our sole shareholder, the Government of Canada, and we share them publicly.

To see these performance measures, please see page 30.

TRUST

Canadians expect BDC to obey all laws and regulations, operate according to the highest governance standards and cultivate a workplace that reflects the values of Canadian society. They also expect BDC to be mindful of the impacts that its lending and investments may have on people, and to manage these responsibly.

For detailed information on the range of policies we use to ensure we keep the public's trust, please see our corporate governance discussion starting on page 135.

ENVIRONMENT

Canadians expect BDC to be environmentally responsible. In our view, responsibility includes managing our own environmental footprint and informing clients of the competitive challenge posed by energy.

Many multinational firms view greenhouse gases as evidence of waste. As more of them adopt sustainable practices for competitive advantage, i.e., greater efficiency, they are asking SMEs in their supply chains to do the same. In fiscal 2012, we continued and grew a pilot project in energy efficiency consulting services. This pilot informs clients of the energy efficiency challenge and supports them as they adapt.

In fiscal 2012, we began quantifying BDC's energy consumption and greenhouse gas emissions. This is a first step in bringing greater rigour to our management of this operational cost.

Also in fiscal 2012, we began investing in web conference technology to enable employees in more than 20 of our busiest offices across Canada to reduce the amount they need to travel. We'll have this technology installed this and next year.

ECONOMIC

WE CREATE ECONOMIC OPPORTUNITY.

HOW

By supporting entrepreneurs and promoting entrepreneurship

SOCIAL

WE ACT RESPONSIBLY TO BUILD TRUST.

HOW

By using responsible governance, financing and human resources practices

ENVIRONMENTAL

WE SUPPORT ENVIRONMENTAL SUSTAINABILITY.

HOW

By supporting entrepreneurs and using greener practices

WHAT TO WATCH	POLICIES AND PRACTICES
Our clients	> Strategic performance measures (clients) > Our clients' economic impact
Entrepreneurship promotion	> Support for student, young and Aboriginal entrepreneurs
Financial sustainability	> BDC's return on equity > Strategic performance measures (operational excellence)

WHAT TO WATCH	POLICIES AND PRACTICES
Good governance	> Federal statutes, notably the *Business Development Bank of Canada Act* and the *Financial Administration Act* > Yearly audits and regular special exams by the Auditor General of Canada and external audit firms > Legislative reviews by the Minister of Industry and Parliament > Board code of conduct
Responsible business practices	> BDC employee code of conduct, ethics and values > Anti-money laundering and anti-terrorist corporate directive > OECD Guidelines for Multinational Corporations > UN Global Compact principles
Employees	> Qualified, dedicated employees > Employee engagement > Diversity

WHAT TO WATCH	POLICIES AND PRACTICES
Support for entrepreneurs	> Venture capital support for energy and clean-tech firms > Consulting support for energy-efficient operations > Flexible financing for green projects, e.g., LEED buildings
Environmentally responsible lending	> *Canadian Environmental Assessment Act* > BDC environmental risk management policy > OECD Guidelines for Multinational Corporations > UN Global Compact principles
Reduced operational footprint	> Recycling > Energy use management > Investments to reduce employee travel

Management's Discussion and Analysis

The following Management's Discussion and Analysis (MD&A) is the responsibility of management and has been reviewed and approved by the board of directors for the fiscal year ended March 31, 2012. It is intended to enable readers to assess our results of operations and financial condition compared with prior fiscal years and our 2012 Corporate Plan Objectives.

This analysis should be read in conjunction with our audited Consolidated Financial Statements and accompanying notes for our fiscal year ended March 31, 2012. All amounts are stated in Canadian dollars and based on financial statements prepared in accordance with International Financial Reporting Standards (IFRS), unless otherwise noted. A glossary of terms used throughout this annual report can be found on page 156.

FORWARD-LOOKING STATEMENTS

From time to time, we make written or oral forward-looking statements. We may make forward-looking statements in this annual 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 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.

I. Canadian Economic Environment

The Canadian economy has experienced modest but steady growth since the 2009 recession. The level of employment in Canada is now higher than the pre-recession level. While some sectors—such as natural resources, construction and services—have recovered more quickly, the manufacturing sector is still recuperating from the major turbulence created by the recession, a higher Canadian dollar and the reshaping of global value chains.

Consequently, economic growth has progressed unevenly across Canada. The western provinces have experienced solid growth, stimulated by high commodity prices. Ontario and Quebec are only now gaining some momentum as the manufacturing sector improves. Finally, the eastern provinces have experienced modest growth. This was stimulated by new natural gas production in Nova Scotia and a resurgence of the mining industry in New Brunswick but weakened by declining oil production in Newfoundland and Labrador.

Financing conditions favour business investment in Canada. The cost of borrowing for business has remained low.

The debt-to-equity ratio of non-financial firms is at a historic low, corporate balance sheets are healthy and businesses are well positioned to invest, especially since the business lending conditions are favourable.

Indeed, both the Bank of Canada's Senior Loan Officer Survey and the Business Outlook Survey show major improvement in credit conditions since 2010. The demand for BDC financing services should continue to stabilize.

A stable economy and favourable business lending conditions should lead to solid growth in business fixed investment.

IN OUR CORPORATE PLAN, WE PRESENT PERFORMANCE MEASURES WITH WHICH WE MEASURE OUR ORGANIZATIONAL EFFECTIVENESS AND EFFICIENCY.

WE TRACK AND PRESENT OUR PERFORMANCE AGAINST THESE CORPORATE PLAN OBJECTIVES.

PERFORMANCE MEASURES 2012

	STRATEGIC ACTIONS	PERFORMANCE MEASURES
CLIENT	HELP BUILD CAPACITY TO SUPPORT GROWTH AND ABILITY TO COMPETE IN WORLD MARKETS	Growth composite: Working capital for market development, growth, global expansion, subordinate financing ($ in millions authorizations)
		Percentage of clients using both BDC Financing and BDC Consulting services[1]
	CREATE A VALUED RELATIONSHIP WITH ENTREPRENEURS AND FIRMS	Financing and Consulting Client Index[2] An annual client survey that probes: > clients' overall satisfaction with BDC > their perception of the flexibility of BDC's terms and conditions > the regularity of BDC's contact with them > the value they assign to BDC's information and advice > the ways they benefit from BDC Consulting support

TARGET 2012	ACTUAL 2012	COMMENTS
$275M	$486M	We are increasingly financing the growth needs of our clients.
4.3%	4.2%	We achieved 98%, a good result. Note that we have recently launched a review of our consulting services. This performance measure will likely change in the coming year(s).
95	97	Our clients see value in the services we provide and remain satisfied with them.

(1) Taken as a percentage of total active financing clients with one or more new consulting mandates in a given fiscal year.
(2) The client value index is a combination of the answers to five different questions to which we have attributed a certain value, measured in points. It is not a percentage score, and results can exceed 100 points if objectives are exceeded.

PERFORMANCE MEASURES 2012

DEVELOPMENT BANK

STRATEGIC ACTIONS	PERFORMANCE MEASURES
ADDRESS THE NEEDS OF SECTORS IN TRANSITION AND DEVELOPING MARKETS	Number of small loans (authorizations of $500,000 or less, excluding BDC Subordinate Financing)
CHAMPION CANADIAN ENTREPRENEURSHIP	Number of authorizations to new businesses (in business for two years or less)
BE AN INFORMED VOICE ON KEY BUSINESS ISSUES	

OPERATIONAL EXCELLENCE

STRATEGIC ACTIONS	PERFORMANCE MEASURES
MAINTAIN A STATE OF READINESS TO RESPOND TO MARKET NEEDS	Employee engagement
IMPROVE EFFICIENCY TO OPTIMIZE VALUE FOR STAKEHOLDERS	BDC Financing efficiency ratio[4] (the lower the ratio, the better the efficiency achieved)
BE PROFITABLE TO FINANCE OUR DEVELOPMENT ROLE	Acceptances ($ in millions, including BDC Financing and BDC Subordinate Financing)
	Financing portfolio growth (%) (loans outstanding)
	BDC Venture Capital return of capital[5]
	Adjusted BDC consolidated net income ($ in millions)[6]
	BDC return on equity (10-year moving average)

TARGET 2012	ACTUAL 2012	COMMENTS
5,100	4,241	Reflects slower overall portfolio growth as credit conditions improved
950	987	An excellent result reflecting BDC's emphasis on start-ups

For BDC's contributions to public policy on business issues, e.g., research, public speeches and statements to Parliament, please visit www.bdc.ca.

Notable contribution in fiscal 2012: For entrepreneurs who want to know more about how information and communications technologies can increase the competitiveness of their firms, BDC now offers free information. For entrepreneurs who want to know whether their firm can profit from these technologies or whether their website is effective, BDC now offers free assessments. (These complement the consulting advice and financial support that BDC also now offers for this purpose.)

TARGET 2012	ACTUAL 2012	COMMENTS
75-80%[3]	N/A	Following our 2011 employee engagement strategy review, we will, starting in the fall of 2012, survey every second year.
42%	40.3%	We continue to be able to generate higher revenues while tightly controlling expenses.
$3,600M	$3,787M	We continue to support the growth objectives of our clients as economic conditions strengthen.
7.0%	5.8%	This reflects stabilizing economic and improved credit conditions.
0.98	0.95	The target was almost achieved, a good result given the difficult market conditions.
$248M	$533M	We exceeded the target, in large part due to the improved financial health of our clients.
5.8%	7.6%	We exceeded the target, due to higher than anticipated net income, again due in large part to the improved financial health of our clients.

(3) Consistent with current range of best employers.
(4) Operating and administrative expenses, as a percentage of net interest and other income (includes only BDC Financing and excludes net unrealized gains or losses on other financial instruments).
(5) Return on each $1 disbursed (includes both direct and funds investment).
(6) Excludes net unrealized gains or losses on other financial instruments.

PERFORMANCE MEASURES 2013

WE REGULARLY REFINE OUR PERFORMANCE MEASURES TO ENSURE THEY REMAIN VALID, HELPFUL AND RELEVANT TO EVOLVING PUBLIC POLICY GOALS.

IN OUR FISCAL 2013 ANNUAL REPORT, WE WILL USE THE FOLLOWING PERFORMANCE MEASURES.

1

INNOVATION

Accelerate innovation by Canadian businesses

- Number of information and communications technologies (ICT) interventions (online web and ICT assessments, consulting mandates, financing and subordinate financing authorizations)

2

SME GROWTH

Support entrepreneurs as they grow and expand their business

- Revenue growth of BDC clients (percentage difference between BDC clients and comparable businesses one year after receiving BDC support)
- Venture capital return on capita

3

CLIENT EXPERIENCE

Make it easier for entrepreneurs to do business with BDC

> Client Value Index (financing and consulting)

4

ENTREPRENEURIAL CULTURE

Champion Canadian entrepreneurship

> number of authorizations to new businesses (younger than two years) (financing and subordinate financing)

> percentage of BDC-financed start-ups that survive five years

> number of small business clients (<20 employees) (financing and subordinate financing) in BDC's portfolio

5

MARKET DEFICIENCIES

Increase risk threshold to address market gaps

> percentage of clients who agree that BDC offers products and services that are complementary to those offered by private sector financial institutions

6

PARTNERSHIPS

Leverage partnerships to reach and better serve SMEs

> number of transactions authorized with partners (syndications, pari passu transactions, loan referrals and alliances)

BDC TAKES ON RISK WHILE REMAINING FINANCIALLY SUSTAINABLE. OUR STRONG RISK MANAGEMENT CULTURE ENABLES US TO TAKE APPROPRIATE RISKS WHILE OFFERING RELEVANT SERVICES.

WE MANAGE OUR RISKS BY USING FORMAL RISK REVIEWS AND RIGOROUS PROCESSES. THESE INCLUDE DEVELOPING OUR RISK POLICIES, AND SETTING DELEGATED AUTHORITIES AND LIMITS.

Risk is a defining, unavoidable feature of the financial services sector. It is inherent in virtually all of BDC's activities.

Risk is also a defining, unavoidable feature of entrepreneurial activity. And as we enter into business relationships with Canada's entrepreneurs, we must master the identification and management of several kinds of risk—to the greatest degree possible—to succeed.

BDC has a strong risk management culture that emphasizes risk identification, risk management, transparency and accountability.

Our board of directors provides the essential, independent oversight of BDC's exposure to risk.

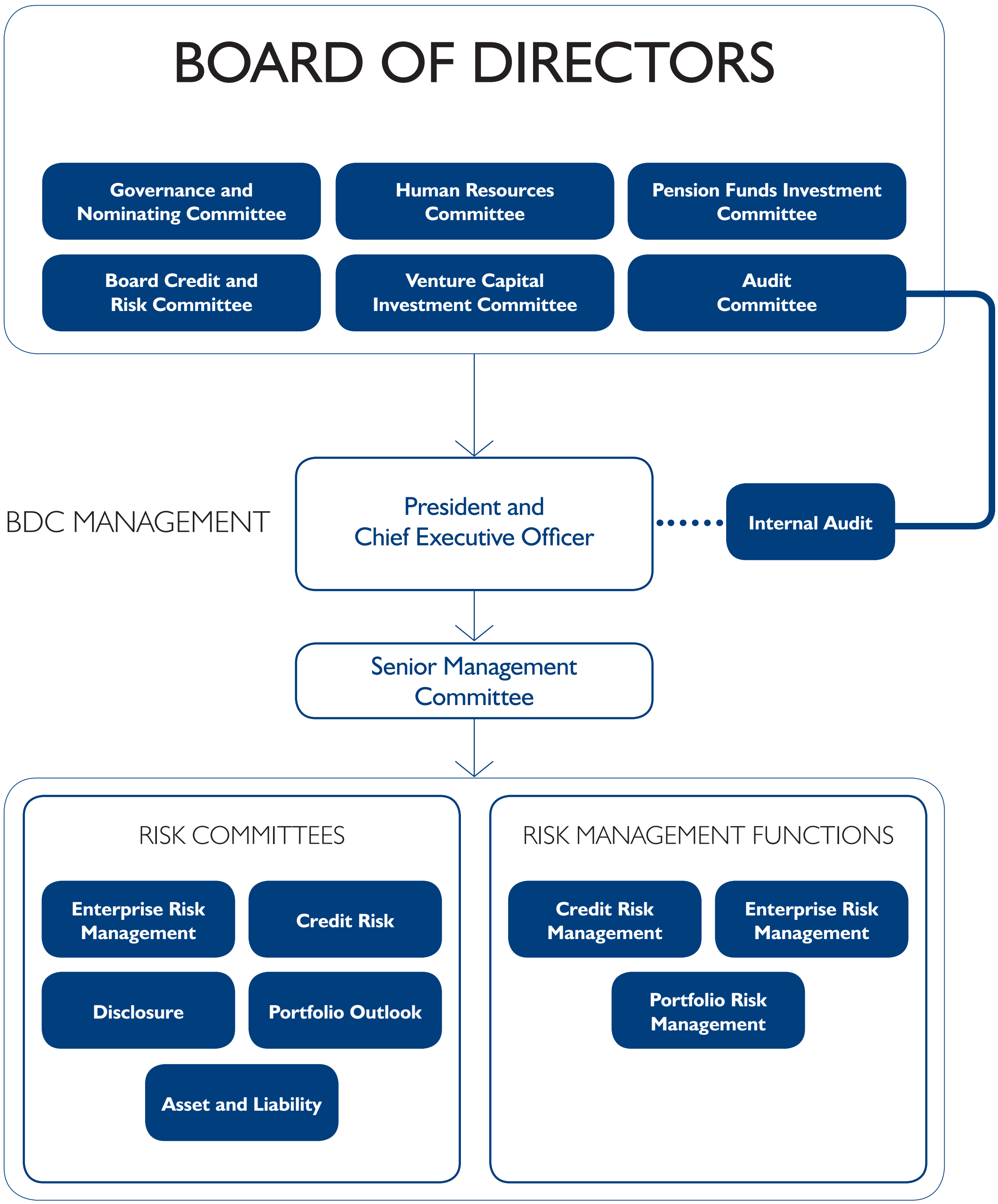
ENTERPRISE RISK MANAGEMENT POLICY

BDC's board of directors annually reviews and approves the enterprise risk management (ERM) policy, an umbrella policy that codifies the integrated, enterprise-wide process by which we identify, analyze, accept and/or mitigate and report risks. It also defines the roles and responsibilities of board members, management, functional units and employees in the day-to-day implementation of the policy.

BDC'S PRINCIPLES OF ENTERPRISE RISK MANAGEMENT

1. Risk management is everyone's responsibility, from the board of directors to employees.
2. Risk is managed by balancing it with appropriate overall return and value to the shareholder.
3. Risk management is integrated into major business processes, such as strategic planning, business and budget planning, lending, investing and consulting activities.
4. The ERM policy codifies a comprehensive, disciplined and continuous process by which we identify, analyze, accept and/or mitigate risks, and monitor risks within approved risk tolerances.
5. BDC's policies and processes are consistent with ERM best practices.
6. In the risk management-related policies, the board of directors establishes the acceptable levels of risk that BDC will tolerate in the pursuit of its mandate.

THE BOARD OF DIRECTORS AND ITS GOVERNANCE



THE BOARD OF DIRECTORS

The board and its committees oversee governance and risk management.

The board approves risk policies, risk appetite and strategies; ensures BDC's risk management is effective; reviews portfolio and treasury risks; reviews capital adequacy; establishes clear levels of delegation of authority for committing BDC to various types of transactions; and ensures that there is an appropriate link between risk and reward.

Although all committees incorporate considerations of risk into their deliberations, as appropriate, three of these committees—the Board Credit and Risk Committee, the Venture Capital Investment Committee and the Audit Committee—have specific risk management-related responsibilities. For full details on the board and its committees, please see the Corporate Governance section on page 139.

The Board Credit and Risk Committee advises the board that BDC's significant risks have been effectively identified and managed. It regularly reviews risk management policies and reports. The committee also approves transactions above a certain threshold.

The Venture Capital Investment Committee advises the board on the effectiveness of the ongoing management of BDC's venture capital investment activities. It also approves transactions above a certain threshold.

The Audit Committee advises the board on the effectiveness of BDC's management of financial reporting, integrity and conduct; internal control over financial reporting and disclosure controls and procedures; and internal and external audit functions.

BDC MANAGEMENT: RISK GROUPS AND COMMITTEES

The **Senior Management Committee (SMC)** comprises the president and chief executive officer, the executive operating officers, and designated senior vice presidents. It meets regularly to discuss emerging threats and opportunities.

The **Enterprise Risk Management (ERM) Committee** comprises the SMC and other cross-departmental key vice presidents. The mandate of the committee is one of oversight. The ERM Committee is responsible for ensuring the existence and effectiveness of an integrated vision to address key strategic, financial and operational risks that may adversely affect BDC and impair its ability to achieve its objectives. As such, the committee ensures that an adequate ERM framework is in place to identify trends in existing and emerging critical issues, to evaluate or quantify their probable impact, and to ensure that BDC is managing them by acting on or recommending actions to mitigate them within BDC's risk appetite. The committee focuses its efforts on those risks it prioritizes as significant risks requiring immediate attention, and ensures that the board receives timely and complete briefings on these risks and on current or recommended plans to mitigate them.

The **Credit Risk Committees** regroup senior key leaders appointed by the president and chief executive officer. They oversee large and/or high-risk transactions. Their principal responsibility is to approve transactions within prescribed limits. For larger transactions, they put forward recommendations to the Board Credit and Risk Committee or the Venture Capital Investment Committee.

The **Disclosure Committee** comprises the SMC, the senior vice president of finance and other finance directors. It oversees BDC's disclosure obligations and practices.

The **Portfolio Outlook Committee** comprises members of senior management and all functional units. It reviews the migration of risk and quality in the loan portfolio, the securitization portfolio, and venture capital and subordinate financing investments. It also monitors the industry concentrations of BDC's assets.

The **Asset and Liability Committee** comprises members of senior management and a cross-section of BDC's departments. It oversees the compliance of treasury activities with the treasury risk policy. These include activities such as balance sheet and liquidity management, and monitoring the creditworthiness and documentation compliance of counterparties.

BDC's three risk management functions are ERM, credit risk management and portfolio risk management, which includes treasury risk management. These three functions ensure that appropriate risk management principles, policies and corporate directives are applied to manage significant and emerging risks according to risk thresholds; develop tools to measure, monitor and report on these risks; and provide timely and complete reports on these risks to the organization's management risk committees.

The **Internal Audit Department** promotes sound risk management practices as outlined in BDC's corporate risk management policies. Its risk-based annual audit plan evaluates BDC's management of its significant risks, evaluates its reporting performance, and seeks assurance that risk management practices are present, appropriate and respected.

THE ERM FRAMEWORK

Effective risk management through an ERM framework helps protect BDC by managing risk exposure, resolving uncertainty and building reputational equity. It ensures that BDC is methodical and consistent in its decision-making processes and operations. It precludes BDC from managing risk in an uncoordinated or piecemeal way.

The ERM policy outlines the approach BDC takes to identify, assess, integrate and proactively manage its significant risks on an enterprise-wide basis.

IDENTIFY

We regularly review BDC's activities to identify significant risks. Senior managers informally discuss these significant risks at weekly meetings and, at least quarterly, in formal committees.

Every quarter, we identify, assess, document and prioritize risks at the corporate and functional unit level, and present them to the ERM Committee and subsequently to the board of directors for discussion. We also assess risks related to all significant projects, new products or services, and policy changes.

ANALYZE AND MEASURE

We quantify and/or qualitatively assess the importance and impact of the risks posed by our business and/or corporate activities. BDC updates related tools and models, taking into consideration emerging practices within the financial services industry. We measure risks across the organization to ensure they reflect BDC's policies, corporate directives, standards and tolerance limits. Board members and senior managers use this information to understand BDC's risk profile and portfolio performance.

CONTROL AND MITIGATE

We set risk tolerance thresholds that are consistent with BDC's objectives and strategies, and establish policies and guidelines that codify our governance and risk management culture.

BDC has the following lines of defence for mitigating its risks:

- adequate and clear roles, responsibilities, processes, policies, corporate directives and procedures;
- risk management functions and committees that provide oversight and monitoring;
- risk mitigation activities, such as hedging, insurance risk management, business continuity planning, information technology recovery planning, and anti-fraud and anti-money laundering programs; and
- audits that provide assurance that sound risk management practices are appropriate and applied (every quarter, the Internal Audit Department presents the results of these audits to the Audit Committee).

MONITOR, DISCLOSE AND REPORT

We monitor activities affecting BDC's risk profile, material risk exposures, actual losses and loss events, and take corrective actions to align risk exposures with risk appetites.

Risk process owners are responsible for monitoring, disclosing and reporting risks, with support and oversight from the ERM Committee and the risk management functions. They prepare and issue quarterly (and sometimes monthly) reports on all significant risks and meet formally through risk management and board committees to report and discuss risks under their management.

MAJOR RISK CATEGORIES

STRATEGIC RISK

Strategic risk is the risk that BDC may fail to meet its mandate and thus imperil its long-term sustainability by adopting an overall corporate strategy that is based on an inaccurate knowledge of the market, sets inappropriate objectives or fails to allocate adequate resources to achieving those objectives.

Managing strategic risk

We have a dedicated team and rigorous process with which we annually update our five-year corporate plan. The plan benefits from BDC's knowledge of entrepreneurs based on its relationships with more than 28,000 clients, its research capacity and its relationships with a wide variety of knowledgeable stakeholders. It is approved by senior management, the board of directors and our shareholder, the Government of Canada. A summary of the plan is made public.

FINANCIAL RISK

BDC is exposed to the following financial risks: credit risk, market risk and liquidity risk. This section should be read in conjunction with Note 22 – *Risk Management* to the Consolidated Financial Statements, which describes in detail BDC's risk management policies and measurements for the following three risks.

Credit risk

Credit risk is the risk of loss that arises either directly or indirectly from the possibility of a default by a borrower, a counterparty with whom BDC does business or an issuer of an asset, or from a loss related to an investee.

Managing credit risk

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

It is at the business centre level, with the support of credit risk adjudication, that we choose to take or avoid risk on individual transactions. All of our managers are trained to assess overall credit risk. We base our decisions on our experience with similar clients and we use policies, procedures and risk assessment tools to help us make these decisions. In addition to managing credit risk on an individual, transactional basis, BDC manages it on a portfolio basis.

Market risk

Market risk is the risk of financial loss that may arise from developments in marketplace dynamics or from the inability to forecast unfavourable economic conditions with sufficient lead time for BDC to counter impact losses in its portfolio. It represents market value fluctuations of BDC's assets and liabilities arising from volatility in interest rates, equity and commodity prices, and foreign currency levels. For BDC, market risk also arises from volatile and unpredictable market events affecting the value of venture capital investments.

Managing market risk

BDC uses derivatives to eliminate exposure to equity markets, commodity prices, foreign currencies and interest rates in foreign markets.

Liquidity risk

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

Managing liquidity risk

To avoid any business disruptions, BDC ensures that the minimal required level of cash is invested in highly liquid and high-quality securities with active secondary markets that can be sold to a wide range of counterparties.

OPERATIONAL RISK

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

Managing operational risk

Operational risks are present in all daily operations at BDC. As such, the identification, analysis, mitigation and monitoring of these risks are embedded in all of BDC's policies and corporate directives. These policies and corporate directives govern the way BDC manages its human capital processes, safeguards information, administers loans and investments, and carries out business and corporate activities. These activities are subject to internal audits. In addition, BDC has implemented an internal control framework based on the Committee Sponsoring Organizations of the Treadway Commission (COSO) and a certification process.

Human capital risk

For BDC, people offer both the greatest rewards and some of the significant risks. BDC's challenge is to develop the knowledge, capabilities and engagement of its people to ensure alignment with the organization's corporate goals and strategies within a respectful, equitable, healthy and safe environment.

Managing human capital risk

Our human resources programs, policies and guidelines for talent attraction, engagement, retention, development and succession planning help manage employee-related risk. We use these programs, policies and guidelines, along with compensation, to achieve both short and longer-term objectives.

Reputational risk

Reputational risk is the risk that the activities or relationships of BDC or its employees will breach, or appear to breach, its mandate, culture, values or applicable laws, thereby damaging its reputation and affecting its ability to fulfill its mandate and conduct its business.

There are various ways in which BDC could fail to meet Canadians' expectations. These include:

- failing to meet the shareholder's expectation that BDC will support entrepreneurship;
- failing to perform this mandate effectively;
- failing to do its business in a manner that meets legal and broadly held ethical standards;
- supporting clients who fail to meet societal expectations of responsible behaviour; and
- failing to do its business in an environmentally responsible manner.

Managing reputational risk

Complying with BDC's ERM principles is the cornerstone of managing reputational risk. BDC uses its corporate social responsibility framework with strategic purpose and rigour to manage reputational risk.

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

At an operational level (transactions), BDC considers reputational risk when pre-screening clients and carrying out the transaction due diligence and approval process. We verify that the potential client is not involved in money laundering or other corrupt activities, and ensure that the potential client meets requirements related to transparency and disclosure, environmental performance, ethics and credit eligibility.

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

- the board code of conduct, ethics and values;
- the BDC employee code of conduct, ethics and values (including the disclosure of wrongdoing and fraud);
- the policy on personal trading for employees and the policy on personal trading for directors;
- the charter of client rights;
- the policy on authorizing limits and levels of authority;
- the ERM policy;
- the credit risk management policy;
- the anti-fraud corporate directive;
- the anti-money laundering and anti-terrorist financing corporate directive;
- United Nations Global Compact principles and OECD Guidelines for Multinational Corporations;
- the disclosure policy; and
- the policy on the handling of referrals and enquiries by members of Parliament, senators, ministerial staff and BDC directors.

Environmental risk

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

Managing environmental risk

BDC has well-defined processes to identify, assess and mitigate environmental risk throughout the entire lifecycle of its loans and investments. These processes are intended to minimize direct losses due to environmental impairment of assets under BDC's charge and ensure that BDC deals only with clients who respect environmental regulations and best practices. As well, they ensure that BDC, in accordance with its responsibilities under the *Canadian Environmental Assessment Act*, does not fund projects that have the potential to cause significant adverse impacts on the environment.

Legal and regulatory risk

Legal and regulatory risk is the risk that non-compliance with laws, regulations, public sector guidelines, industry codes, corporate governance or ethical standards will have a negative impact on our business activities, earnings, regulatory relationships or reputation. Legal risk includes the effectiveness with which we prevent and handle litigation.

Managing legal and regulatory risk

BDC's Legal Affairs and Corporate Secretariat helps BDC employees and management comply with legal and regulatory requirements and manages all litigation involving BDC. It provides the board of directors with the information it needs to ensure compliance with laws and corporate governance, and to oversee BDC's management of its legal and regulatory risks.

FIRST REPORTING YEAR UNDER IFRS

In February 2008, the Accounting Standards Board of the Canadian Institute of Chartered Accountants announced that all publicly accountable Canadian enterprises must adopt International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011.

The fiscal year ending March 31, 2012 reflects BDC's first reporting year under IFRS for its Consolidated Financial Statements. These statements include corresponding comparative IFRS financial information as at March 31, 2011 and April 1, 2010. Further details on the impacts of the transition to IFRS, including a reconciliation of our financial statements previously prepared under Canadian generally accepted accounting principles (GAAP) to those under IFRS, are provided in Note 28—*First-time Adoption of IFRS* and in the *Accounting and Control Matters* section of the 2012 Annual Report.

We use both IFRS and certain non-IFRS measures to assess performance. Non-IFRS measures do not have any standardized meaning prescribed by IFRS and are unlikely to be comparable to any similar measures presented by other companies.

LINES OF BUSINESS

BDC reports on five business lines: Financing, Subordinate Financing, Venture Capital, Consulting and Securitization.

OPERATING ENVIRONMENT

The Canadian economy continued to show resilience and economic fundamentals remained sound, with strong consumer demand and good financial and fiscal conditions. However, Canada is not immune to external economic factors, most notably the possible contagion effects from the sovereign debt crisis in Western Europe and slow growth in the United States.

Improved credit conditions and increased liquidity have created a more favourable financing environment for small and medium-sized enterprises (SMEs). These two factors contributed to the lower growth of BDC's loan portfolio in fiscal 2012 from previous years. The dollar volume of BDC's activities has returned to pre-recession levels.

Despite its relatively enviable economic position, Canada still faces fundamental long-term challenges. Productivity and innovation remain the ultimate sources of long-term prosperity, and the low level of productivity and innovation in Canadian businesses is a key concern. A proven way for SMEs to increase their level of innovation and productivity is by increasing the use of information and communications technology (ICT). To that effect, BDC has set aside $200 million for loans to help entrepreneurs invest in ICT.

Consistent with its role as a development bank, BDC will continue to help Canadian SMEs be more competitive and to support a healthy entrepreneurial ecosystem in Canada.

ACTIVITIES

BDC Financing clients accepted a total of $3.6 billion in loans during the year. BDC Subordinate Financing showed a strong performance, with clients accepting a total of $163.8 million in financing this year compared to $106.5 million last year. We also provided crucial support to Canadian businesses via our other business lines, authorizing $126.8 million in venture capital investments and starting 2,236 consulting mandates.

BDC has ended its Business Credit Availability Program (BCAP) and the Canadian Secured Credit Facility (CSCF). These two programs were to support the Government's Economic Action Plan over the past two years. Both of these programs were successful.

In total, BCAP supported more than 10,000 clients through the difficult period. BDC worked with Export Development Canada and private sector financial institutions to help entrepreneurs through their difficult times.

To help re-establish the public term securitization market, at the request of the Government of Canada, BDC created and managed the CSCF program and bought almost $3.7 billion in asset-backed securities (ABS). This helped stimulate investor interest in the Canadian automobile and equipment loans and leases asset-backed securities market, as evidenced by a lesser amount purchased than first anticipated, and the $2.0 billion prepayment in its portfolio in fiscal 2012.

BDC subsequently started offering support for smaller players in the market and launched the Multi-seller Platform for Small Originators (MSPSO) in fiscal 2011. The first disbursement of this program was made in April 2011. This program is geared toward the purchase of term ABS supported by loans and leases on vehicles and equipment. This program was created to ensure that smaller finance companies would be able to provide financing for the vehicle and equipment needs of businesses and consumers. As at March 2012, the program authorizations totaled $440 million in revolving and fixed securitization facilities.

As the amount of capital needed for the Economic Action Plan was less than anticipated, BDC returned the unused capital to the government by repurchasing all its outstanding preferred shares and some of its common shares for a total of $656 million.

FINANCIAL RESULTS OVERVIEW

For the analysis of financial results, please also refer to Note 24—*Segmented Information* to the Consolidated Financial Statements.

CONSOLIDATED NET INCOME

BDC reported consolidated net income of $533.4 million this year, compared to $366.5 million in fiscal 2011. Net income attributable to BDC's shareholder amounted to $520.3 million and $360.3 million respectively, while non-controlling interest amounted to $13.1 million in fiscal 2012 and $6.2 million in fiscal 2011. Non-controlling interests relate only to BDC Subordinate Financing and BDC Venture Capital operations.

Strong consolidated net income was generated mostly by BDC Financing, primarily due to a decrease in the allowance for credit losses as a result of a stable Canadian economy and the improved financial situation of our clients. BDC Subordinate Financing's solid performance also contributed to the increase in consolidated net income in fiscal 2012, while income from securitization decreased due to a much smaller portfolio. BDC Venture Capital incurred a net loss this year, as the challenging environment of the Canadian venture capital industry continued to negatively impact its results.

Income from BDC Financing was $504.7 million, an increase of $199.1 million from last year. This significant increase in profitability was mainly due to a decrease of the allowance for credit losses and higher net interest income resulting from the growth of the portfolio.

Income from BDC Subordinate Financing was $36.2 million, $15.8 million higher than last year, mainly caused by higher net revenue from variable type returns and higher net interest income due to portfolio growth.

Consolidated Net Income—by Business Segment

for the years ended March 31 ($ in millions)

	2012	2011	2010	2009	2008
	IFRS		Canadian GAAP		
Financing	**504.7**	305.6	76.2	194.0	160.9
Subordinate Financing	**36.2**	20.4	10.2	6.8	11.0
Venture Capital	**(42.7)**	(20.8)	(74.1)	(106.3)	(82.8)
Consulting	**(11.0)**	(8.9)	(4.6)	(2.9)	(4.5)
Securitization	**46.2**	70.2	(1.6)	(1.0)	–
Net income	**533.4**	366.5	6.1	90.6	84.6
Net income attributable to:					
BDC's shareholder	**520.3**	360.3	6.1	90.6	84.6
Non-controlling interests	**13.1**	6.2	n/a	n/a	n/a
Net income	**533.4**	366.5	6.1	90.6	84.6

BDC Venture Capital recorded a $42.7 million loss for the year, compared to a $20.8 million loss recorded last year, as operations continued to be hampered by difficult market conditions. Even though BDC successfully completed the sale of three investees with excellent returns, results were unfavourably impacted by the increase in net unrealized depreciation of the existing investment portfolio. BDC Venture Capital is presently implementing its new strategy. These are early days; current results do not yet reflect the effects of this strategy.

BDC Consulting reported a net loss of $11 million, compared with a net loss of $8.9 million last year, as a result of lower revenues.

Income from BDC Securitization was $46.2 million, $24.0 million lower than last year. Net interest income was significantly reduced as a result of $2.0 billion in prepayments of asset-backed securities.

Net income attributable to non-controlling interests was $13.1 million in fiscal 2012 ($14.6 million income from BDC Subordinate Financing and $1.5 million loss from BDC Venture Capital), and $6.2 million in fiscal 2011 ($8.7 million income from BDC Subordinate Financing and $2.5 million loss from BDC Venture Capital).

Consolidated comprehensive income for fiscal 2012 was $380.9 million, compared to $424.8 million last year. Consolidated comprehensive income comprised $533.4 million in consolidated net income this year and $152.5 million in other comprehensive loss (OCI). OCI for the year was affected by significant actuarial losses on post-employment benefits of $143.1 million, compared to a gain of $34.7 million in fiscal 2011. Under IFRS, BDC has elected to recognize all actuarial gains and losses on post-employment benefits immediately in OCI at each reporting date.

Actuarial gains or losses on post-employment benefits are affected mainly by the actual return on plan assets and the discount rate used to determine defined benefit obligations. Losses recorded in fiscal 2012 were the result of a lower discount rate used to value the defined obligations and lower-than-expected return on plan assets. For further details refer to Note 18 – *Post-employment Benefits* of the Consolidated Financial Statements.

This year's results were also impacted by the net unrealized losses on available-for-sale assets of $19.8 million following the prepayments of ABS.

Consolidated Comprehensive Income

for the years ended March 31 ($ in millions)

	2012	2011	2010	2009	2008
	IFRS		Canadian GAAP		
Net income	**533.4**	366.5	6.1	90.6	84.6
Other comprehensive income (loss)					
Net change in unrealized gains (losses) on available-for-sale assets	**(19.8)**	19.8	6.4	0.1	0.3
Net change in unrealized gains (losses) on cash flow hedges	**10.4**	3.8	(0.7)	(2.4)	(0.6)
Actuarial gains (losses) on post-employment benefits	**(143.1)**	34.7	–	–	–
Other comprehensive income (loss)	**(152.5)**	58.3	5.7	(2.3)	(0.3)
Total comprehensive income	**380.9**	424.8	11.8	88.3	84.3
Total comprehensive income attributable to:					
BDC's shareholder	**367.8**	418.6	11.8	88.3	84.3
Non-controlling interests	**13.1**	6.2	n/a	n/a	n/a
Total comprehensive income	**380.9**	424.8	11.8	88.3	84.3

PERFORMANCE AGAINST OBJECTIVES

The consolidated net income of $533.4 million was $286 million more than the corporate plan objective. Most of the variance is attributable to BDC Financing results, primarily due to the lower-than-anticipated allowance for credit losses. A collective impairment reversal on loans of $124.5 million was recorded to reflect the improved financial condition of the portfolio.

BDC Subordinate Financing's net income of $36.2 million was $21 million higher than the corporate plan objective, mainly due to higher-than-anticipated realized income on investments.

BDC Venture capital's loss of $42.7 million was $16 million more than the corporate plan objective, mainly because of higher-than-anticipated net fair value losses in the portfolio.

BDC Consulting's loss was $1 million better than expected, mainly as a result of lower-than-anticipated operating and administrative expenses.

BDC Securitization's income of $46.2 million was $18 million lower than expected, mostly due to lower net interest income as a result of $2.0 billion in prepayments of asset-back securities.

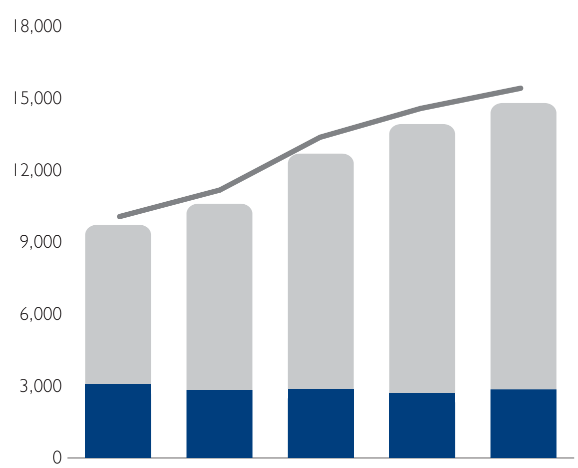
BDC FINANCING

BDC Financing offers entrepreneurs secured and unsecured term loans and specialized services tailored to support them as they create and grow their firms; develop and expand their markets; invest in intangible assets, such as information technology, buy equipment, or transfer their companies to a new generation of owners.

FINANCING PORTFOLIO

BDC Financing's loan portfolio, before allowance for credit losses, rose 5.8% from $14.5 billion a year ago to $15.3 billion as at March 31, 2012, an increase of $0.8 billion. BDC's loan portfolio growth was still strong this year. The closing portfolio comprises $14.8 billion in performing loans and $0.5 billion in impaired loans. As at March 31, 2012, 80.8% of the performing portfolio was composed of floating-rate loans, almost unchanged from the fiscal 2011 level of 80.6%.

Financing Performing Portfolio
as at March 31 ($ in millions)



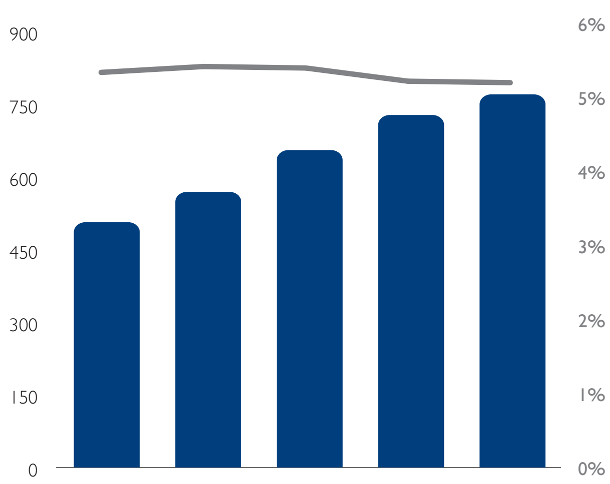
	2008	2009	2010	2011	**2012**
	Canadian GAAP			IFRS	
Fixed-rate performing portfolio	3,069	2,824	2,861	2,706	**2,843**
Floating-rate performing portfolio	6,652	7,777	9,829	11,214	**11,955**
Total performing portfolio	9,721	10,601	12,690	13,920	**14,798**
Total BDC Financing portfolio	10,014	11,117	13,311	14,506	**15,349**

NET INTEREST AND FEE INCOME

Net interest and fee income reflects interest income and fees less interest expense on borrowings. Net interest and fee income reached $779.5 million in fiscal 2012 compared to $736.4 million recorded in fiscal 2011. The increase of $43.1 million was mainly the result of continued growth in the portfolio. The net interest and fee income margin, the ratio of net interest and fee income over the average loan portfolio, remained in line with last year's ratio.

Financing Net Interest and Fee Income

for the years ended March 31 ($ in millions)



	2008	2009	2010	2011	**2012**
	Canadian GAAP			IFRS	
Net interest and fee income	512.5	575.8	663.1	736.4	**779.5**
As a % of average loan portfolio	5.37%	5.45%	5.43%	5.25%	**5.23%**

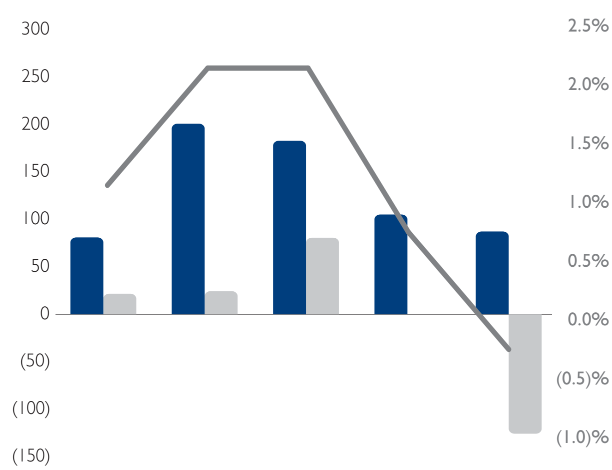
IMPAIRMENT LOSSES (REVERSAL) ON LOANS

Impairment losses (reversal) on loans is the amount charged to income to bring the total allowance for credit losses, including individual and collective allowances, to a level that represents management's best estimate of losses incurred in the loan portfolio at the statement of financial position date.

Since fiscal 2011, the continued improvement of the loan portfolio credit quality has allowed BDC Financing to reduce the amount set aside for existing losses in the loan portfolio. Consequently, in fiscal 2012, BDC Financing recorded impairment reversals on loans of $38.2 million, comprised of $86.3 million in individual impairment losses and $124.5 million in collective impairment reversal. This compares to $104.0 million in impairment losses on loans in fiscal 2011, comprising $104.0 million in individual impairment losses and no collective impairment losses.

Impairment Losses (Reversal) on Loans

For the years ended March 31 ($ in millions)



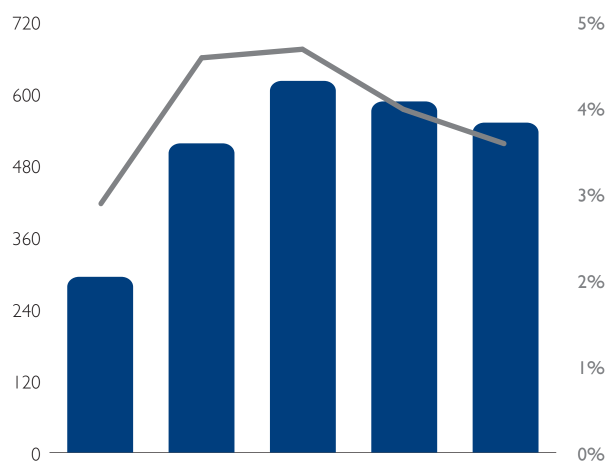
	2008	2009	2010	2011	**2012**
	Canadian GAAP			IFRS	
Individual	80.1	198.7	180.9	104.0	**86.3**
Collective	21.4	24.1	79.8	0.0	**(124.5)**
Impairment losses (reversal) on loans	101.5	222.8	260.7	104.0	**(38.2)**
As a % of average loan portfolio	1.1%	2.1%	2.1%	0.7%	**(0.3)%**

A significant factor influencing the individual allowance is the level of loans that were downgraded from performing to impaired status. When financial conditions deteriorate, more loans default. When they default, we classify them as impaired and record an amount equal to the net exposure as individual allowance. The rate of these downgrades improved; it declined from 4.8% of the performing opening portfolio in fiscal 2010 to 2.9% in fiscal 2011, and to 2.8% in fiscal 2012.

A dedicated team closely manages the $550.8 million in impaired loans, which improved by $35.4 million in fiscal 2012. It was 3.6% of the total portfolio on March 31, 2012, down from 4.0% on March 31, 2011.

Impaired Portfolio

as at March 31 ($ in millions)



	2008	2009	2010	2011	**2012**
	Canadian GAAP			IFRS	
Impaired portfolio	293.4	516.2	620.5	586.2	**550.8**
Impaired portfolio as a % of total loan portfolio	2.9%	4.6%	4.7%	4.0%	**3.6%**

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

Since peaking in fiscal 2010, both the individual and collective allowances have declined. The significant drop in the collective allowance follows the considerable downward trend of loans downgraded to impaired status observed in our portfolio during fiscal 2011 and 2012 and the improved financial health of our clients.

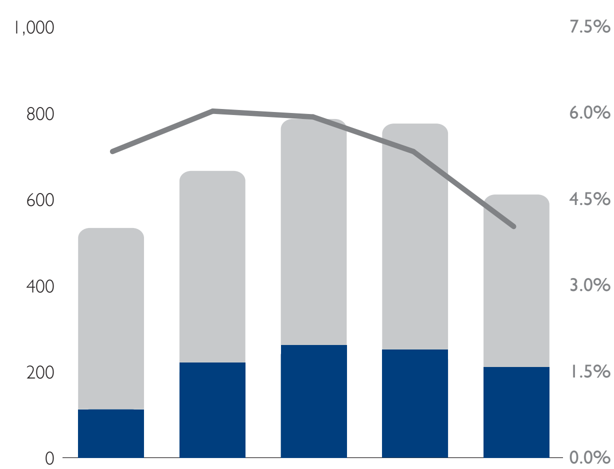
On March 31, 2012, the total allowance was $610.2 million or 4.0% of total loans outstanding compared to $774.7 million or 5.3% of total loans outstanding in fiscal 2011. This decrease reflects the improved financial conditions of our clients and the overall positive economic conditions in Canada.

BDC finances creditworthy projects that are, on average, riskier than the ones the private sector typically accepts. Accordingly, BDC's allowance rate continues to be significantly higher than that of private financial institutions.

To read more about credit risk management, please refer to Note 22 – *Risk Management* to the Consolidated Financial Statements.

Allowance for Credit Losses

as at March 31 ($ in millions)



	2008	2009	2010	2011	**2012**
	Canadian GAAP			IFRS	
Individual allowance	112.1	220.3	260.9	250.2	**210.2**
Collective allowance	420.6	444.7	524.5	524.5	**400.0**
Total allowance	532.7	665.0	785.4	774.7	**610.2**
Total allowance as a % of loan portfolio	5.3%	6.0%	5.9%	5.3%	**4.0%**

NET GAINS OR LOSSES ON OTHER FINANCIAL INSTRUMENTS

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

The realized gains or losses are incurred when financial instruments are repurchased prior to maturity.

During fiscal 2012, BDC recorded net gains on other financial instruments of $1.5 million, which included net realized gains of $0.2 million and net unrealized gains of $1.3 million. This compared with net losses on other financial instruments of $24.0 million in fiscal 2011, comprising net realized losses of $5.6 million and net unrealized losses of $18.4 million.

OPERATING AND ADMINISTRATIVE EXPENSES

Operating and administrative expenses were $314.5 million compared to $302.8 million last year. The increase was mainly due to increased staff levels to support business growth, higher pension costs largely driven by lower discount rates and higher project costs related mainly to the Agility and Efficiency (A&E) project, a major investment program to modernize business delivery and to increase efficiency.

Overall, the operating and administrative expenses, expressed as a percentage of the average portfolio, remained at the same level as last year.

PERFORMANCE AGAINST OBJECTIVES

BDC Financing's closing portfolio, net of allowance for credit losses at $14.7 billion, is in line with the corporate plan objective.

BDC Financing net income was $298 million higher than planned. This positive result was mainly due to lower-than-anticipated impairment losses on loans.

During the planning period, BDC had anticipated a slower economic recovery and thus had projected an increase in impaired loans stemming from the higher risk it took during the recession and financial crisis. However, the better-than-expected resilience of our clients along with improved economic conditions were significant factors contributing to the decrease of our impaired loans and allowance for credit losses.

In addition, net interest and fee income was $15 million higher than the $765 million anticipated and total operating and administrative expenses were $6 million less than the corporate plan objective.

BDC SUBORDINATE FINANCING

BDC Subordinate Financing supports high-potential, growth-oriented firms by providing flexible quasi-equity and equity-type financing for entrepreneurs. For this line of business, working capital remains the most important market need, particularly liquidity for growth, financing of intangible assets and geographic expansion. BDC will continue to address the market need for smaller and mid-size subordinate financing deals, particularly in non-urban areas.

Since fiscal 2004, BDC's subordinate financing activity has taken place via joint ventures with the Caisse de dépôt et placement du Québec (the Caisse), starting with a $300-million (BDC: $150 million) commitment with AlterInvest Fund LP. This was followed by a $330-million (BDC: $165 million) commitment with AlterInvest II Fund LP. BDC acts as the general partner of these funds and receives management fees. In November 2009, AlterInvest II Fund LP reached its authorized capacity and BDC began to fully fund new subordinate financing transactions through its wholly owned investment subsidiary, BDC Capital Inc.

Upon conversion to IFRS, BDC is now required to consolidate these investment funds into our Consolidated Financial Statements. Please refer to Note 28—*First-time Adoption of IFRS* for more details.

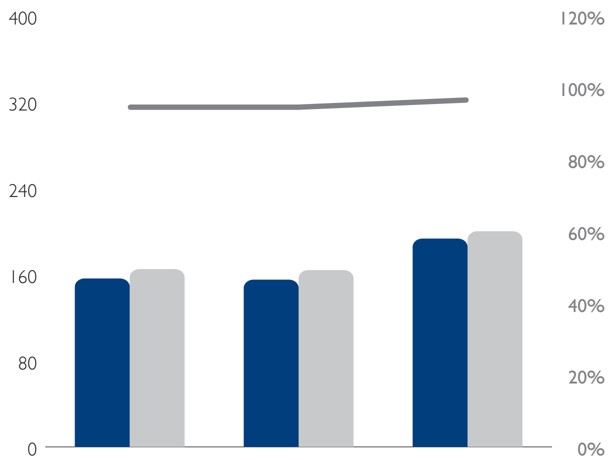
SUBORDINATE FINANCING PORTFOLIO

The BDC Subordinate Financing portfolio increased by 18%, from $387.1 million in fiscal 2011 to $457.4 million in fiscal 2012. The most important factor contributing to this growth was the higher level of activities. In fiscal 2012, total disbursements jumped by almost 38% to $140.9 million compared to disbursements of $102.4 million in fiscal 2011.

The fair value of the portfolio as a percentage of cost reached 98%, an indication of its good health.

Subordinate Financing Portfolio – Canadian GAAP

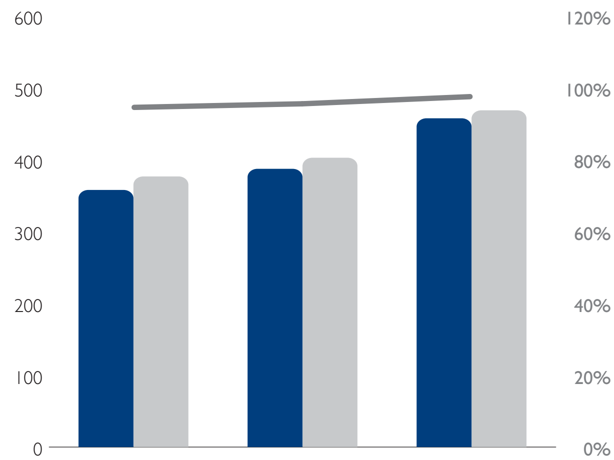
as at March 31 ($ in millions)



Canadian GAAP	2008	2009	2010
Fair value	156.2	155.1	193.2
Cost	164.9	164.0	200.0
Fair value as % of cost	95%	95%	97%

Subordinate Financing Portfolio—IFRS

as at March 31 ($ in millions)



IFRS	Apr. 1, 2010	Mar. 31, 2011	**Mar. 31, 2012**
Fair value	357.7	387.1	**457.4**
Cost	376.5	402.5	**468.5**
Fair value as % of cost	95%	96%	**98%**

Under IFRS, BDC is required to consolidate its participation in the joint ventures with the Caisse. This explains the higher amount of the portfolio recorded under IFRS than under Canadian GAAP.

INCOME FROM SUBORDINATE FINANCING

BDC Subordinate Financing reported income of $36.2 million for the year, $15.8 million higher than in fiscal 2011. Income included $14.6 million attributable to non-controlling interests in fiscal 2012, and $8.7 million last year. Net interest income of $40.7 million was 7% higher than the $38.0 million recorded last year due to the significant growth of the portfolio. Net realized losses on investments of $1.2 million were $14.7 million better than last year. In addition, fee and other income was up $3.6 million from last year.

The net change in unrealized appreciation of investments of $4.2 million was marginally higher than last year, by $0.4 million. The net change in unrealized appreciation of investments included:

> a $1.9 million net fair value appreciation of the portfolio ($13.7 million depreciation in 2011); and

> a reversal of net fair value depreciation due to realized income totaling $2.3 million ($17.5 million in 2011).

Operating and administrative expenses increased by $5.7 million from last year.

PERFORMANCE AGAINST OBJECTIVES

Income from BDC Subordinate Financing of $36.2 million in fiscal 2012 was higher than the corporate plan objective of $15 million. This difference was mainly due to higher-than-anticipated net interest and other income as a result of the portfolio growth and higher equity-type returns. This was partially offset by higher operating and administrative expenses.

BDC VENTURE CAPITAL

BDC Venture Capital is a major investor in Canada, active at every stage of the firms' development cycles, from seed through expansion. It focuses on innovative technology-based companies that have high growth potential, offer unique products or services and are positioned to become dominant players in their markets.

BDC Venture Capital invests primarily in companies involved in the areas of Energy/Cleantech, Health, Information Technology, and Communications.

We do both direct (individual company) and indirect (fund) investments, usually working with or co-investing with private sector partners through investment syndicates. We also undertake strategic initiatives and investments targeted at stimulating the Canadian venture capital and innovation ecosystems.

Under IFRS, BDC is now required to consolidate investments over which it exercises control. For more details, please refer to Note 28—*First-time Adoption of IFRS* of the Consolidated Financial Statements.

VENTURE CAPITAL OVERVIEW

Last year, BDC completed an extensive review of the national venture capital industry and its own venture capital operations. Based on this review, BDC established a new approach, taking into account industry challenges, to build on BDC's existing role and better align it with the private sector.

The environment for venture capital remains challenging. While investment levels have increased and the industry is showing signs of improvement, the venture capital ecosystem as a whole is not yet as robust as it should be.

The Canadian venture capital industry remains sub-scale, with smaller funds and smaller investments in companies than in the U.S., as well as having few strong private institutional investors. The report from the federal R&D Review Panel highlighted this gap and suggested that BDC be provided with new capital to support the development of larger scale, later stage venture capital funds in support of the private venture capital and equity industry. The March 2012 Federal Budget, confirmed $100 million in capital to BDC for its venture capital activities. BDC will continue to enhance its strategy to support the recommendations of the Review Panel.

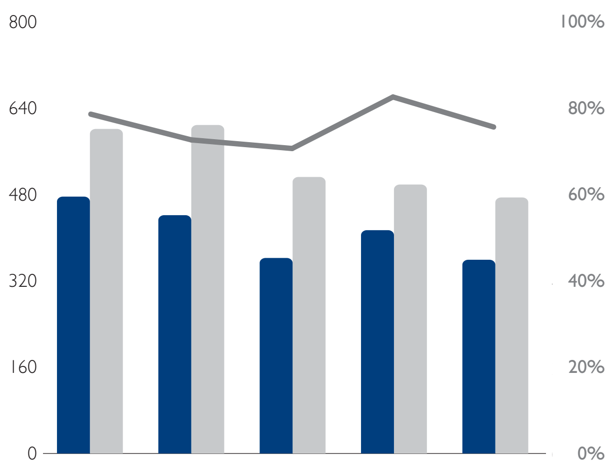
VENTURE CAPITAL PORTFOLIO

The fair value of the portfolio decreased from $413.8 million in fiscal 2011 to $359.0 million this year. The portfolio is composed of $259.1 million of direct investments and $99.9 million of investments in 22 funds. The decrease in the portfolio fair value is mainly due to higher divestitures of investments this year, as well as higher fair value losses in the diversified portfolio prior to the new venture capital strategy.

Fair value of the portfolio as a percentage of cost was down to 76% as at March 2012 compared to 83% last year. This decrease is mainly due to very good exits this year that had positive fair values last year. These exits, and the increased net fair value losses in the portfolio, contributed to reducing the fair value as a percentage of cost.

BDC Venture Capital Portfolio—Total Investments

as at March 31 ($ in millions)

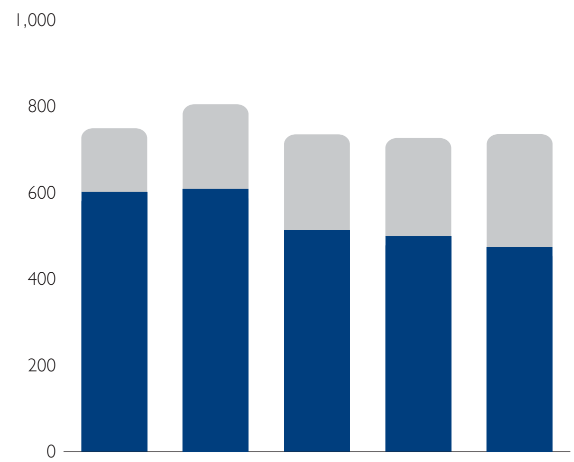


	2008	2009	2010	2011	**2012**
	Canadian GAAP			IFRS	
Fair value	476.0	441.6	362.3	413.8	**359.0**
Portfolio (cost)	601.4	608.7	512.4	498.4	**474.4**
Fair value as % of cost	79%	73%	71%	83%	**76%**

The total venture capital commitment to clients, which represents the portfolio outstanding at cost plus undisbursed commitments, amounted to $735.5 million as at March 31, 2012. It comprises $374.8 million committed to direct investments and $360.7 million committed to private sector investment funds. The undisbursed portion has been mainly committed to private funds and will be invested over the next few years.

Total Commitment to Venture Capital Clients

as at March 31 ($ in millions)



	2008	2009	2010	2011	**2012**
	Canadian GAAP			IFRS	
Portfolio (cost)	601.4	608.7	512.4	498.4	**474.4**
Undisbursed commitment	147.7	196.0	222.6	228.1	**261.1**
Total commitment to venture capital clients	749.1	804.7	735.0	726.5	**735.5**

LOSS FROM VENTURE CAPITAL

Venture capital market conditions continue to be difficult. BDC's results mirror those of other participants involved in the market.

In fiscal 2012, BDC Venture Capital recorded a loss of $42.7 million, compared to a $20.8 million loss last year. During fiscal 2012, BDC participated in some of the more successful exits of the year, generating excellent returns.

Net realized gains on investments amounted to $7.6 million this year compared to net realized losses of $71.3 million last year. Fiscal 2012 results included $79.4 million in net realized gains from sales and $71.8 million in write-offs. The net realized gains on investments had minimal impact on results as the changes in fair value on these investments made in prior periods were reversed at the time of exit.

BDC recorded a net change in unrealized depreciation of $35.6 million (unrealized appreciation of $72.1 million last year), which included the following:

> $30.4 million in net fair value depreciation of the portfolio ($2.6 million in net fair value depreciation last year); and

> a reversal of net fair value appreciation on divested investments and write-offs totaling $5.2 million (reversal of net fair value depreciation and write-offs of $74.7 million last year).

Net unrealized foreign exchange gains of $4.8 million on investments are due to foreign exchange fluctuations on the U.S. dollar. BDC monitors U.S. currency fluctuations and uses foreign exchange contracts to partially hedge U.S. dollar investments. As a result, $3.3 million in net losses on foreign exchange contracts partially offset gains recognized due to U.S. dollar fluctuations.

Operating and administrative expenses were $19.3 million, slightly down compared to $21.9 million in fiscal 2011.

BDC Venture Capital loss attributable to non-controlling interests was $1.5 million for the year, $1 million lower than last year.

PERFORMANCE AGAINST OBJECTIVES

BDC Venture Capital's loss of $42.7 million was higher than the $27 million loss anticipated in the corporate plan. This was largely due to the higher-than-anticipated unrealized depreciation on investments. Operating and administrative expenses were in line with the corporate plan objective. Loss attributable to non-controlling interests of $1.5 million was $1 million lower than anticipated.

BDC CONSULTING

BDC Consulting offers customized business consulting services at a cost entrepreneurs can afford. It strives to provide entrepreneurs with the support they need to grow their business and enhance their competitiveness in local and global markets. BDC Consulting continues to focus on the quality of its services and obtained ISO 9001 certification in April 2011.

LOSS FROM CONSULTING

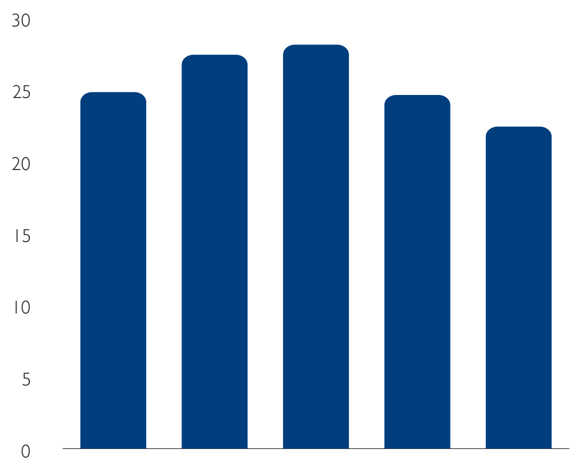
Activity continues to be affected by economic uncertainty, as Canadian entrepreneurs seem reluctant to spend working capital on discretionary items such as consulting. As a result, consulting revenues of $22.4 million were down this year by $2.2 million from the $24.6 million recorded last year. Operating and administrative expenses of $33.4 million remained at the same level as in fiscal 2011.

The loss for the year was $11 million, $2.1 million higher than the loss recorded in fiscal 2011.

BDC Consulting strives to deliver affordable support to help entrepreneurs make their businesses more competitive. To enhance these services, we started a review. The review will focus on determining what entrepreneurs need most and increasing the quality and efficiency of our services. We will complete it in fiscal 2013.

Consulting Revenue

for the years ended March 31 ($ in millions)



2008	2009	2010	2011	**2012**
Canadian GAAP			IFRS	
24.8	27.4	28.1	24.6	**22.4**

PERFORMANCE AGAINST OBJECTIVES

For fiscal 2012, we had anticipated a loss of $12 million in BDC Consulting. The loss was $11 million.

Revenues were $22.4 million, which was $6 million lower than anticipated. On the other hand, operating and administrative expenses were also less than expected: $7 million less.

BDC SECURITIZATION

BDC played an important role during the economic crisis at the request of the Government by working with private sector partners to offer the Canadian Secured Credit Facility (CSCF). The objectives of the program were to provide funding to automotive and equipment financing companies that needed it and restart the securitization market in Canada. BDC delivered on both objectives and purchased $3.7 billion of asset-backed securities (ABS) under the facility. The offer ended on March 31, 2010. This portfolio should completely mature in fiscal 2014, if we hold these assets to maturity.

The Multi-Seller Platform for Small Originators (MSPSO) is a program aimed at helping small and medium sized finance and leasing companies in the vehicle and equipment sector. It is a private securitization program where BDC acts as the senior investor in purchasing asset-backed securities. The Life Insurance Company Investment Program (LifeCo Program) is a bulk leasing financing program in which BDC is participating with a major insurance company, SunLife. The end user beneficiaries are mostly small businesses. To date, BDC has authorized $440 million under its MSPSO program and $30 million under its LifeCo program.

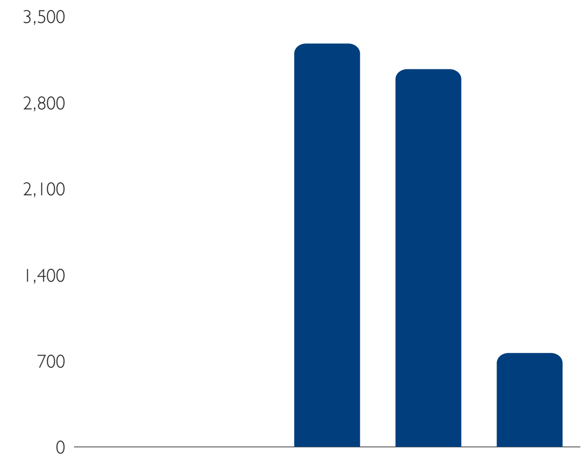
SECURITIZATION PORTFOLIO

As at March 31, 2012, total asset-backed securities stood at $763.2 million compared to $3.1 billion in fiscal 2011. During the year, a total of $2.0 billion was prepaid prior to maturity in ABS under the CSCF. Furthermore, decreases in the portfolio can be explained by the expected maturity profile of the CSCF portfolio.

The MSPSO, launched during the first quarter of this fiscal year, is geared toward the purchase of term ABS supported by loans and leases on vehicles and equipment. Total disbursements for the year were $95.5 million.

Asset-Backed Securities Portfolio

as at March 31 ($ in millions)



2008	2009	2010(1)	2011	**2012**
Canadian GAAP			IFRS	
n/a	n/a	3,277	3,069	**763**

(1) Restated to include accrued interest.

INCOME FROM SECURITIZATION

BDC Securitization recorded net income of $46.2 million for the year, $24 million lower than last year, mainly due to lower net interest income as a result of the decline of the portfolio because of prepayments. Net realized losses on other financial instruments of $0.1 million were recorded in fiscal 2012 due to the repurchase of $71.8 million of long-term debt in the CSCF program, compared to gains of $2.1 million last year, when long-term debt of $957.5 million was repurchased.

Operating and administrative expenses amounted to $1.7 million in fiscal 2012. This is $0.5 million lower than last year.

PERFORMANCE AGAINST OBJECTIVES

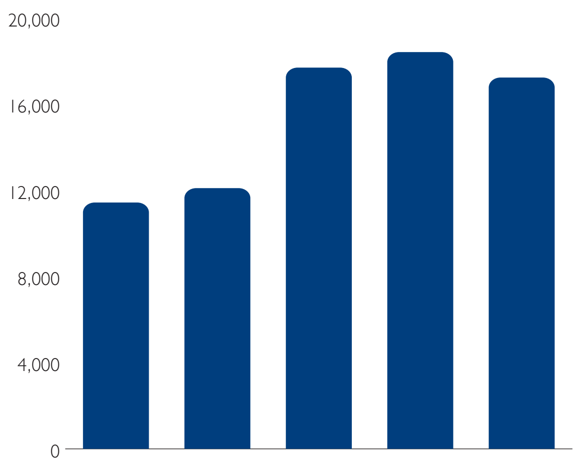
Income of $46.2 million was $18 million less than anticipated, mostly due to a decrease in net interest income as a result of the $2.0 billion early redemption in ABS.

CONSOLIDATED FINANCIAL POSITION AND STATEMENT OF CASH FLOWS

Total assets of $17.2 billion decreased by $1.2 billion from a year ago, largely due to the decrease of $2.3 billion in asset-backed securities. However, this decrease was partially offset by the $1.1 billion increase in our loans and Subordinate financing investment portfolios.

Total Assets—BDC

as at March 31 ($ in millions)



2008	2009	2010	2011	**2012**
Canadian GAAP			IFRS	
11,424	12,091	17,680	18,400	**17,220**

The ABS portfolio stood at $0.8 billion, compared to $3.1 billion at March 31, 2011. This portfolio consists mainly of AAA-rated term securities purchased under the CSCF. The decrease in the portfolio was mostly due to the $2.0 billion early redemption under the CSCF portfolio. Also contributing to the decline of the portfolio were expected maturities.

At $14.7 billion, the loan portfolio (net of allowance for credit losses) represented BDC's largest asset ($15.3 billion in gross portfolio net of $0.6 billion allowance for credit losses). Portfolio growth was slower than in recent years as a result of increases in loan prepayments and repayments, and lower disbursements due to increased market liquidity.

As for BDC's investment portfolios, the BDC Subordinate Financing portfolio stood at $457.4 million, representing an 18.2% growth since March 31, 2011. This increase is mainly the result of much higher activities in fiscal 2012 compared to fiscal 2011. The BDC Venture Capital portfolio was $359.0 million at March 31, 2012, compared to $413.8 million at March 31, 2011. The reduction in this portfolio was mainly due to three major exits in fiscal 2012, offset by higher unrealized depreciation.

Derivative assets of $87.7 million and derivative liabilities of $17.2 million reflect the fair value of derivative financial instruments as at March 31, 2012. Net derivative fair value increased by $29.1 million compared to the value at March 31, 2011, as a result of interest rate decreases and foreign exchange revaluation on swaps used to economically hedge BDC's structured long-term notes.

Post-employment benefit liability amounted to $220.2 million at March 31, 2012, representing an increase of $108.8 million compared to March 31, 2011 net post-employment benefit liability of $111.4 million (which included liabilities of $127.7 million and assets of $16.3 million). This significant increase was the result of actuarial losses recorded during the year. For further information, refer to Note 18—*Post-employment Benefits* of the Consolidated Financial Statements.

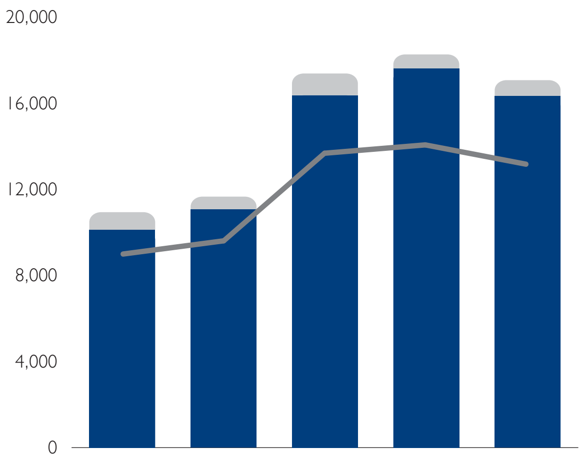
BDC holds cash and cash equivalents in accordance with its Treasury Risk Policy. The Bank's liquidities, which ensure funds are available to meet BDC's cash outflows, totaled $740.7 million at March 31, 2012, compared to $653.2 million at March 31, 2011.

For the year ended March 31, 2012, cash flow provided by investing activities amounted to $2,226.0 million, following the $2.0 billion early redemption in ABS, along with expected maturities. Financing activities used $1,674.9 million in cash flow as long-term notes were repaid for $2,693.0 million and short-term notes were issued for $1,494.8 million. In addition, BDC also proceeded with the repurchase of common shares for $426 million and all of its $230 million preferred shares. Refer to Note 20—*Share Capital and Preferred Shares* for more details. Operating activities used $463.7 million in cash flow.

At March 31, 2012, BDC funded its portfolios and liquidities with borrowings of $13.2 billion and total equity of $3.5 billion. Borrowings comprised $11.2 billion in short-term notes and $2.0 billion in long-term notes. Again, the proceeds received from the $2.0 billion early redemption in ABS allowed the Bank to repay a sizeable portion of the long-term notes.

Borrowings

as at March 31 ($ in millions)



	2008	2009	2010	2011	**2012**
	Canadian GAAP			IFRS	
Liquid assets	817	604	1,014	653	**741**
Portfolios[(1)]	10,114	11,049	16,358	17,601	**16,319**
Borrowings	9,029	9,646	13,736	14,125	**13,224**

Both portfolios and borrowings from 2008 to 2009 have been restated to include accrued interest.

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

Under IFRS, equity consisted of $3.5 billion attributable to BDC's shareholder and $0.1 billion attributable to non-controlling interests. Upon transition to IFRS, preferred shares of $230 million were also reclassified from equity to liabilities. Refer to Note 28—*First-time Adoption of IFRS* to the Consolidated Financial Statements.

BDC return on common equity reached 13.7% in fiscal 2012, above the government's average long-term cost of capital of 1.4%.

Total Equity

as at March 31 ($ in millions)

	2012	2011[(1)]	2010	2009	2008
	IFRS		Canadian GAAP		
Equity					
Share capital	**2,088.4**	2,514.4	2,744.4	1,288.4	1,038.4
Contributed surplus	**27.8**	27.8	27.8	27.8	27.8
Retained earnings	**1,378.6**	1,046.4	869.8	878.1	804.0
Accumulated other comprehensive income (loss)	**15.2**	24.6	1.0	(4.7)	(2.8)
Equity attributable to BDC's shareholder	**3,510.0**	3,613.2	3,643.0	2,189.6	1,867.4
Non-controlling interests	**115.3**	146.6	n/a	n/a	n/a
Total equity	**3,625.3**	3,759.8	3,643.0	2,189.6	1,867.4
ROE[(2)]	**13.7%**	10.8%	0,0%	4.7%	4.7%

(1) Based on IFRS, BDC's $230 million outstanding preferred shares as at March 31, 2011, have been reclassified as liabilities, These preferred shares have been fully repurchased in fiscal 2012.

(2) ROE is calculated based on equity attributable to BDC's shareholder (see the glossary on page 156 for a detailed definition).

DIVIDENDS

On March 30, 2012, BDC repurchased all of its outstanding preferred shares and some of its common shares for a total consideration of $660.5 million. This included $230 million for 2.3 million preferred shares, $4.5 million for related accumulated dividends and $426 million for 4.3 million common shares.

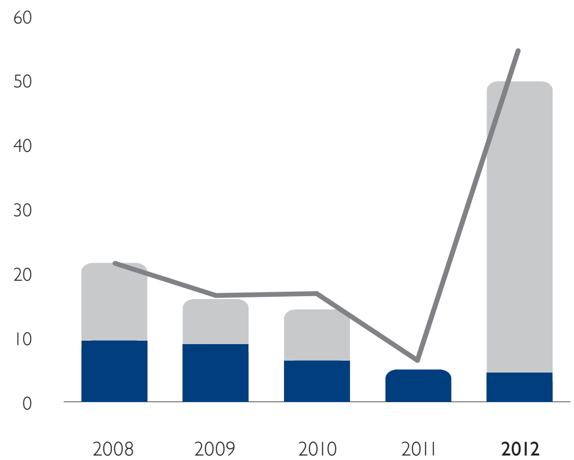
BDC pays dividends to its sole shareholder, the Government of Canada. In addition to the $4.5 million for related accumulated dividends on the repurchased preferred shares, a total dividend of $50.1 million was paid in fiscal 2012.

Under IFRS, BDC's preferred dividends are considered as interest expenses on preferred shares; consequently, the $4.5 million in dividends paid on the preferred shares was recorded in interest expenses in fiscal 2012, and the corresponding amount paid in fiscal 2011 was reclassified.

Based on fiscal 2012 performance, BDC will make an additional payment of $68.6 million in dividends on common shares, which will be declared and paid after March 31, 2012.

Dividends

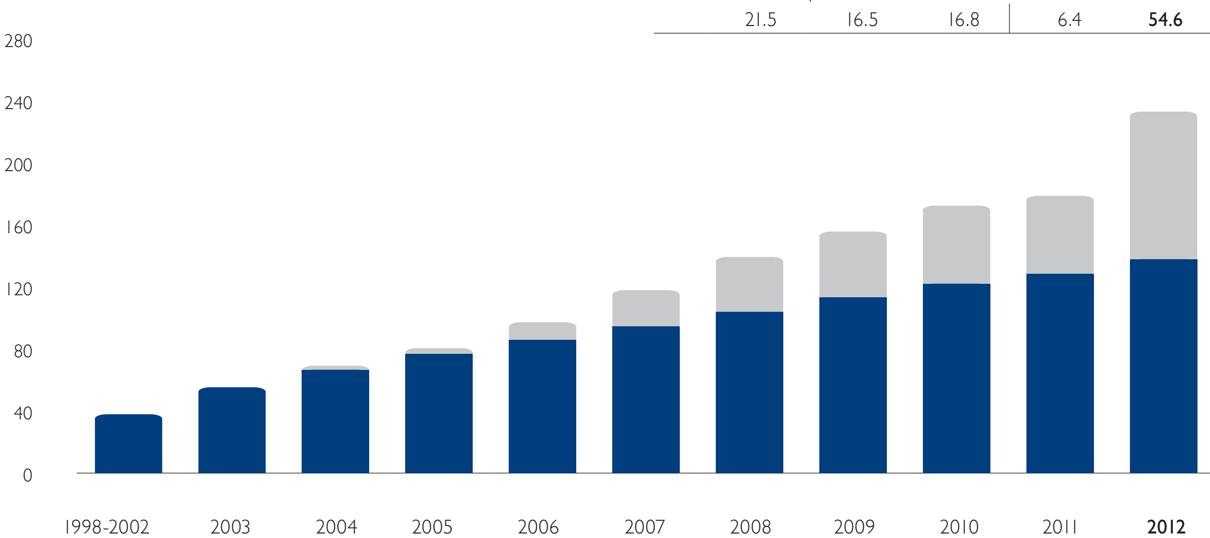
for the years ended March 31 ($ in millions)



	2008	2009	2010	2011	**2012**
	Canadian GAAP			IFRS	
Preferred dividends declared	9.5	8.9	6.4	5.0	**4.5**
Common dividends declared	12.0	7.0	7.9	0.0	**45.1**
Total dividends declared	21.5	15.9	14.3	5.0	**49.6**
Total dividends paid	21.5	16.5	16.8	6.4	**54.6**

Cumulative Dividends Paid

as at March 31 ($ in millions)



	1998-2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	**2012**
Preferred dividends paid	38.2	55.7	67.1	77.3	86.4	95.1	104.5	114.0	122.9	129.3	**138.8**
Common dividends paid	0.0	0.0	0.4	3.8	11.5	23.6	35.7	42.7	50.6	50.6	**95.7**
Total dividends paid	38.2	55.7	67.5	81.1	97.9	118.7	140.2	156.7	173.5	179.9	**234.5**

CAPITAL MANAGEMENT

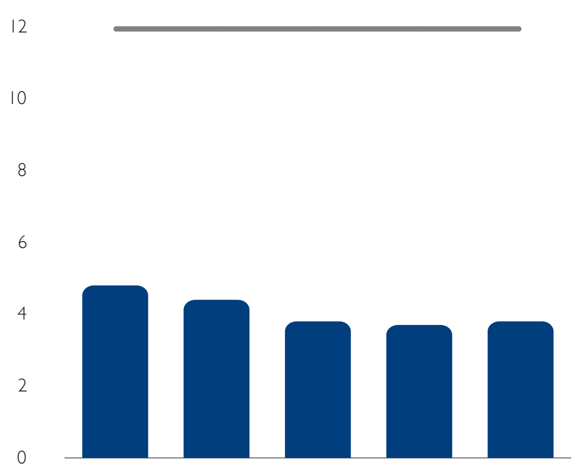
STATUTORY LIMITATIONS

The BDC Act requires that the aggregate of borrowings and contingent liabilities in the form of guarantees provided by BDC may not exceed 12 times its equity. This ratio also includes preferred shares classified as liabilities and excludes accumulated comprehensive income. BDC's debt-to-equity ratio at March 31, 2012, was 3.8:1, compared with 3.7:1 at March 31, 2011.

In addition, the paid-in capital, the contributed surplus and any proceeds that have been prescribed as equity (such as hybrid capital instruments), must not at any time exceed $3.0 billion. As at March 31, 2012, these amounts totaled $2.116 billion compared to $2.772 billion (which includes $230 million in preferred shares reclassified as liabilities) as at March 31, 2011. The decrease is the result of the $656 million share repurchase at the end of March 2012.

Debt-to-Equity Ratio

as at March 31



	2008	2009	2010	2011	**2012**
	Canadian GAAP			IFRS	
Actual	4.8	4.4	3.8	3.7	**3.8**
Statutory limit	12.0	12.0	12.0	12.0	**12.0**

CAPITAL ADEQUACY

Treasury Board of Canada Secretariat provides guidelines to BDC on its capital adequacy ratios. BDC must maintain overall capital and loss provisions sufficient to ensure that it can withstand unfavourable economic circumstances without needing government funding.

Adequate capital ratios reflect the relative risk of BDC's assets. The recommended capital is at least 5% for asset-backed securities under the CSCF program and 10% for those under the MSPSO program, 10% for term loans and 25% for quasi-equity loans, net of allowance for credit losses; 25% for Subordinate financing investments, and 100% for Venture capital investments. BDC also established capital adequacy ratios for loan guarantees and letters of credit to reflect their relative risk. BDC operated in accordance with its capital guidelines during the year. For further details, refer to Note 21 – *Capital Management* of the Consolidated Financial Statements.

While BDC is not required to meet the requirements of the Basel II Capital Accord, we use an economic capital model and a supporting risk rating system that align with Basel requirements. The capital model looks beyond market, credit and operational risks to business risks and maturity risks.

PENSION AND OTHER EMPLOYEE FUTURE BENEFITS

BDC's pension plan, supplemental plans and other employee future benefits are based on actuarial valuations and assumptions detailed in Note 18—*Post-employment Benefits* of the Consolidated Financial Statements. Several factors, particularly the discount rate used to value future liabilities, influence the calculation of those obligations. For accounting measurement purposes, the discount rate used at each measurement date is based on market interest rates for long-term, high-quality debt instruments.

BDC's employer contributions to the registered pension plan totaled $61.6 million in fiscal 2012, compared to $59.4 million in fiscal 2011. The increase in contributions was a result of additional payments made by BDC to manage the funding status of the pension plan.

We fund our registered pension plan in accordance with applicable federal pension legislation and actuarial standards of practice in Canada to ensure proper funding of employee benefit obligations. As of March 31, 2012, the funded status of the registered pension plan was in a surplus position on a going-concern basis and in a deficit position on a wind-up and solvency basis. We will continue to contribute to the pension fund in future years to manage our funded status, as prescribed by the applicable federal pension legislation.

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

OUTLOOK FOR 2013

BDC expects economic fundamentals in Canada to remain solid with good financial and fiscal conditions, albeit in a slow-growth environment. External factors will continue to create uncertainty and businesses may hesitate about investments if conditions do not improve in the U.S. and Europe.

BDC's net income is expected to reach $262 million in fiscal 2013, including $257 million attributable to BDC's shareholder and $5 million to non-controlling interests. The decrease in the net income is mainly due to the expected increase in impairment losses on loans. BDC is forecasting dividend payments of $66 million in 2013.

BDC FINANCING

With the expected moderate growth of the Canadian economy, interest rates should remain relatively low and liquidity should be stable. As a result, BDC expects financing acceptances to decrease to $3.3 billion in fiscal 2013, from $3.6 billion in fiscal 2012. This decrease in BDC's activity reflects its complementary role in an environment of improved credit conditions. Nevertheless, BDC will remain ready to increase its response should downside risks materialize and to respond to market needs.

BDC will continue to play its complementary role in helping entrepreneurs succeed by collaborating with other financial institutions and addressing market deficiencies by increasing its support of SMEs through working capital and equipment and Information and Communications Technology financing. The type and level of activity will respond to market needs while maintaining an appropriate risk threshold, given BDC's capital position.

Driven by fewer financing acceptances, the portfolio is expected to grow by 3.6% from March 31, 2012, to $15.9 billion in fiscal 2013. Higher loan prepayments and repayments will also reduce portfolio growth. We expect BDC Financing to generate net income of $256 million in fiscal 2013.

Net interest and fee income is expected to increase to $795 million in fiscal 2013. BDC projects the impairment losses on loans to amount to $200 million or 1.3% of the average outstanding financing portfolio. Operating and administrative expenses are expected to increase to $338 million in fiscal 2013. This is mainly due to increased pension costs, Quebec sales tax harmonization and BDC investments in processes and technology aimed at improving client service and BDC efficiency. Expressed as a percentage of the average portfolio, operating and administrative expenses are expected to remain stable.

BDC SUBORDINATE FINANCING

BDC will continue to address the needs of high-growth firms through its specialized subordinate financing product. The fair value of our subordinate financing portfolio is expected to reach $497 million in fiscal 2013 from $457.4 million in 2012. Net income is projected at $27 million, including non-controlling interests of $6 million.

BDC VENTURE CAPITAL

The venture capital environment is expected to continue to be challenging. The sustained poor performance of the Canadian venture capital industry for more than a decade has had a significant impact on BDC Venture Capital results. Although BDC is optimistic about the direction of its new strategy, net results must consider this environment.

Based on its new venture capital strategy, BDC has created three internal direct investment funds: the IT Venture Fund, the Energy/Cleantech Venture Fund and the Health Venture Fund. These three internal funds are focusing on building leading Canadian technology businesses. We have also created a team dedicated to developing new and innovative initiatives to reinforce key areas in the venture capital investment community and innovation ecosystem.

BDC Venture Capital expects to authorize $73 million in direct investments and $70 million in indirect investments for a total of $143 million in fiscal 2013. The fair value of the venture capital portfolio is expected to reach $468 million as at March 31, 2013.

In fiscal year 2013, BDC Venture Capital forecasts a net loss of $20 million, including a net loss of $1 million attributable to non-controlling interests. Operating and administrative expenses are projected at $22 million.

BDC CONSULTING

BDC Consulting strives to provide businesses with the customized support they need to grow their business and enhance their competiveness. During fiscal year 2012, BDC launched its information and communications technology (ICT) strategy and increased the quality of its network of consultants and internal expertise to deliver on this new strategy.

For fiscal 2013, BDC expects $25 million in consulting revenues and a loss of $12 million.

BDC SECURITIZATION

The CSCF program is now over and the portfolio should reach maturity in fiscal 2014, if BDC holds these investments to maturity. During 2012, early redemptions of $2 billion contributed to reduce the value of the portfolio to $677 million at the end of the year. By the end of 2013, the portfolio is estimated to stand at $223 million.

BDC will continue to operate the MSPSO program aimed at providing vehicle and equipment financing to smaller finance companies. Due to the revolving nature of authorizations in this program, BDC expects acceptances to reach $60 million in fiscal 2013 after having authorized $440 million in fiscal 2012. The portfolio fair value is estimated to reach $247 million in fiscal 2013.

The BDC Securitization total portfolio is expected to close at $470 million as at March 31, 2013. Total net income for fiscal 2013 is projected at $11 million.

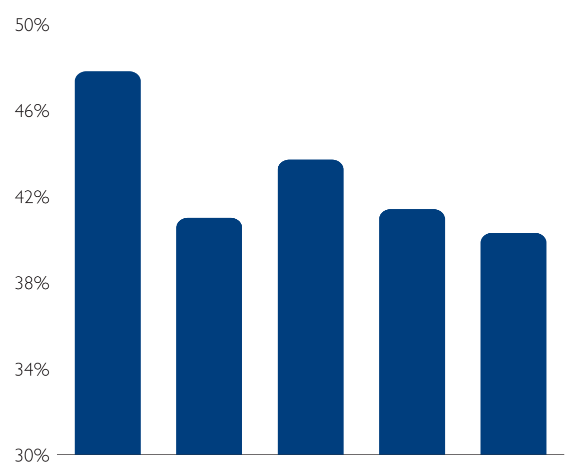
COST CONTAINMENT

As can be seen in the graph below, operational efficiency is a longstanding, ongoing objective at BDC.

The Government of Canada announced in its 2011 budget the undertaking of a Strategic and Operating Review (SOR) in order to achieve annual savings in its operations. As a non-appropriated Crown corporation, we are not formally subject to the SOR. Nevertheless, we are committed to the spirit and intent of the exercise to increase operating efficiency.

BDC Financing Efficiency Ratio(1)

for the years ended March 31



2008	2009	2010	2011	**2012**
Canadian GAAP			IFRS	
47.8%	41.0%	43.7%	41.4%	**40.3%**

(1) A lower ratio indicates improved efficiency.

IMPACT OF THE IFRS TRANSITION

In February 2008, the Accounting Standards Board of the Canadian Institute of Chartered Accountants announced that all publicly accountable Canadian enterprises must adopt International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. In December 2009, the Public Sector Accounting Board confirmed that government business enterprises must adhere to the standards applicable to publicly accountable enterprises.

BDC started applying IFRS for its annual Consolidated Financial Statements beginning on April 1, 2011. These statements also include comparative fiscal 2011 financial results restated to comply with IFRS.

IFRS are premised on a conceptual framework similar to Canadian generally accepted accounting principles (GAAP). However, significant differences exist in certain matters of recognition, measurement and disclosure. BDC's significant accounting policies under IFRS can be found in Note 3—*Significant Accounting Policies* to the Consolidated Financial Statements. Note 28—*First-time Adoption of IFRS* contains a detailed description of the impact of our conversion to IFRS, including a reconciliation of our financial statements previously prepared under Canadian GAAP to those under IFRS.

The table below summarizes the impact of the transition to IFRS on consolidated equity at April 1, 2010, the transition date, and at March 31, 2011.

Reconciliation of Consolidated Equity

As at	March 31, 2011	April 1, 2010
Shareholder's equity under Canadian GAAP	4,008,321	3,643,016
Differences increasing (decreasing) retained earnings:		
Post-employment benefits	(165,669)	(219,230)
Other	550	807
	(165,119)	**(218,423)**
Reclassification of preferred shares in liabilities	(230,000)	(230,000)
Equity attributable to BDC's shareholder under IFRS	**3,613,202**	**3,194,593**
Non-controlling interests		
Joint ventures	139,221	170,548
Investments controlled by BDC	7,424	5,994
Equity attributable to non-controlling interests under IFRS	**146,645**	**176,542**
Consolidated equity under IFRS	**3,759,847**	**3,371,135**

POST-EMPLOYMENT BENEFITS

The most significant impact of the conversion to IFRS on our Consolidated Financial Statements has been in the area of post-employment benefits and, more specifically, the recognition of actuarial gains and losses.

Under previous Canadian GAAP, actuarial gains and losses were subject to a minimum required amortization based on a "corridor" approach. Each fiscal year, BDC determined whether the cumulative actuarial gain or loss was more than 10% of the greater of the fair value of the plan assets or the defined benefit obligation. Any amount that exceeded this 10% corridor was amortized through the income statement over the average remaining service period of active employees. Amounts that fell within the 10% corridor were not amortized.

Under IFRS, three options are available to account for actuarial gains and losses: (i) the "corridor" approach; (ii) immediate recognition in net income; or (iii) immediate recognition in other comprehensive income (OCI). Of these three options, BDC has elected to recognize all actuarial gains and losses immediately in OCI. These gains and losses are transferred immediately to retained earnings at the end of each period.

Upon transition to IFRS, existing unamortized net actuarial losses were recognized in opening retained earnings. As a result of this adjustment, along with other IFRS adjustments related to post-employment benefits (refer to Note 28 to the Consolidated Financial Statements for more information), the post-employment benefit asset of $145.4 million that existed under Canadian GAAP as at March 31, 2010, was derecognized and an additional post-employment benefit liability of $73.8 million was recognized. Consequently, opening retained earnings decreased by $219.2 million.

Subsequent to transition, the amortization component of net actuarial losses is no longer included in the post-employment benefits expense, and actuarial gains and losses are immediately recognized in OCI. Refer to Note 28—*First-time Adoption of IFRS* for discussion of the impact of this change on fiscal 2011 results.

While the new chosen policy significantly increases the volatility of comprehensive income and equity, it is more aligned with the proposed direction of the International Accounting Standards Board (IASB), as discussed in the *Future Changes in Accounting Policies* section later in this chapter. The new policy also provides greater transparency regarding the impact of post-employment benefits on BDC.

IMPACT ON PREFERRED SHARES

Under IFRS, BDC's preferred shares need to be classified as a combined financial instrument, with a liability and an equity component, given that they have a feature that requires a non-discretionary annual dividend payment at a rate that is periodically adjusted to the market rate, and a feature that allows the holder of the shares to exchange a fixed number of preferred shares for a fixed number of common shares. The equity component represents the residual amount, if any, after deducting the fair value assigned to the liability component on initial recognition.

Upon transition, preferred shares of $230 million were reclassified from equity to liabilities and no residual value was assigned to the equity component. Subsequent to transition, dividends on preferred shares are recognized in net income as interest expense. This reclassification did not have an impact on statutory limitations and capital adequacy since, in the BDC Act, preferred shares are to be included in the calculation of capital regardless of their financial statements classification.

Note that on March 30, 2012, the shareholder repurchased these preferred shares. Refer to Note 20—*Share Capital and Preferred Shares* for additional information.

IMPACT ON CONSOLIDATION

Joint Ventures

BDC holds a portion of its subordinate financing portfolio through investment funds held jointly with the Caisse de dépôt et placement du Québec (AlterInvest Fund L.P., AlterInvest II Fund L.P. and AlterInvest Investment Fund Inc.). Under Canadian GAAP, these funds were proportionately consolidated into BDC's Consolidated Financial Statements by virtue of the fact that they were joint ventures.

Based on the definition of control under IFRS, BDC has concluded that it has the power to govern the financial and operating policies of these funds so as to obtain benefits from their activities, and consequently must consolidate them into BDC's Consolidated Financial Statements upon conversion to IFRS.

Subordinate Financing and Venture Capital Investments

Subordinate financing and venture capital investments were measured and presented at fair value in accordance with Accounting Guideline 18 (AcG-18), *Investment companies*. Consequently, they were not consolidated into BDC's Consolidated Financial Statements. Under IFRS, BDC must consolidate investments over which it exercises control. After analysis of subordinate financing and venture capital investments, it was determined that three investments must be consolidated.

Upon transition, consolidation of joint ventures and investments resulted in an increase in assets of $179.9 million and an increase in liabilities of $3.4 million. Non-controlling interests, presented within equity, increased by $176.5 million. There was no impact on opening retained earnings. Subsequent to transition, BDC's consolidated net income includes 100% of the net income of these entities, including the net income attributable to non-controlling interests.

FUTURE CHANGES IN ACCOUNTING POLICIES

A number of new standards, amendments to standards and interpretations have been published but are not yet effective for the year ended March 31, 2012. As a result, we have not applied them in preparing our fiscal 2012 Consolidated Financial Statements.

Information on new standards, amendments and interpretations that are expected to affect BDC is provided in Note 4—*Future Accounting Changes* to the Consolidated Financial Statements. Although these pronouncements are currently being assessed to determine their impact, the changes expected to have the most significant impact on BDC's Consolidated Financial Statements are summarized below.

FINANCIAL INSTRUMENTS

In November 2009 and October 2010, the IASB released IFRS 9, *Financial instruments*, which is the first part of a three-part project to replace IAS 39, *Financial instruments: Recognition and measurement*. This first part covers recognition, derecognition, classification and measurement of financial assets and financial liabilities. The other two parts will address impairment of financial assets and hedge accounting.

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities, and for the derecognition of financial instruments, were carried forward in IFRS 9.

IFRS 9 will be effective for BDC's fiscal year beginning April 1, 2015, with earlier application permitted.

EMPLOYEE BENEFITS

In June 2011, the IASB issued an amended version of IAS 19, *Employee benefits*. The amendment requires immediate recognition of all changes in plan assets and liabilities. Therefore, actuarial gains and losses will be recognized immediately in OCI, eliminating the "corridor" deferral option, and all past service costs will be recognized in the period in which the pension plan amendment occurs.

In addition, the expected return on plan assets and the interest cost on the pension obligation will be replaced with a measure of net interest income/expense on the net surplus or deficit in the plan, based on the plan's discount rate.

Finally, the amendment significantly increases the amount of information to be disclosed, particularly regarding amounts recognized, and the characteristics and risks of benefit plans.

This amendment will be effective for BDC's fiscal year beginning April 1, 2013, with earlier application permitted.

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

BDC's significant accounting judgements, estimates and assumptions are described in Note 5—*Significant Accounting Judgements, Estimates and Assumptions* to the Consolidated Financial Statements. Critical accounting estimates that have the most significant effect on the amounts recognized in the Consolidated Financial Statements include those related to the allowance for credit losses, the fair value of financial instruments and post-employment benefits.

ALLOWANCE FOR CREDIT LOSSES

BDC maintains the allowance for credit losses at an adequate level, taking into consideration the relatively high risk profile of our financing activities. 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 level.

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 for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling.

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

FAIR VALUE OF FINANCIAL INSTRUMENTS

Accounting standards require that all financial instruments be measured at fair value on initial recognition. In subsequent periods, they are measured at fair value, except for items classified as loans and receivables, or as other financial liabilities, which are measured at amortized cost.

Fair value is the price an unrelated knowledgeable party would pay or receive for a financial instrument. 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* to the Consolidated Financial Statements for more information about the valuation techniques used for each type of financial instrument and to Note 6—*Fair Value of Financial Instruments* for additional information on fair value hierarchy levels.

POST-EMPLOYMENT BENEFITS

BDC provides post-employment benefits to eligible employees after they retire. These plans include a registered pension plan, supplemental pension plans and other post-employment defined benefits (which include health, dental and life insurance coverage).

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 rates of return on assets available to fund pension obligations, expected future salary increases, expected mortality rates, expected health care cost trends and expected future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

Actual results could differ from results that are estimated based on assumptions. Refer to Note 18—*Post-employment Benefits* to the Consolidated Financial Statements for additional information about the key assumptions.

CONTROLS AND PROCEDURES

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

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

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

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

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

As of March 31, 2012, certifying officers evaluated the design and effectiveness of internal control over financial reporting. Based on the results of the evaluation, they concluded that internal control over financial reporting is adequately designed and operates effectively to provide reasonable assurance regarding the reliability of financial reporting and of financial statements prepared in accordance with IFRS. The transition to IFRS and the ongoing preparation of financial statements in accordance with IFRS did not materially change BDC's internal control over financial reporting.

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

As of March 31, 2012, certifying officers evaluated the design and effectiveness of disclosure controls and procedures. Based on the results of the evaluation, they concluded that disclosure controls and procedures are adequately designed and operate effectively to provide reasonable assurance that material information disclosed is recorded, processed, summarized and presented within the requested timeframe, and that it is communicated to management on a timely basis for decision-making purposes.

Consolidated Financial Statements

Management's Responsibility for Financial Information

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

In discharging its responsibility for the integrity, fairness and quality of the Consolidated Financial Statements and for the accounting systems from which they are derived, management maintains a system of internal controls designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. BDC has a certification regime to evaluate the design and effectiveness of its internal control over financial reporting and its disclosure controls and procedures. This certification regime is based on the Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Refer to the *Management's Discussion and Analysis* section of the annual report for additional information (p. 66).

The system of internal controls is augmented by internal audit staff who conduct periodic reviews of different aspects of BDC's operations. In addition, the chief audit executive, internal audit and the independent auditors have full and free access to the Audit Committee of the board of directors, which is responsible for overseeing and reviewing management's internal control and reporting responsibilities. The board of directors, through the Audit Committee, which comprises directors who are not employees of BDC, is responsible for reviewing and approving the audited annual Consolidated Financial Statements.

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

Jean-René Halde
President and Chief Executive Officer

Montreal, Canada
June 6, 2012

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

Independent Auditors' Report

To the Minister of Industry

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Business Development Bank of Canada, which comprise the consolidated statements of financial position as at 31 March 2012, 31 March 2011 and 1 April 2010, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended 31 March 2012 and 31 March 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Business Development Bank of Canada as at 31 March 2012, 31 March 2011 and 1 April 2010, and its financial performance and its cash flows for the years ended 31 March 2012 and 31 March 2011 in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in International Financial Reporting Standards have been applied, after giving retrospective effect to the adoption of the new standards as explained in Note 28 to the consolidated financial statements, on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of Business Development Bank of Canada and its wholly-owned subsidiary that have come to our notice during our audits of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Business Development Bank of Canada Act*, the charter and by-laws of the Business Development Bank of Canada and its wholly-owned subsidiary, and the directive issued pursuant to Section 89 of the *Financial Administration Act* described in Note 1 to the consolidated financial statements.

Sylvain Ricard, CPA auditor, CA
Assistant Auditor General
for the Auditor General of Canada

Raymond Chabot
Grant Thornton LLP [1]

[1] CPA auditor, CA public accountancy permit no. A125741

6 June, 2012
Montréal, Canada

Consolidated Statement of Financial Position

(in thousands of Canadian dollars)	Notes	**March 31, 2012**	March 31, 2011	April 1, 2010 (Note 28)
Assets				
Cash and cash equivalents	7	**740,667**	653,231	1,022,571
Derivative assets	8	**87,681**	67,122	85,786
Loans and investments				
Asset-backed securities	9	**763,200**	3,068,949	3,277,291
Loans	10	**14,739,271**	13,731,011	12,525,521
Subordinate financing investments	11	**457,369**	387,091	357,732
Venture capital investments	12	**358,951**	413,782	367,917
		16,318,791	17,600,833	16,528,461
Property and equipment	13	**25,171**	18,524	16,944
Intangible assets	14	**32,094**	21,770	19,406
Post-employment benefit asset	18	**–**	16,309	–
Other assets	15	**15,478**	21,789	41,277
Total assets		**17,219,882**	18,399,578	17,714,445
Liabilities and equity				
Liabilities				
Accounts payable and accrued liabilities	16	**89,229**	91,970	74,104
Derivative liabilities	8	**17,244**	25,751	73,233
Borrowings	17			
Short-term notes		**11,214,813**	9,719,923	5,558,990
Long-term notes		**2,008,943**	4,405,122	8,177,122
		13,223,756	14,125,045	13,736,112
Preferred shares	20	**–**	230,000	230,000
Post-employment benefit liability	18	**220,169**	127,668	186,855
Other liabilities	19	**44,223**	39,297	43,006
Total liabilities		**13,594,621**	14,639,731	14,343,310
Equity				
Share capital	20	**2,088,400**	2,514,400	2,514,400
Contributed surplus		**27,778**	27,778	27,778
Retained earnings		**1,378,617**	1,046,431	651,426
Accumulated other comprehensive income		**15,185**	24,593	989
Equity attributable to BDC's shareholder		**3,509,980**	3,613,202	3,194,593
Non-controlling interests		**115,281**	146,645	176,542
Total equity		**3,625,261**	3,759,847	3,371,135
Total liabilities and equity		**17,219,882**	18,399,578	17,714,445

Guarantees and contingent liabilities (Note 25)
Commitments (Note 26)

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

Stan Bracken-Horrocks
Director
Chairperson, Audit Committee

Jean-René Halde
Director
President and Chief Executive Officer

Consolidated Statement of Income

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

	2012	2011
Interest income	**973,812**	941,440
Interest expense	**121,843**	113,106
Net interest income	**851,969**	828,334
Net realized gains (losses) on investments	**6,396**	(85,961)
Consulting revenue	**22,384**	24,564
Fee and other income	**34,935**	29,215
Net realized gains (losses) on other financial instruments	**(2,239)**	2,213
Net revenue	**913,445**	798,365
Impairment reversal (losses) on loans	**38,235**	(104,044)
Net change in unrealized appreciation (depreciation) of investments	**(31,368)**	75,907
Net unrealized foreign exchange gains (losses) on investments	**4,805**	(7,356)
Net unrealized gains (losses) on other financial instruments	**326**	(18,537)
Income before operating and administrative expenses	**925,443**	744,335
Salaries and benefits	**256,188**	240,184
Premises and equipment	**36,334**	37,117
Other expenses	**99,474**	100,513
Operating and administrative expenses	**391,996**	377,814
Net income	**533,447**	366,521
Net income attributable to		
BDC's shareholder	**520,335**	360,292
Non-controlling interests	**13,112**	6,229
Net income	**533,447**	366,521

The accompanying notes are an integral part of these Consolidated Financial Statements.
Note 23 provides additional information on the Consolidated Statement of Income and Note 24 provides segmented information.

Consolidated Statement of Comprehensive Income

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

	2012	2011
Net income	**533,447**	366,521
Other comprehensive income (loss)		
Net unrealized gains (losses) on available-for-sale assets	**(19,819)**	21,072
Reclassification to net income of losses (gains) on available-for-sale assets	**–**	(1,272)
Net change in unrealized gains (losses) on available-for-sale assets	**(19,819)**	19,800
Net unrealized gains (losses) on cash flow hedges	**10,647**	3,909
Reclassification to net income of losses (gains) on cash flow hedges	**(236)**	(105)
Net change in unrealized gains (losses) on cash flow hedges	**10,411**	3,804
Actuarial gains (losses) on post-employment benefits	**(143,078)**	34,713
Other comprehensive income (loss)	**(152,486)**	58,317
Total comprehensive income	**380,961**	424,838
Total comprehensive income attributable to:		
BDC's shareholder	**367,849**	418,609
Non-controlling interests	**13,112**	6,229
Total comprehensive income	**380,961**	424,838

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

Consolidated Statement of Changes in Equity

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

				Accumulated other comprehensive income (loss)					
	Share capital	Contributed surplus	Retained earnings	Available-for-sale assets	Cash flow hedges	Total	Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
Balance as at March 31, 2011	**2,514,400**	**27,778**	**1,046,431**	**26,170**	**(1,577)**	**24,593**	**3,613,202**	**146,645**	**3,759,847**
Total comprehensive income									
Net income			**520,335**				**520,335**	**13,112**	**533,447**
Other comprehensive income (loss)									
Net change in unrealized gains (losses) on available-for-sale assets				**(19,819)**		**(19,819)**	**(19,819)**		**(19,819)**
Net change in unrealized gains (losses) on cash flow hedges					**10,411**	**10,411**	**10,411**		**10,411**
Actuarial gains (losses) on post-employment benefits			**(143,078)**				**(143,078)**		**(143,078)**
Other comprehensive income (loss)	**–**	**–**	**(143,078)**	**(19,819)**	**10,411**	**(9,408)**	**(152,486)**	**–**	**(152,486)**
Total comprehensive income	**–**	**–**	**377,257**	**(19,819)**	**10,411**	**(9,408)**	**367,849**	**13,112**	**380,961**
Dividends on common shares			**(45,071)**				**(45,071)**		**(45,071)**
Distributions to non-controlling interests								**(50,469)**	**(50,469)**
Capital injections from non-controlling interests								**5,993**	**5,993**
Repurchase of common shares	**(426,000)**						**(426,000)**		**(426,000)**
Transactions with owner, recorded directly in Equity	**(426,000)**	**–**	**(45,071)**	**–**	**–**	**–**	**(471,071)**	**(44,476)**	**(515,547)**
Balance as at March 31, 2012	**2,088,400**	**27,778**	**1,378,617**	**6,351**	**8,834**	**15,185**	**3,509,980**	**115,281**	**3,625,261**

				Accumulated other comprehensive income (loss)					
	Share capital	Contributed surplus	Retained earnings	Available-for-sale assets	Cash flow hedges	Total	Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
Balance as at April 1, 2010	2,514,400	27,778	651,426	6,370	(5,381)	989	3,194,593	176,542	3,371,135
Total comprehensive income									
Net income			360,292				360,292	6,229	366,521
Other comprehensive income (loss)									
Net change in unrealized gains (losses) on available-for-sale assets				19,800		19,800	19,800		19,800
Net change in unrealized gains (losses) on cash flow hedges					3,804	3,804	3,804		3,804
Actuarial gains (losses) on post-employment benefits			34,713				34,713		34,713
Other comprehensive income (loss)	–	–	34,713	19,800	3,804	23,604	58,317	–	58,317
Total comprehensive income	–	–	395,005	19,800	3,804	23,604	418,609	6,229	424,838
Distributions to non-controlling interests								(47,521)	(47,521)
Capital injections from non-controlling interests								11,395	11,395
Transactions with owner, recorded directly in Equity	–	–	–	–	–	–	–	(36,126)	(36,126)
Balance as at March 31, 2011	2,514,400	27,778	1,046,431	26,170	(1,577)	24,593	3,613,202	146,645	3,759,847

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

Consolidated Statement of Cash Flows

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

	2012	2011
Operating activities		
Net income	533,447	366,521
Adjustments to determine net cash flows		
Interest income	(973,812)	(941,440)
Interest expense	121,843	113,106
Net realized losses (gains) on investments	(6,396)	85,961
Impairment losses (reversal) on loans	(38,235)	104,044
Net change in unrealized depreciation (appreciation) on investments	31,368	(75,907)
Net unrealized foreign exchange losses (gains) on investments	(4,805)	7,356
Net unrealized losses (gains) on other financial instruments	(326)	18,537
Post-employment benefits funding in excess of amounts expensed	(34,268)	(40,782)
Amortization of property and equipment, and intangible assets	10,330	11,842
Other	(16,520)	(9,787)
Interest expense paid	(119,460)	(109,892)
Interest income received	978,415	946,397
Disbursements for loans	(3,322,984)	(3,333,706)
Repayments of loans	2,364,160	2,026,117
Changes in operating assets and liabilities		
Net change in accounts payable and accrued liabilities	2,270	19,257
Net change in other assets and other liabilities	11,237	15,779
Net cash flows provided (used) by operating activities	(463,736)	(796,597)
Investing activities		
Disbursements for asset-backed securities	(95,473)	(300,000)
Repayments and proceeds on sale of asset-backed securities	2,382,603	533,160
Disbursements for subordinate financing investments	(140,864)	(102,379)
Repayments of subordinate financing investments	73,961	61,136
Disbursements for venture capital investments	(93,699)	(88,585)
Proceeds on sale of venture capital investments	126,815	37,477
Acquisition of property and equipment	(12,736)	(9,503)
Acquisition of intangible assets	(14,565)	(6,283)
Net cash flows provided (used) by investing activities	2,226,042	125,023
Financing activities		
Net change in short-term notes	1,494,843	4,156,292
Issue of long-term notes	278,387	305,000
Repayment of long-term notes	(2,693,012)	(4,116,530)
Distributions to non-controlling interests	(50,469)	(47,521)
Capital injections from non-controlling interests	5,993	11,395
Repurchase of common shares	(426,000)	–
Repurchase of preferred shares	(230,000)	–
Dividends paid on common shares	(45,071)	–
Dividends paid on preferred shares	(9,541)	(6,402)
Net cash flows provided (used) by financing activities	(1,674,870)	302,234
Net increase (decrease) in cash and cash equivalents	87,436	(369,340)
Cash and cash equivalents, beginning of year	653,231	1,022,571
Cash and cash equivalents, end of year	740,667	653,231

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

Notes to Consolidated Financial Statements

(in thousands of Canadian dollars)

1.

ACT OF INCORPORATION, OBJECTIVES AND OPERATIONS OF THE CORPORATION

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

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

BDC does not receive appropriations from the Government of Canada. To finance its objectives, BDC borrows funds from Her Majesty the Queen in Right of Canada acting through the Minister of Finance. Prior to April 21, 2008, BDC issued debt instruments, which were secured by the Government of Canada. The *Business Development Bank of Canada Act* (BDC Act) also allows the use of hybrid capital instruments to provide the capital required for its operations. The Crown would not be liable for payment of amounts owing under such capital instruments, none of which were outstanding as at March 31, 2012, March 31, 2011, and April 1, 2010.

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

2.

BASIS OF PREPARATION

These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS). These statements are BDC's first annual Consolidated Financial Statements prepared in accordance with IFRS and IFRS 1, *First-time adoption of International Financial Reporting Standards,* has been applied in preparing them. Until March 31, 2011, BDC's Consolidated Financial Statements were prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). An explanation of how the transition to IFRS has affected reported equity, net income, comprehensive income and cash flows is provided in Note 28 – *First-time Adoption of IFRS*.

These Consolidated Financial Statements were approved for issue by the board of directors on June 6, 2012.

BASIS OF PRESENTATION AND MEASUREMENT

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

> available-for-sale financial assets, financial assets and financial liabilities at fair value through profit or loss and derivative financial instruments have been measured at fair value;

> the liability or asset in respect to post-employment benefits has been recognized as the present value of the defined benefit obligation less the fair value of the plans' assets, together with adjustments for unrecognized past service costs.

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

(in thousands of Canadian dollars)

2. BASIS OF PREPARATION (continued)

BASIS OF CONSOLIDATION

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

The Consolidated Financial Statements of BDC comprise the financial statements of the parent entity and the consolidated financial statements of the subsidiaries referred to above as of March 31, 2012, March 31, 2011, and April 1, 2010. 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. Control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities, and is presumed when BDC directly or indirectly holds the majority of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible 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 it makes most of the decisions within the terms of the constituting agreements.

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. Inter-company transactions and balances are eliminated upon consolidation.

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

Entities	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

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. Venture capital investments in associates that are held as part of BDC's investment portfolio are carried in the Consolidated Statement of Financial Position at fair value. This treatment is permitted by International Accounting Standard (IAS) 28, *Investment in Associates*, which specifically excludes investments in associates held by venture capital organizations from its scope when those investments are designated, upon initial recognition, at fair value through profit or loss and accounted for in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*.

(in thousands of Canadian dollars)

3.

SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these Consolidated Financial Statements are set out below. These policies have been consistently applied to all periods presented in these Consolidated Financial Statements and in preparing the opening IFRS Statement of Financial Position at April 1, 2010, 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, plus transaction costs directly attributable to their acquisition or issue, 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

The following table summarizes the classification of BDC's financial instruments as at March 31, 2012, March 31, 2011 and April 1, 2010.

March 31, 2012

		Measured at fair value				Measured at amortized cost		
		FVTPL[1]						
	Note	Held-for-trading	Designated as FVTPL	Available-for-sale	Cash flow hedges	Loans and receivables	Other financial liabilities	Total
Financial assets								
Cash and cash equivalents	7					740,667		740,667
Derivative assets	8	78,165			9,516			87,681
Asset-backed securities	9		2,502	760,698				763,200
Loans	10					14,739,271		14,739,271
Subordinate financing investments	11		457,369					457,369
Venture capital investments	12		358,951					358,951
Other assets[2]	15					11,003		11,003
Total financial assets		78,165	818,822	760,698	9,516	15,490,941	–	17,158,142
Financial liabilities								
Accounts payable and accrued liabilities	16						89,229	89,229
Derivative liabilities	8	16,656			588			17,244
Short-term notes	17						11,214,813	11,214,813
Long-term notes	17		644,735				1,364,208	2,008,943
Preferred shares	20							–
Other liabilities[2]	19						28,752	28,752
Total financial liabilities		16,656	644,735	–	588	–	12,697,002	13,358,981

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

(in thousands of Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

FINANCIAL INSTRUMENTS (continued)

CLASSIFICATION OF FINANCIAL INSTRUMENTS (continued)

March 31, 2011

		Measured at fair value				Measured at amortized cost		
		FVTPL(1)						
	Note	Held-for-trading	Designated as FVTPL	Available-for-sale	Cash flow hedges	Loans and receivables	Other financial liabilities	Total
Financial assets								
Cash and cash equivalents	7					653,231		653,231
Derivative assets	8	66,181			941			67,122
Asset-backed securities	9			3,068,949				3,068,949
Loans	10					13,731,011		13,731,011
Subordinate financing investments	11		387,091					387,091
Venture capital investments	12		413,782					413,782
Other assets(2)	15					17,261		17,261
Total financial assets		66,181	800,873	3,068,949	941	14,401,503	–	18,338,447
Financial liabilities								
Accounts payable and accrued liabilities	16						91,970	91,970
Derivative liabilities	8	23,118			2,633			25,751
Short-term notes	17						9,719,923	9,719,923
Long-term notes	17		790,460				3,614,662	4,405,122
Preferred shares	20						230,000	230,000
Other liabilities(2)	19						25,554	25,554
Total financial liabilities		23,118	790,460	–	2,633	–	13,682,109	14,498,320

April 1, 2010

		Measured at fair value				Measured at amortized cost		
		FVTPL(1)						
	Note	Held-for-trading	Designated as FVTPL	Available-for-sale	Cash flow hedges	Loans and receivables	Other financial liabilities	Total
Financial assets								
Cash and cash equivalents	7					1,022,571		1,022,571
Derivative assets	8	85,085			701			85,786
Asset-backed securities	9			3,277,291				3,277,291
Loans	10					12,525,521		12,525,521
Subordinate financing investments	11		357,732					357,732
Venture capital investments	12		367,917					367,917
Other assets(2)	15					38,980		38,980
Total financial assets		85,085	725,649	3,277,291	701	13,587,072	–	17,675,798
Financial liabilities								
Accounts payable and accrued liabilities	16						74,104	74,104
Derivative liabilities	8	66,899			6,334			73,233
Short-term notes	17						5,558,990	5,558,990
Long-term notes	17		1,237,001				6,940,121	8,177,122
Preferred shares	20						230,000	230,000
Other liabilities(2)	19						28,228	28,228
Total financial liabilities		66,899	1,237,001	–	6,334	–	12,831,443	14,141,677

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

FINANCIAL INSTRUMENTS (continued)

CLASSIFICATION OF FINANCIAL INSTRUMENTS (continued)

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 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 fair value through profit or loss

A financial instrument can be designated 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 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 and Venture capital 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 and Venture capital investments; or

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

Available-for-sale financial assets

Available-for-sale investments 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 financial 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

FINANCIAL INSTRUMENTS (continued)

CLASSIFICATION OF FINANCIAL INSTRUMENTS (continued)

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, 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 accumulated other comprehensive income are recycled to the consolidated income statement in the periods where the hedged items affect net income. They are recorded in the 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 forecast 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 (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.

Other liabilities measured at amortized cost

Financial liabilities that are not carried at fair value through profit or loss fall into the other 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 and reverse repurchase agreements that have maturities at the original acquisition date of less than three months and are used to manage liquidity risk. Reverse repurchase agreements are short-term transactions where BDC purchases assets, normally federal government bonds, from a counterparty, generally a financial institution, and simultaneously agrees to resell them on a specified date and at a specified price. Since by virtue of the reverse repurchase agreement, the counterparty retains the risks and rights associated with the ownership of the financial assets involved, these transactions are accounted for by BDC as secured loans.

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 medium-term notes issued by way of prospectus or private placement.

Investment-grade senior ABS are classified as available-for-sale assets and subordinated medium-term ABS notes are designated as fair value through profit or loss on the basis that they are reported to and evaluated by senior management on a fair value basis. ABS presented 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

FINANCIAL INSTRUMENTS (continued)

MAJOR TYPES OF FINANCIAL INSTRUMENTS (continued)

Asset-backed securities (continued)

Impairment of asset-backed securities

BDC reviews ABS classified as available-for-sale for possible impairment or reversals of previously recognized impairments at each reporting date. 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 level.

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.

The carrying amount of an impaired 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 impairment losses or reversal on loans 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

FINANCIAL INSTRUMENTS (continued)

MAJOR TYPES OF FINANCIAL INSTRUMENTS (continued)

Subordinate financing and Venture capital investments

Upon initial recognition, Subordinate financing and Venture capital investments are designated 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 approach to fair value measurement for both Subordinate financing and Venture capital investments has been derived from the International Private Equity and Venture Capital Valuation Guidelines. Based on the type of investments carried out, 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.

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 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 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 comprised of swaps and foreign exchange forwards. The fair value of swaps is calculated using a discounted cash flow method. 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 fair value through profit or loss. As at March 31, 2012, March 31, 2011 and April 1, 2010, BDC has no embedded derivatives that must be separated from a host contract.

Preferred shares classified in liabilities

Given that BDC's preferred shares have a feature that requires a non-discretionary annual interest payment at a rate that is periodically adjusted to reflect the market rate, and a feature that allows the holder of the shares to exchange a fixed number of preferred shares for a fixed number of common shares, the preferred shares were classified, on initial recognition, as a combined instrument, with a liability component and an equity component.

Based on market conditions existing on initial recognition, the carrying amount determined for the liability component was equal to the fair value of the combined instrument. Consequently, no residual value was assigned to the equity component.

Subsequent to initial recognition, the liability component was measured at amortized cost, which was essentially its face value, given that the initial rate at which dividends were paid was considered to be a market rate and that there were no transaction costs upon issuance.

The dividends relating to the preferred shares classified as financial liabilities are recognized as interest expense in the Consolidated Statement of Income, and dividends payable are included in accounts payable and accrued liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

Property and equipment and intangible assets are carried at cost less accumulated depreciation 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 assets 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, which averages approximately	6 years

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 operating and administrative expenses in the Consolidated Statement of Income.

The residual values, depreciation and amortization methods, as well as useful lives of items of property and equipment and intangible assets are reviewed, and adjusted if appropriate, at 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 on an annual basis for projects in process 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

POST- EMPLOYMENT BENEFITS

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

A post-employment benefit asset or liability is recognized in the Consolidated Statement of Financial Position at the reporting date and represents the present value of the defined benefit obligation, together with adjustments for unrecognized past service costs, if any, less the fair value of plan assets of the defined benefit pension plans.

The obligation is calculated for each plan using the projected unit credit method. In determining the present value of its defined benefit obligations 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 bonds that have terms to maturity approximating the terms of the obligation.

Actuarial gains or losses on plan assets arise from the difference between the actual return on plan assets for a period and the expected return on plan assets for that period. Actuarial gains or losses on the defined benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the defined benefit obligation. All actuarial gains and losses are recognized immediately in OCI and in retained earnings and are not reclassified into net income in a subsequent period.

Past service costs are recognized immediately in net income, unless the changes to the plans are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

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 accumulated other comprehensive income until such time as the financial instruments are derecognized or impaired, at which time these gains or losses are reclassified to net income. Gains and losses on derivative financial instruments designated as hedging instruments are included in accumulated other comprehensive income until such time as the hedged forecasted cash flows affect earnings.

Retained earnings include all current and prior periods' retained earnings or losses, 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, Subordinate financing, Venture Capital, Consulting and Securitization.

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

A number of new standards, amendments to standards and interpretations have been published but are not yet effective for the year ended March 31, 2012. As a result, they have not been applied in preparing these Consolidated Financial Statements.

Information on new standards, amendments and interpretations that are expected to impact BDC is provided below. These pronouncements are currently being assessed to determine their impact on BDC's Consolidated Financial Statements.

Certain other new standards, amendments and interpretations have been issued but are not yet effective, and are not expected to have a significant impact on BDC.

FINANCIAL INSTRUMENTS

In November 2009 and October 2010, the International Accounting Standards Board (IASB) released IFRS 9, *Financial instruments*, which is the first part of a three-part project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. This first part only covers recognition and derecognition, classification and measurement of financial assets and financial liabilities, with impairment of financial assets and hedge accounting being addressed in the other two parts.

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities, and for the derecognition of financial instruments, were carried forward in IFRS 9.

IFRS 9 will be effective for BDC's fiscal years beginning on April 1, 2015, with earlier application permitted.

EMPLOYEE BENEFITS

In June 2011, the IASB issued an amended version of IAS 19, *Employee Benefits*. The amendment will require immediate recognition of all changes in plan assets and liabilities. Therefore, actuarial gains and losses will be recognized immediately in OCI, eliminating the "corridor" deferral option, and all past service costs will be recognized in the period in which the plan amendment occurs.

In addition, the expected return on plan assets and the interest cost on the pension obligation will be replaced with a measure of net interest income/expense on the net surplus or deficit in the plan, based on the plan's discount rate.

Finally, the amendment significantly increases the amount of information to be disclosed, in particular amounts recognized, as well as the characteristics and risks of benefit plans.

This amendment will be effective for BDC's fiscal years beginning on April 1, 2013, with earlier application permitted.

PRESENTATION OF FINANCIAL STATEMENTS

In June 2011, the IASB amended IAS 1, *Presentation of Financial Statements*. IAS 1 was amended to require entities to group items presented in OCI in two categories. Items will be grouped together based on whether those items will or will not be reclassified to net income in the future.

The amendment to IAS 1 will be effective for BDC's fiscal years beginning on April 1, 2013, with earlier application permitted.

CONSOLIDATION

In May 2011, the IASB released IFRS 10, *Consolidated Financial Statements*, which replaces SIC-12, *Consolidation—Special Purpose Entities*, and parts of IAS 27, *Consolidated and Separate Financial Statements*. The new standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included in a company's consolidated financial statements. The standard provides additional guidance to assist in the determination of control where it is difficult to assess.

IFRS 10 will be effective for BDC's fiscal years beginning on April 1, 2013, with earlier application permitted.

4. FUTURE ACCOUNTING CHANGES (continued)

JOINT ARRANGEMENTS

In May 2011, the IASB released IFRS 11, *Joint Arrangements*, which supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities—Non-monetary Contributions by Venturers*. IFRS 11 focuses on the rights and obligations of a joint arrangement, rather than its legal form, as is currently the case under IAS 31. The standard addresses inconsistencies in the reporting of joint arrangements by requiring the equity method to account for interests in joint ventures.

IFRS 11 will be effective for BDC's fiscal years beginning on April 1, 2013, with earlier application permitted.

DISCLOSURE OF INTERESTS IN OTHER ENTITIES

IFRS 12, *Disclosure of interests in other entities*, sets out the required disclosures for entities applying IFRS 10, IFRS 11 and IAS 28, *Investments in Associates and Joint Ventures* (as amended in 2011). The new standard combines, enhances and replaces the disclosure requirements for subsidiaries, associates, joint arrangements and unconsolidated structured entities.

IFRS 12 will be effective for BDC's fiscal years beginning on April 1, 2013, with earlier application permitted.

5.

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

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 level.

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 10 – *Loans*, for more information on the allowance for credit losses.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The inputs to these models, such as interest rate yield curves, equity prices, 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—*Fair Value of Financial Instruments*, for additional information on fair value hierarchy levels.

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.

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.

POST-EMPLOYMENT BENEFIT ASSET AND 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 rates of return on assets available to fund pension obligations, expected future salary increases, expected mortality rates, expected health-care cost trends and expected future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Actual results will differ from results that are estimated based on assumptions.

Refer to Note 18—*Post-employment Benefits*, for additional information about the key assumptions.

CONSOLIDATION

A key judgement that has been used in the preparation of the Consolidated Financial Statements is that BDC has the power to control certain investment funds (refer to Note 2—*Basis of Preparation*, for additional information). BDC has assessed that it has the power to control the financial and operating policies of these funds through a combination of contractual agreements and voting power, and that it is able to use that control to generate variable returns. Consequently, these funds have been fully consolidated rather than accounted for using a proportional consolidation or equity accounting approach.

(in thousands of Canadian dollars)

6.

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

		March 31, 2012		March 31, 2011		April 1, 2010
	Fair value	Carrying value	Fair value	Carrying value	Fair value	Carrying value
Financial assets classified as loans and receivables						
Loans	**14,822,351**	**14,739,271**	13,763,771	13,731,011	12,575,743	12,525,521
Financial liabilities classified as other financial liabilities						
Long-term notes	**1,365,024**	**1,364,208**	3,617,238	3,614,662	6,944,953	6,940,121
Preferred shares	–	–	229,132	230,000	229,097	230,000

FINANCIAL INSTRUMENTS CARRIED AT AMORTIZED COST

LOANS CLASSIFIED AS LOANS AND RECEIVABLES

The fair value of performing floating-rate loans is assumed to equal carrying value. For performing fixed-rate loans, fair value is determined using a discounted cash flow calculation that uses market interest rates prevailing at the end of the period charged for similar new loans with corresponding remaining maturity. For impaired loans, the fair value is equal to the carrying value determined in accordance with the valuation methods described in Note 3—*Significant Accounting Policies*, under the heading *Allowance for credit losses*.

LONG-TERM NOTES AND PREFERRED SHARES CLASSIFIED AS OTHER FINANCIAL LIABILITIES

The fair value of unstructured long-term notes and preferred shares is determined using a discounted cash flow calculation that uses market interest rates based on the remaining time to maturity.

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

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

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

Level 1—Fair values based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities;

Level 2—Fair values based on inputs other than quoted prices in active markets that are either directly or indirectly observable; and

Level 3—Fair values based on valuation techniques with one or more significant unobservable market inputs.

There have been no transfers between levels 1 and 2 in the reporting periods. Transfers between level 1 and 3 are related to private investments that became publicly traded or public investments that became private investments during the reporting periods.

(in thousands of Canadian dollars)

6. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

				March 31, 2012
	Fair value measurements using			Total
	Level 1	Level 2	Level 3	fair value
Assets				
Derivative assets		87,681		87,681
Asset-backed securities		763,200		763,200
Subordinate financing investments	1,522		455,847	457,369
Venture capital investments	21,669		337,282	358,951
	23,191	850,881	793,129	1,667,201
Liabilities				
Derivative liabilities		17,244		17,244
Long-term notes / designated as fair value through profit or loss		644,735		644,735
	–	661,979	–	661,979

				March 31, 2011
	Fair value measurements using			Total
	Level 1	Level 2	Level 3	fair value
Assets				
Derivative assets		67,122		67,122
Asset-backed securities		3,068,949		3,068,949
Subordinate financing investments	2,100		384,991	387,091
Venture capital investments	22,443		391,339	413,782
	24,543	3,136,071	776,330	3,936,944
Liabilities				
Derivative liabilities		25,751		25,751
Long-term notes / designated as fair value through profit or loss		790,460		790,460
	–	816,211	–	816,211

				April 1, 2010
	Fair value measurements using			Total
	Level 1	Level 2	Level 3	fair value
Assets				
Derivative assets		85,786		85,786
Asset-backed securities		3,277,291		3,277,291
Subordinate financing investments	2,626		355,106	357,732
Venture capital investments	17,655		350,262	367,917
	20,281	3,363,077	705,368	4,088,726
Liabilities				
Derivative liabilities		73,233		73,233
Long-term notes / designated as fair value through profit or loss		1,237,001		1,237,001
	–	1,310,234	–	1,310,234

(in thousands of Canadian dollars)

6. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

Various valuation techniques are used to determine the fair values of Subordinate financing and Venture capital investments included in level 3. These valuation techniques draw upon diverse assumptions, none of which, with the exception of the risk-free interest rate, would individually have a material impact on BDC's net earnings if it varied within reasonably possible ranges. The impact of a 1% variation in the risk-free rate would result in a gain or loss of $7.4 million in the current period and an equivalent change in retained earnings ($5.8 million in 2011).

			March 31, 2012
	Subordinate financing investments	**Venture capital investments**	**Total**
Fair value at April 1, 2011	**384,991**	**391,339**	**776,330**
Net realized gains (losses) on investments	**(1,204)**	**8,082**	**6,878**
Net change in unrealized appreciation (depreciation) of investments	**4,616**	**(33,341)**	**(28,725)**
Net unrealized foreign exchange gains (losses) on investments	**–**	**4,068**	**4,068**
Disbursements for investments	**140,864**	**89,864**	**230,728**
Repayments of investments and other	**(73,630)**	**(115,555)**	**(189,185)**
Transfers from level 1 to level 3	**210**	**–**	**210**
Transfers from level 3 to level 1	**–**	**(7,175)**	**(7,175)**
Fair value at March 31, 2012	**455,847**	**337,282**	**793,129**

			March 31, 2011
	Subordinate financing investments	Venture capital investments	Total
Fair value at April 1, 2010	355,106	350,262	705,368
Net realized gains (losses) on investments	(15,888)	(67,163)	(83,051)
Net change in unrealized appreciation (depreciation) of investments	4,309	67,282	71,591
Net unrealized foreign exchange gains (losses) on investments	–	(6,316)	(6,316)
Disbursements for investments	102,379	88,585	190,964
Repayments of investments and other	(60,915)	(31,184)	(92,099)
Transfers from level 3 to level 1	–	(10,127)	(10,127)
Fair value at March 31, 2011	384,991	391,339	776,330

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

	2012	2011
Net realized gains (losses) on investments	**(39,339)**	(56,296)
Net change in unrealized appreciation (depreciation) of investments	**(16,335)**	45,809
Net unrealized foreign exchange gains (losses) on investments	**3,369**	(6,684)
Total gains (losses) related to level 3 assets still held at the end of the reporting period	**(52,305)**	(17,171)

(in thousands of Canadian dollars)

7.
CASH AND CASH EQUIVALENTS

As at March 31, 2012 and March 31, 2011, and April 1, 2010, there are no restrictions on cash and cash equivalents. The collateral in the form of government bonds and similar securities held in respect of reverse repurchase agreements approximated their carrying amounts for all reporting periods. Cash and cash equivalents include the following components.

	March 31, 2012	March 31, 2011	April 1, 2010
Cash	**23,113**	19,958	16,700
Short-term bank notes	**645,065**	617,625	340,481
Reverse repurchase agreements	**72,489**	15,648	665,390
Cash and cash equivalents	**740,667**	653,231	1,022,571

8.
DERIVATIVE FINANCIAL INSTRUMENTS

In compliance with BDC's treasury risk policy, BDC uses the following derivative financial instruments to mitigate its foreign exchange rate risk, as well as its interest rate and equity market risk. BDC's policy is not to use derivative financial instruments for speculative purposes.

SWAPS

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

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

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

> *equity-linked swaps*, where one of the payments exchanged represents the variation in an equity index over time, and the other is based on agreed fixed or floating rates.

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

FORWARDS

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

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

FOREIGN EXCHANGE RATE RISK
BDC economically hedges its long-term borrowings with cross-currency interest-rate swaps and its loans and investments with foreign exchange forward contracts. These instruments have been classified as held-for-trading.

INTEREST RATE AND EQUITY MARKET RISKS
BDC enters into interest rate swaps to hedge the financial impact of future interest rate fluctuations in relation to changes in the loan portfolio mix. These contracts have been designated as cash flow hedges. There was no significant ineffectiveness of cash flow hedges in 2012 and 2011.

BDC also uses derivative financial instruments as an economic hedge for its structured notes. These instruments include interest rate swaps, cross-currency interest rate swaps, equity-linked swaps, and futures. These instruments have been classified as held-for-trading.

(in thousands of Canadian dollars)

8. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

			March 31, 2012
	Gross assets	**Gross liabilities**	**Net amount**
Hedging			
Interest rate swap contracts	**9,516**	**588**	**8,928**
Total hedging	**9,516**	**588**	**8,928**
Held-for-trading			
Interest rate swap contracts	**64,677**	**12,059**	**52,618**
Equity-linked swap contracts	**6,538**	**2,995**	**3,543**
Cross-currency interest rate swap contracts	**4,840**	**638**	**4,202**
Foreign exchange forward contracts	**2,110**	**964**	**1,146**
Total held-for-trading	**78,165**	**16,656**	**61,509**
Total	**87,681**	**17,244**	**70,437**

			March 31, 2011
	Gross assets	Gross liabilities	Net amount
Hedging			
Interest rate swap contracts	941	2,633	(1,692)
Total hedging	941	2,633	(1,692)
Held-for-trading			
Interest rate swap contracts	32,385	7,814	24,571
Equity-linked swap contracts	20,817	6,541	14,276
Cross-currency interest rate swap contracts	9,629	8,763	866
Foreign exchange forward contracts	3,350	–	3,350
Total held-for-trading	66,181	23,118	43,063
Total	67,122	25,751	41,371

			April 1, 2010
	Gross assets	Gross liabilities	Net amount
Hedging			
Interest rate swap contracts	701	6,334	(5,633)
Total hedging	701	6,334	(5,633)
Held-for-trading			
Interest rate swap contracts	30,786	7,524	23,262
Equity-linked swap contracts	30,824	11,896	18,928
Cross-currency interest rate swap contracts	18,973	47,479	(28,506)
Foreign exchange forward contracts	4,502	–	4,502
Total held-for-trading	85,085	66,899	18,186
Total	85,786	73,233	12,553

(in thousands of Canadian dollars)

8. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

	Term to maturity or repricing				**March 31, 2012**	March 31, 2011	April 1, 2010
	Within 1 year	1 to 3 years	3 to 5 years	Over 5 years	**Notional amount**	Notional amount	Notional amount
Hedging							
Interest rate swap contracts							
$CDN payable-fixed	–	–	–	–	**–**	100,000	100,000
% payable-fixed							
$CDN receivable-fixed	110,000	435,000	123,000	–	**668,000**	320,000	150,000
% receivable-fixed	*1.49*	*1.81*	*2.53*				
Total hedging	110,000	435,000	123,000	–	**668,000**	420,000	250,000
Held-for-trading							
Interest rate swap contracts							
$CDN payable-fixed	–	50,000	–	60,000	**110,000**	110,000	110,000
% payable-fixed		*4.31*		*4.17*			
$CDN receivable-fixed	–	42,362	18,441	292,601	**353,404**	356,372	359,048
% receivable-fixed		*4.09*	*4.38*	*4.62*			
Equity-linked swap contracts	5,000	177,650	–	–	**182,650**	258,049	472,339
	5,000	270,012	18,441	352,601	**646,054**	724,421	941,387
Cross-currency interest rate swap contracts	–	7,067	–	39,152	**46,219**	167,673	545,725
	5,000	277,079	18,441	391,753	**692,273**	892,094	1,487,112
Foreign exchange forward contracts	288,122	–	–	–	**288,122**	183,142	155,269
Total held-for-trading	293,122	277,079	18,441	391,753	**980,395**	1,075,236	1,642,381
Total	403,122	712,079	141,441	391,753	**1,648,395**	1,495,236	1,892,381

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

(in thousands of Canadian dollars)

9.

ASSET-BACKED SECURITIES

The following table summarizes asset-backed securities by classification of financial instruments that will mature in one to five years and have a clean-up option. This allows the asset-backed securities to be redeemed by the issuing trust at par if the balance of the underlying assets, or in some cases, the balance of the notes, amortizes below 10% of the original balance at issuance. No asset-backed securities were impaired as at March 31, 2012 and 2011, and April 1, 2010. Refer to Note 22—*Risk Management*, for additional information on credit risk associated with the asset-backed securities portfolio.

	March 31, 2012	March 31, 2011	April 1, 2010
Available-for-sale			
Principal amount	**754,548**	3,046,801	3,277,645
Unamortized loss on initial recognition	**(200)**	(4,084)	(6,724)
Cumulative fair value appreciation (depreciation)	**6,350**	26,232	6,370
Carrying value	**760,698**	3,068,949	3,277,291
Yield	**2.96%**	2.78%	2.22%
Fair value through profit or loss			
Principal amount	**2,512**	–	–
Cumulative fair value appreciation (depreciation)	**(10)**	–	–
Carrying value	**2,502**	–	–
Yield	**9.31%**	–	–
Asset-backed securities	**763,200**	3,068,949	3,277,291

10.

LOANS

The following table summarizes loans outstanding. Floating-rate loans are classified based on their maturity date and fixed-rate loans are classified based on their repricing or maturity date, whichever is earlier.

2012	**Within 1 year**	**1 to 5 years**	**Over 5 years**	**Total gross amount**	**Collective allowance**	**Individual allowance**	**Total allowance**	**Total net amount**
Performing	**810,970**	**3,006,795**	**10,980,890**	**14,798,655**	**(400,000)**	**–**	**(400,000)**	**14,398,655**
Impaired	**35,425**	**104,084**	**411,274**	**550,783**	**–**	**(210,167)**	**(210,167)**	**340,616**
Loans as at March 31, 2012	**846,395**	**3,110,879**	**11,392,164**	**15,349,438**	**(400,000)**	**(210,167)**	**(610,167)**	**14,739,271**

2011	Within 1 year	1 to 5 years	Over 5 years	Total gross amount	Collective allowance	Individual allowance	Total allowance	Total net amount
Performing	748,733	3,057,810	10,112,957	13,919,500	(524,500)	–	(524,500)	13,395,000
Impaired	70,006	128,492	387,689	586,187	–	(250,176)	(250,176)	336,011
Loans as at March 31, 2011	818,739	3,186,302	10,500,646	14,505,687	(524,500)	(250,176)	(774,676)	13,731,011

2010	Within 1 year	1 to 5 years	Over 5 years	Total gross amount	Collective allowance	Individual allowance	Total allowance	Total net amount
Performing	562,618	2,956,503	9,171,252	12,690,373	(524,500)	–	(524,500)	12,165,873
Impaired	28,746	188,166	403,589	620,501	–	(260,853)	(260,853)	359,648
Loans as at April 1, 2010	591,364	3,144,669	9,574,841	13,310,874	(524,500)	(260,853)	(785,353)	12,525,521

(in thousands of Canadian dollars)

10. LOANS (continued)

IMPAIRED LOANS

	March 31, 2012	March 31, 2011
Impaired at beginning of year	**586,187**	620,501
Downgraded	**389,598**	373,337
Upgraded	**(94,834)**	(109,614)
Write-offs	**(134,609)**	(113,050)
Liquidation and other	**(195,559)**	(184,987)
Balance at end of year	**550,783**	586,187

ALLOWANCE FOR CREDIT LOSSES

	March 31, 2012	March 31, 2011
Balance at beginning of year	**774,676**	785,353
Write-offs	**(134,609)**	(113,050)
Effect of discounting	**(13,482)**	(13,432)
Recoveries and other	**21,817**	11,761
	648,402	670,632
Impairment losses (reversal) on loans	**(38,235)**	104,044
Balance at end of year	**610,167**	774,676

CREDIT RISK

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

As at March 31, 2012, $35.7 million ($13.7 million at March 31, 2011 and $13.2 million at April 1, 2010) of the impaired loans was secured by assets that BDC had the power to sell in order to satisfy borrower commitments.

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

Client credit risk exposure		March 31, 2012		March 31, 2011		April 1, 2010
Low	**2,814,128**	**19%**	2,638,724	19%	2,593,738	20%
Medium	**7,354,356**	**50%**	7,014,714	50%	6,389,652	51%
High	**4,630,171**	**31%**	4,266,062	31%	3,706,983	29%
Performing loans outstanding	**14,798,655**	**100%**	13,919,500	100%	12,690,373	100%

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

Secured risk exposure		March 31, 2012		March 31, 2011		April 1, 2010
Secured financing(1)	**12,079,328**	**82%**	11,187,368	81%	10,292,573	81%
Partially secured financing(2)	**1,472,103**	**10%**	1,438,735	10%	1,329,673	11%
Leverage financing(3)	**1,247,224**	**8%**	1,293,397	9%	1,068,127	8%
Performing loans outstanding	**14,798,655**	**100%**	13,919,500	100%	12,690,373	100%

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

(in thousands of Canadian dollars)

10. LOANS (continued)

CREDIT RISK (continued)

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

	Within 1 month	2 to 3 months	Over 3 months	Total
As at March 31, 2012	**127,838**	**28,704**	**56,403**	**212,945**
As at March 31, 2011	84,440	39,011	23,867	147,318
As at April 1, 2010	87,974	17,220	20,180	125,374

Concentrations of the total loans outstanding, by province and territory and by industry sector, are set out in the tables below. The largest concentration in one individual or closely related group of clients was less than 1% at March 31, 2012 and 2011, and April 1, 2010.

Geographic distribution		March 31, 2012		March 31, 2011		April 1, 2010
Newfoundland and Labrador	**606,044**	**3.9%**	554,681	3.8%	516,073	3.9%
Prince Edward Island	**44,778**	**0.3%**	41,656	0.3%	43,086	0.3%
Nova Scotia	**404,124**	**2.6%**	396,227	2.7%	379,981	2.9%
New Brunswick	**486,004**	**3.2%**	466,658	3.2%	484,343	3.6%
Quebec	**5,142,378**	**33.5%**	4,708,670	32.5%	4,248,174	32.0%
Ontario	**4,350,568**	**28.3%**	4,364,728	30.1%	4,141,783	31.1%
Manitoba	**387,297**	**2.5%**	326,301	2.3%	306,700	2.3%
Saskatchewan	**376,466**	**2.5%**	320,845	2.2%	257,983	1.9%
Alberta	**1,691,419**	**11.0%**	1,580,473	10.9%	1,415,605	10.6%
British Columbia	**1,751,039**	**11.5%**	1,644,360	11.3%	1,421,442	10.7%
Yukon	**78,866**	**0.5%**	70,524	0.5%	66,960	0.5%
Northwest Territories and Nunavut	**30,455**	**0.2%**	30,564	0.2%	28,744	0.2%
Total loans outstanding	**15,349,438**	**100.0%**	14,505,687	100.0%	13,310,874	100.0%

Industry sector		March 31, 2012		March 31, 2011		April 1, 2010
Manufacturing	**3,866,503**	**25.2%**	3,873,423	26.7%	3,942,018	29.6%
Wholesale and retail trade	**3,318,302**	**21.6%**	3,092,093	21.3%	2,795,682	21.0%
Tourism	**1,864,383**	**12.1%**	1,778,292	12.3%	1,563,881	11.7%
Commercial properties	**1,568,489**	**10.2%**	1,355,801	9.3%	1,152,679	8.7%
Construction	**1,175,223**	**7.7%**	1,083,297	7.5%	929,218	7.0%
Transportation and storage	**900,074**	**5.9%**	799,962	5.5%	710,104	5.3%
Business services	**649,964**	**4.2%**	641,932	4.4%	571,678	4.3%
Other	**2,006,500**	**13.1%**	1,880,887	13.0%	1,645,614	12.4%
Total loans outstanding	**15,349,438**	**100.0%**	14,505,687	100.0%	13,310,874	100.0%

(in thousands of Canadian dollars)

11.

SUBORDINATE FINANCING INVESTMENTS

BDC maintains a medium to high-risk portfolio of Subordinate financing investments. The following table summarizes outstanding Subordinate financing investments by maturity. Floating-rate investments are classified based on their maturity date, and fixed-rate investments are classified based on their repricing or maturity date, whichever is earlier.

	Within 1 year	1 to 5 years	Over 5 years	Total cost	Total fair value
As at March 31, 2012	**77,091**	**329,875**	**61,555**	**468,521**	**457,369**
As at March 31, 2011	60,585	299,326	42,581	402,492	387,091
As at April 1, 2010	38,544	297,500	40,465	376,509	357,732

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

The concentrations of Subordinate financing investments by geographic and industry distribution are set out in the tables below. The largest concentration in one individual or closely related group of clients at March 31, 2012 was 1.5% of total Subordinate financing investments at cost (2.5% at March 31, 2011 and 2.7% at April 1, 2010). Subordinate financing's portfolio is comprised primarily of debentures.

		March 31, 2012		March 31, 2011		April 1, 2010
Geographic distribution	**Fair value**	**Cost**	Fair value	Cost	Fair value	Cost
Newfoundland and Labrador	**16,502**	**14,777**	20,991	20,910	20,073	20,677
Nova Scotia	**10,772**	**10,846**	7,624	7,801	8,027	8,337
New Brunswick	**8,688**	**9,533**	9,686	10,061	7,016	8,391
Quebec	**213,914**	**227,810**	196,040	208,929	193,801	208,108
Ontario	**129,839**	**128,273**	95,438	96,833	78,496	81,783
Manitoba	**8,578**	**8,005**	5,084	4,761	2,658	2,251
Saskatchewan	**555**	**546**	685	675	659	675
Alberta	**41,107**	**41,342**	33,292	32,987	30,916	30,483
British Columbia	**23,912**	**23,887**	18,251	19,535	16,086	15,804
Yukon	**3,502**	**3,502**	–	–	–	–
Subordinate financing investments	**457,369**	**468,521**	387,091	402,492	357,732	376,509

		March 31, 2012		March 31, 2011		April 1, 2010
Industry sector	**Fair value**	**Cost**	Fair value	Cost	Fair value	Cost
Manufacturing	**171,567**	**172,538**	148,892	157,651	130,359	147,577
Business services	**92,202**	**101,061**	69,027	73,600	58,411	63,573
Wholesale and retail trade	**77,746**	**74,037**	70,598	68,284	69,647	67,690
Construction	**29,176**	**29,038**	18,896	19,529	14,384	13,096
Transportation and storage	**13,395**	**13,487**	12,127	10,736	12,471	12,200
Tourism	**4,998**	**4,446**	3,380	3,237	428	516
Technologies	**3,691**	**6,563**	4,228	6,018	5,157	6,544
Biotechnology	**1,521**	**1,215**	907	907	600	600
Industrial Technologies	**1,123**	**1,625**	1,161	1,625	2,625	1,625
Other	**61,950**	**64,511**	57,875	60,905	63,650	63,088
Subordinate financing investments	**457,369**	**468,521**	387,091	402,492	357,732	376,509

(in thousands of Canadian dollars)

12.

VENTURE CAPITAL INVESTMENTS

BDC maintains a high-risk portfolio of Venture capital investments that is focused on early-stage and fast-growing companies having promising positions in their respective marketplaces and strong growth potential. Venture capital investments, which are held for a longer term, are non-current assets. The concentrations by industry sector and investment type of Venture capital investments are listed below. The largest single investment within these sectors at March 31, 2012 was 6.3% of total Venture capital investments at cost (4.3% at March 31, 2011 and 2.8% at April 1, 2010).

		March 31, 2012		March 31, 2011		April 1, 2010
Industry sector	**Fair value**	**Cost**	Fair value	Cost	Fair value	Cost
Information technology	**71,844**	**89,426**	102,840	90,106	77,408	101,904
Biotechnology and pharmacology	**55,257**	**90,354**	75,837	112,422	72,112	116,500
Electronics	**52,578**	**59,876**	55,161	70,598	68,043	89,521
Medical and health	**33,434**	**50,019**	33,736	43,204	36,001	44,671
Communications	**31,684**	**41,199**	48,195	53,912	39,931	53,595
Industrial	**8,870**	**17,765**	7,704	14,007	12,750	22,190
Other	**5,414**	**5,173**	3,334	3,250	3,804	4,000
Total direct investments	**259,081**	**353,812**	326,807	387,499	310,049	432,381
Funds	**99,870**	**120,539**	86,975	110,881	57,868	84,902
Venture capital investments	**358,951**	**474,351**	413,782	498,380	367,917	517,283

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

		March 31, 2012		March 31, 2011		April 1, 2010
Investment type	**Fair value**	**Cost**	Fair value	Cost	Fair value	Cost
Common shares	**49,112**	**81,223**	54,573	87,508	39,244	85,812
Preferred shares	**166,063**	**222,426**	240,030	259,924	228,801	293,228
Debentures	**43,906**	**50,163**	32,204	40,067	42,004	53,341
Total direct investments	**259,081**	**353,812**	326,807	387,499	310,049	432,381
Funds	**99,870**	**120,539**	86,975	110,881	57,868	84,902
Venture capital investments	**358,951**	**474,351**	413,782	498,380	367,917	517,283

(in thousands of Canadian dollars)

13.

PROPERTY AND EQUIPMENT

2012	Computer and telecommunications equipment	Furniture fixtures and equipment	Leasehold improvements	Total
Cost				
Balance as at March 31, 2011	19,913	17,530	36,525	73,968
Additions	4,195	3,731	4,810	12,736
Balance as at March 31, 2012	24,108	21,261	41,335	86,704
Accumulated depreciation				
Balance as at March 31, 2011	12,260	13,417	29,767	55,444
Depreciation	2,921	621	2,547	6,089
Balance as at March 31, 2012	15,181	14,038	32,314	61,533
Property and equipment as at March 31, 2012	8,927	7,223	9,021	25,171

2011	Computer and telecommunications equipment	Furniture fixtures and equipment	Leasehold improvements	Total
Cost				
Balance as at April 1, 2010	14,116	15,648	34,701	64,465
Additions	5,797	1,882	1,824	9,503
Balance as at March 31, 2011	19,913	17,530	36,525	73,968
Accumulated depreciation				
Balance as at April 1, 2010	8,841	11,650	27,030	47,521
Depreciation	3,419	1,767	2,737	7,923
Balance as at March 31, 2011	12,260	13,417	29,767	55,444
Property and equipment as at March 31, 2011	7,653	4,113	6,758	18,524
Property and equipment as at April 1, 2010	5,275	3,998	7,671	16,944

No property and equipment were impaired as at March 31, 2012 and 2011, and April 1, 2010. In addition, as at March 31, 2012, BDC had no significant contractual commitments to acquire property and equipment.

(in thousands of Canadian dollars)

14.
INTANGIBLE ASSETS

			2012
	Acquired systems and software applications	Projects in progress	Total
Cost			
Balance as at March 31, 2011	56,279	4,615	60,894
Additions, separately acquired	–	14,565	14,565
Available for use	2,905	(2,905)	–
Balance as at March 31, 2012	59,184	16,275	75,459
Accumulated amortization			
Balance as at March 31, 2011	39,124	–	39,124
Amortization	4,241	–	4,241
Balance as at March 31, 2012	43,365	–	43,365
Intangible assets as at March 31, 2012	15,819	16,275	32,094

			2011
	Acquired systems and software applications	Projects in progress	Total
Cost			
Balance as at April 1, 2010	41,595	13,016	54,611
Additions, separately acquired	–	6,283	6,283
Available for use	14,684	(14,684)	–
Balance as at March 31, 2011	56,279	4,615	60,894
Accumulated amortization			
Balance as at April 1, 2010	35,205	–	35,205
Amortization	3,919	–	3,919
Balance as at March 31, 2011	39,124	–	39,124
Intangible assets as at March 31, 2011	17,155	4,615	21,770
Intangible assets as at April 1, 2010	6,390	13,016	19,406

No intangible assets were impaired as at March 31, 2012 and 2011, and April 1, 2010. As at March 31, 2012, BDC had no significant contractual commitments to acquire systems and software applications. Futhermore, BDC has a major multi-year program to modernize its financing business technology platform and software applications.

(in thousands of Canadian dollars)

15.
OTHER ASSETS

	March 31, 2012	March 31, 2011	April 1, 2010
Financial instruments			
Futures margin receivable(1)	–	5,791	23,479
Interest receivable on derivatives	**2,420**	2,694	4,937
Accounts receivable from consulting clients	**2,167**	2,319	2,338
Other	**6,416**	6,457	8,226
	11,003	17,261	38,980
Prepaids	**4,475**	4,528	2,297
Other assets	**15,478**	21,789	41,277

(1) Represents contractual cash flows to be received on the termination date of certain derivative financial instruments.

16.
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 31, 2012	March 31, 2011	April 1, 2010
Current			
Salaries and benefits payable	**39,323**	38,812	34,590
Accounts payable	**1,368**	5,321	1,401
Dividends on preferred shares payable	–	5,012	6,402
Other	**20,078**	20,415	16,209
	60,769	69,560	58,602
Long-term accrued liabilities	**28,460**	22,410	15,502
Accounts payable and accrued liabilities	**89,229**	91,970	74,104

17.
BORROWINGS

The table below presents the outstanding short-term notes.

				March 31, 2012		March 31, 2011		April 1, 2010
Maturity date	Effective rate	Currency	**Principal amount**	**Carrying value**	Principal amount	Carrying value	Principal amount	Carrying value
Short-term notes								
2011	0.14% – 0.23%	CAD	–	–	–	–	5,510,000	5,511,116
	0.00%	USD	–	–	–	–	49,517	47,874
2012	0.83% – 0.96%	CAD	–	–	9,711,000	9,715,171	–	–
	0.00%	USD	–	–	4,808	4,752	–	–
2013	0.84% – 1.15%	CAD	**11,210,562**	**11,214,713**	–	–	–	–
	0.00%	USD	**100**	**100**	–	–	–	–
Total short-term notes				**11,214,813**		**9,719,923**		**5,558,990**

(in thousands of Canadian dollars)

17. BORROWINGS (continued)

The table below presents the outstanding long-term notes by maturity. The maturity dates for extendable notes are presented based on their first option date. Some notes may be called prior to maturity, or have their maturity extended, upon exercise of call or extension options by BDC or the note holders. As at March 31, 2012, long-term notes of $3,493 were redeemable prior to maturity ($139,972 as at March 31, 2011 and $430,089 as at April 1, 2010).

				March 31, 2012		March 31, 2011		April 1, 2010
Maturity date	**2012 Effective rate(1)**	Currency	**Principal amount**	**Carrying value**	Principal amount	Carrying value	Principal amount	Carrying value
Long-term notes other financial liabilities								
2011		CAD	–	–	–	–	2,206,000	2,207,690
2012		CAD	–	–	500,000	500,990	600,000	601,496
2013	**0.84% – 0.87%**	CAD	**625,000**	**625,336**	2,578,169	2,579,225	2,677,403	2,678,325
2014	**0.86% – 2.10%**	CAD	**733,109**	**733,349**	534,172	534,447	1,416,607	1,417,206
2015		CAD	–	–	–	–	20,000	20,221
2016	**2.05%**	CAD	**5,518**	**5,523**	–	–	15,000	15,183
				1,364,208		3,614,662		6,940,121
Long-term notes designated as fair value through profit or loss								
2011		USD	–	–	–	–	10,000	10,140
		CAD	–	–	–	–	115,405	118,930
2012		CAD	–	–	56,739	71,255	91,012	111,850
2013	**0.93%**	CAD	**5,000**	**7,024**	5,000	7,129	5,000	6,777
2014	**0.90% – 0.93%**	CAD	**95,928**	**100,654**	97,324	102,104	98,560	99,607
2015	**0.92%**	JPY	**500,000**	**6,441**	500,000	6,115	500,000	6,055
	0.90% – 0.93%	CAD	**124,084**	**121,574**	124,979	119,250	125,770	115,214
2016	**0.90%**	CAD	**18,441**	**20,156**	19,118	20,380	19,767	20,840
2017		JPY	–	–	–	–	1,200,000	12,616
2018	**0.97%**	JPY	**1,000,000**	**13,090**	3,600,000	42,296	6,300,000	67,068
2019		JPY	–	–	2,100,000	24,083	5,900,000	61,853
2020	**0.96%**	JPY	**1,300,000**	**15,732**	3,000,000	34,308	15,200,000	162,278
2021	**0.93% – 0.95%**	JPY	**960,000**	**11,163**	3,660,000	41,159	5,360,000	53,416
2022		JPY	–	–	–	–	1,500,000	15,975
	0.85% – 4.31%	CAD	**292,601**	**345,408**	292,601	319,088	292,601	308,804
2023	**0.93%**	JPY	**300,000**	**3,493**	300,000	3,293	6,100,000	65,578
				644,735		790,460		1,237,001
Total long-term notes				**2,008,943**		4,405,122		8,177,122

(1) The effective rates on long-term notes are established after giving effect to swap contracts, when applicable, and refer to yield to maturity for fixed-rate issues and yield to reset for floating-rate issues.

(in thousands of Canadian dollars)

17. BORROWINGS (continued)

As at March 31, 2012, long-term notes recorded at amortized cost included $438,729 of funding for asset-backed securities ($2,188,152 at March 31, 2011 and $3,087,685 at April 1, 2010).

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

	March 31, 2012	March 31, 2011	April 1, 2010
Interest-bearing notes	**1,774,270**	4,001,172	7,324,718
Fixed- and inverse floating-rate notes	–	45,698	109,826
Managed futures	–	26,254	104,375
Notes linked to equity indices	**74,049**	111,313	142,384
Notes linked to currency rates	**23,025**	69,940	191,106
Notes linked to swap rates	–	–	9,885
Other structured notes	**137,599**	150,745	294,828
Total long-term notes	**2,008,943**	4,405,122	8,177,122

BDC has an available overdraft facility of $75 million. When the daily balance outstanding is in an overdraft position, interest charges are accumulated at prime.

18.

POST-EMPLOYMENT BENEFITS

BDC offers defined benefit plans that provide pension and other post-employment benefits to eligible employees. The defined benefit pension plans provide benefits based on years of service and average earnings at retirement, fully indexed to the Consumer Price Index. Other post-employment benefit plans include health, dental and life insurance coverage.

The registered pension plan is funded in accordance with actuarially determined amounts required to satisfy employee benefit entitlements. Benefits accruing to members of the contributory component of the registered pension plan are also funded by contributions by plan participants. BDC's best estimate of contributions to be paid for fiscal 2013 for the registered pension plan amounts to $82.7 million. The supplemental pension plans are partly funded and contributions for fiscal 2013 amount to $4.3 million. The other benefit plans are wholly unfunded.

(in thousands of Canadian dollars)

18. POST-EMPLOYMENT BENEFITS (continued)

The following tables present, in aggregate, information concerning the post-employment benefit plans.

	Registered pension plan		Supplemental pension plans		Other plans		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
Defined benefit obligation								
Balance at beginning of year	**704,475**	655,727	**69,315**	65,614	**105,673**	108,632	**879,463**	829,973
Current service cost	**24,640**	21,492	**1,343**	1,187	**3,313**	3,596	**29,296**	26,275
Contributions by plan participants	**10,188**	9,268	**–**	–	**–**	–	**10,188**	9,268
Interest cost	**41,675**	38,684	**3,990**	3,761	**6,073**	6,258	**51,738**	48,703
Past service costs	**2,756**	–	**280**	–	**–**	–	**3,036**	–
Benefits paid	**(33,202)**	(27,416)	**(2,954)**	(2,780)	**(6,758)**	(5,823)	**(42,914)**	(36,019)
Actuarial losses (gains)	**104,783**	6,720	**8,940**	1,533	**11,995**	(6,990)	**125,718**	1,263
Balance at end of year	**855,315**	704,475	**80,914**	69,315	**120,296**	105,673	**1,056,525**	879,463
Fair value of plan assets								
Balance at beginning of year	**720,784**	602,189	**47,720**	42,925	**–**	–	**768,504**	645,114
Contributions by plan participants	**10,188**	9,268	**–**	–	**–**	–	**10,188**	9,268
Contributions by the employer	**61,573**	59,366	**–**	5,535	**–**	–	**61,573**	64,901
Expected return on plan assets	**48,104**	42,039	**1,503**	1,402	**–**	–	**49,607**	43,441
Benefits paid	**(33,202)**	(27,416)	**(2,954)**	(2,780)	**–**	–	**(36,156)**	(30,196)
Actuarial gains (losses)	**(15,674)**	35,338	**(1,686)**	638	**–**	–	**(17,360)**	35,976
Balance at end of year	**791,773**	720,784	**44,583**	47,720	**–**	–	**836,356**	768,504
Surplus (deficit) at end of year	**(63,542)**	16,309	**(36,331)**	(21,595)	**(120,296)**	(105,673)	**(220,169)**	(110,959)
Unrecognized past service costs (credits)	**–**	–	**–**	–	**–**	(400)	**–**	(400)
Post-employment benefit asset	**–**	16,309	**–**	–	**–**	–	**–**	16,309
Post-employment benefit liability	**(63,542)**	–	**(36,331)**	(21,595)	**(120,296)**	(106,073)	**(220,169)**	(127,668)

	Registered pension plan		Supplemental pension plans		Other plans		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
Expense recognized in net income								
Current service cost	**24,640**	21,492	**1,343**	1,187	**3,313**	3,596	**29,296**	26,275
Interest cost	**41,675**	38,684	**3,990**	3,761	**6,073**	6,258	**51,738**	48,703
Expected return on plan assets	**(48,104)**	(42,039)	**(1,503)**	(1,402)	**–**	–	**(49,607)**	(43,441)
Past service costs (credits)	**2,756**	–	**280**	–	**(400)**	(1,595)	**2,636**	(1,595)
Expense recognized in net income	**20,967**	18,137	**4,110**	3,546	**8,986**	8,259	**34,063**	29,942
Actuarial gains (losses) in OCI								
Actuarial gains (losses) on defined benefit obligation	**(104,783)**	(6,720)	**(8,940)**	(1,533)	**(11,995)**	6,990	**(125,718)**	(1,263)
Actuarial gains (losses) on plan assets	**(15,674)**	35,338	**(1,686)**	638	**–**	–	**(17,360)**	35,976
Actuarial gains (losses) in OCI	**(120,457)**	28,618	**(10,626)**	(895)	**(11,995)**	6,990	**(143,078)**	34,713

(in thousands of Canadian dollars)

18. POST-EMPLOYMENT BENEFITS *(continued)*

	Registered pension plan		Supplemental pension plans		Other plans		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
Cumulative gains (losses) recognized in OCI								
Prior years	**28,618**	–	**(895)**	–	**6,990**	–	**34,713**	–
Current year	**(120,457)**	28,618	**(10,626)**	(895)	**(11,995)**	6,990	**(143,078)**	34,713
Cumulative gains (losses) recognized in OCI	**(91,839)**	28,618	**(11,521)**	(895)	**(5,005)**	6,990	**(108,365)**	34,713

Plan assets for BDC's registered and supplemental pension plans can be broken down into the following major categories of investments. For the year ended on March 31, 2012, the actual return on plan assets was $32.4 million for the registered pension plan and ($0.2) million for the supplemental pension plans ($77.4 million and $2.0 million for the year ended on March 31, 2011, respectively).

Investment type	**March 31, 2012**	March 31, 2011	April 1, 2010
Cash and short-term investments	**23,661**	16,220	19,477
Bonds	**322,594**	274,037	229,165
Equity investments	**466,512**	453,093	373,191
Other assets less liabilities	**23,589**	25,154	23,280
Fair value of plan assets	**836,356**	768,504	645,113

The significant actuarial assumptions adopted in measuring BDC's post-employment benefit asset or liability and annual expense (weighted averages) are as follows.

	Registered pension plan		Supplemental pension plans		Other plans	
	2012	2011	**2012**	2011	**2012**	2011
Significant actuarial assumptions used to determine the defined benefit obligations						
Discount rate at end of year	**4.75%**	5.75%	**4.75%**	5.75%	**4.75%**	5.75%
Inflation rate at end of year	**2.25%**	2.50%	**2.25%**	2.50%	**2.25%**	2.50%
Significant actuarial assumptions used to determine the post-employment expense						
Discount rate at beginning of year	**5.75%**	5.75%	**5.75%**	5.75%	**5.75%**	5.75%
Inflation rate at beginning of year	**2.50%**	2.50%	**2.50%**	2.50%	**2.50%**	2.50%
Overall expected rate of return on assets	**6.50%**	6.75%	**3.25%**	3.38%	**0.00%**	0.00%

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

The overall expected rate of return on assets is determined using the expected cumulative return on the different asset classes and the plan's investment policy target asset mix, adjusted for expenses.

(in thousands of Canadian dollars)

18. POST-EMPLOYMENT BENEFITS (continued)

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

Medical costs related to drugs:

> 7% in 2012 reducing by 0.27% each year to 3% in 2027
  (7% in 2011 reducing by 0.27% each year to 3% in 2026)

Other medical costs related to paramedical services:

> 2.5% per year
  (2.5% per year in fiscal 2011)

Other medical costs:

> 4.4% in 2012 reducing by 0.16% each year to 2.8% in 2022
  (4.4% in 2011 reducing by 0.16% each year to 2.8% in 2021)

Dental costs:

> 3% per year
  (3% per year in fiscal 2011)

SENSITIVITY OF ASSUMPTIONS

The impact of changing the overall health care cost trend rates used in measuring the other post-employment benefits is summarized in the table below.

		2012	2011
Increase (decrease) in			
Assumed overall health care cost trend rates			
Impact of:	1% increase	**1,457**	1,418
	1% decrease	**(1,150)**	(1,115)
On the aggregate of the service and interest cost components of other post-employment benefits expense for the year			
Assumed overall health care cost trend rates			
Impact of:	1% increase	**13,677**	10,807
	1% decrease	**(11,156)**	(8,888)
On other post-employment benefit obligation			

HISTORICAL INFORMATION

	March 31, 2012	March 31, 2011	April 1, 2010
Defined benefit obligation	**1,056,525**	879,463	829,973
Fair value of plan assets	**836,356**	768,504	645,114
Surplus (deficit) at end of year	**(220,169)**	(110,959)	(184,859)
Unrecognized past service costs (credits)	–	(400)	(1,996)
Post-employment benefit asset (liability)	**(220,169)**	(111,359)	(186,855)
Experience adjustments arising on plan assets	**(17,360)**	35,976	–
Experience adjustments arising on plan liabilities	**(7,548)**	(9,566)	–

(in thousands of Canadian dollars)

19.
OTHER LIABILITIES

	March 31, 2012	March 31, 2011	April 1, 2010
Financial instruments			
Deposits from clients	**22,000**	18,409	20,246
Other	**6,752**	7,145	7,982
	28,752	25,554	28,228
Deferred income	**8,371**	6,284	6,988
Other	**7,100**	7,459	7,790
Total other liabilities	**44,223**	39,297	43,006

All other liabilities are non-current.

(in thousands of Canadian dollars)

20.

SHARE CAPITAL AND PREFERRED SHARES

Authorized:

(a) an unlimited number of preferred shares without par value, non-voting, issuable in series; and
(b) an unlimited number of common shares, having a par value of $100 (one hundred dollars) each.

	Class A preferred shares classified as liabilities					Total preferred shares	Total common shares	Total issued and fully paid
	Series 1	Series 2	Series 3	Series 4	Series 5			
March 31, 2012								
Number of shares	–	–	–	–	–	–	**20,884,000**	**20,884,000**
Dividend rate								
Amount	–	–	–	–	–	–	**2,088,400**	**2,088,400**
March 31, 2011								
Number of shares	500,000	500,000	500,000	400,000	400,000	2,300,000	25,144,000	27,444,000
Dividend rate	2.625%	1.815%	2.205%	1.400%	1.690%			
Amount	50,000	50,000	50,000	40,000	40,000	230,000	2,514,400	2,744,400
April 1, 2010								
Number of shares	500,000	500,000	500,000	400,000	400,000	2,300,000	25,144,000	27,444,000
Dividend rate	3.535%	1.815%	2.205%	1.400%	1.690%			
Amount	50,000	50,000	50,000	40,000	40,000	230,000	2,514,400	2,744,400

During fiscal 2012, BDC declared $49.6 million in dividends ($5 million in 2011). Of this amount, $4.5 million was in respect of preferred shares and $45.1 million was in respect of common shares ($5 million and nil in 2011, respectively). On the date of the approval of fiscal 2012 Consolidated Financial Statements, a dividend in respect of common shares of $68.6 million was declared, based on fiscal 2012 performance ($45.1 million in 2011). The dividends paid during the financial reporting period in respect of preferred shares classified as a libaility are included in interest expense in the Consolidated Statement of Income for that period.

On March 30, 2012, BDC repurchased all of its outstanding preferred shares and some of its common shares for a total consideration of $660.5 million. This included $230 million for 2.3 million preferred shares, $4.5 million for related accumulated dividends and $426 million for 4.26 million common shares. The dividend rates on Class A preferred shares are for periods ranging from two to five years and are adjusted at the beginning of the subsequent period to equal the Consolidated Revenue Fund lending rate published by the Minister of Finance, plus a specified premium ranging from 0.250% to 0.375%.

RECONCILIATION OF THE NUMBER OF SHARES ISSUED AND FULLY PAID

	Preferred shares		Common shares		Total	
	2012	2011	**2012**	2011	**2012**	2011
As at beginning of year	**2,300,000**	2,300,000	**25,144,000**	25,144,000	**27,444,000**	27,444,000
Shares repurchased	**(2,300,000)**	–	**(4,260,000)**	–	**(6,560,000)**	–
As at end of year	–	2,300,000	**20,884,000**	25,144,000	**20,884,000**	27,444,000

(in thousands of Canadian dollars)

21.
CAPITAL MANAGEMENT

Although preferred shares are classified in liabilities for financial reporting purposes, these shares are included in the calculation of capital as per the BDC Act.

STATUTORY LIMITATIONS

As per the BDC Act, the debt-to-equity ratio of BDC may not exceed 12:1. This ratio is defined as the aggregate of borrowings recognized in the Consolidated Statement of Financial Position and contingent liabilities that exist in the form of financial guarantees issued by BDC over Equity attributable to BDC's shareholder. It also includes preferred shares classified as liabilities, and excludes accumulated other comprehensive income. BDC's ratio at March 31, 2012 was 3.8:1 (3.7:1 as at March 31, 2011 and 4.0:1 as at April 1, 2010).

In addition, the paid-in capital, the contributed surplus and any proceeds that have been prescribed as equity (such as hybrid capital instruments), must not at any time exceed $3.0 billion. As at March 31, 2012, these amounts totalled $2.116 billion ($2.772 billion as at March 31, 2011 and at April 1, 2010).

During 2012 and 2011, BDC met both of these statutory limitations.

CAPITAL ADEQUACY

Treasury Board of Canada Secretariat provides guidelines to BDC on its capital adequacy ratios. BDC must maintain overall capital and loss provisions sufficient to ensure that BDC can withstand unfavourable economic circumstances without requiring additional government funding. These capital adequacy ratios reflect the relative risk of BDC's assets. The recommended capital is at least 5% for the Canadian Secured Credit Facility, 10% for the Multi-Seller Platform for Small Originators, 10% for term loans and 25% for quasi-equity loans, net of allowance for credit losses, 25% for Subordinate financing investments, and 100% for Venture capital investments. BDC has also established capital adequacy ratios for loan guarantees and letters of credit to reflect their relative risks (refer to Note 25—*Guarantees and Contingent Liabilities*, for additional information). In addition, the capital level is also managed to ensure that BDC can honour its commitments as they become due (refer to Note 26—*Commitments* for additional information on BDC commitments).

The actual capital comprises the equity attributable to BDC's shareholder and preferred shares classified as liabilities, but excludes accumulated other comprehensive income on cash flow hedges. The following table presents the minimum capital required as at March 31, 2012 and 2011, and April 1, 2010. During fiscal 2012 and 2011, BDC complied with its capital adequacy guidelines.

			March 31, 2012	March 31, 2011	April 1, 2010
	Carrying value	Capital ratio	Minimum capital required	Minimum capital required	Minimum capital required
Asset-backed securities					
Canadian secured credit facility	676,791	20 : 1	33,840	153,447	163,865
Multi-seller platform for small originators	86,409	10 : 1	8,641	–	–
Total asset-backed securities	763,200		42,481	153,447	163,865
Loans					
Term loans	13,656,537	10 : 1	1,365,654	1,261,916	1,171,049
Quasi-equity	1,082,734	4 : 1	270,684	277,962	203,758
Total loans	14,739,271		1,636,338	1,539,878	1,374,807
Subordinate financing(1)	350,780	4 : 1	87,695	61,967	46,796
Venture capital(1)	350,259	1 : 1	350,259	406,358	361,923
Loan guarantees(2)	7,300	3 : 1	2,433	4,637	3,593
Letters of credit(2)	23,576	10 : 1	2,358	4,848	5,077
Total	16,234,386		2,121,564	2,171,135	1,956,061
Actual capital			3,501,146	3,844,779	3,429,974
			1,379,582	1,673,644	1,473,913

(1) Net of non-controlling interests of $106,589 for Subordinate financing and $8,692 for Venture capital ($139,221 and $7,424 as at March 31, 2011, and $170,548 and $5,994 as at April 1, 2010), respectively.
(2) As the carrying value for letters of credit and loan guarantees is nil, the value above represents the committed amount (refer to Note 25).

22.

RISK MANAGEMENT

GOVERNANCE

Risk is an inherent feature of the financial sector. BDC uses an enterprise risk management (ERM) framework to mitigate risks that could interfere with its financial autonomy and commercial sustainability.

BDC's overall risk governance structure, and the roles and responsibilities of committees and risk management functions, are described in the Risk Management section of the annual report (p.36).

NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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

CREDIT RISK

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

<u>Asset-backed securities</u>

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

In order to mitigate the credit risk on this portfolio, the face value of the subordinate medium-term notes cannot exceed 10% of the senior notes. In addition, securities purchased must be of a certain grade. At time of purchase, investment grade senior notes purchased by way of a prospectus must be rated AAA by two independent rating agencies, while investments purchased by way of private placement must have an implied AAA rating for investment grade senior notes and an implied BBB rating for subordinate medium-term notes. The implied rating is calculated by BDC using the same scale as rating agencies. The rating is derived by evaluating the transaction structure and the credit enhancement supporting the securities.

Subsequently, BDC receives portfolio reports that describe the performance of the security along with the cash flows associated with the collateral in order to evaluate the securities. In addition, for asset-backed securities that were issued by way of private placements, BDC uses an internal risk rating system to monitor credit risk, which is updated on an on going basis.

As at March 31, 2012 and 2011, as well as April 1, 2010, none of the notes were past due and none had suffered a deterioration in their credit ratings from the ratings held at the time the initial investments were made. The maximum exposure to credit risk of asset-backed securities is limited to the carrying value of the securities. Refer to Note 9—*Asset-backed Securities*, for additional information on this portfolio.

(in thousands of Canadian dollars)

22. RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Borrowers and investees

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

> the use of a standardized credit risk rating classification;
> credit policies, guidelines and directives, communicated to officers whose activities and responsibilities include credit granting and risk assessment, which ensure early recognition of problem accounts and immediate implementation of steps to protect BDC's assets;
> independent reviews of credit valuation, risk classification and credit management procedures performed by Internal Audit, which include reporting the results to senior management, the president and chief executive officer, and the Audit Committee;
> approval of larger transactions by the Board Credit and Risk Committee and the Venture Capital Investment Committee of the board of directors, based on recommendations made by the Credit Risk Committee or the Venture Capital Committee;
> concentration limits that are monitored to protect BDC from being overly concentrated in any one province or industry sector;
> monitoring to ensure that exposure to a single borrower or associated borrowers, unless approved by the board of directors, does not represent more than 10% of the Shareholder's equity;
> annual reviews of individual credit facilities;
> analysis of Venture capital investments using a performance quadrant classification;
> the conduct of semi-annual valuations for investments; and
> a watch list report recording accounts with evidence of weaknesses, as well as an impaired loan report covering loans that show impairment.

The maximum exposure to credit risk from borrowers and investees is limited to the carrying amount of the loans and investments in debentures. Refer to Note 10—*Loans*, Note 11—*Subordinate Financing Investments* and Note 12—*Venture Capital Investments*, for additional information on loans and investment portfolios.

Treasury activities

In order to mitigate the credit risk inherent in treasury activities, the Treasury Risk Management Unit identifies and measures BDC's credit risk exposure related to derivative counterparties and issuers of cash equivalents.

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

BDC limits its exposure to credit risk by dealing only with financial institutions that have credit ratings in accordance with the Treasury Risk Policy. As at March 31, 2012, March 31, 2011 and April 1, 2010, BDC had no significant concentrations in any individual financial institution.

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

Counterparty credit risk exposure	Counterparty ratings			
	AA- to AA+	A to A+	BBB+	Total
Gross positive replacement cost	**53,418**	**33,696**	**567**	**87,681**
Impact of master netting agreements	**(4,136)**	**(9,658)**	**(567)**	**(14,361)**
Replacement cost (after master netting agreements)—March 31, 2012	**49,282**	**24,038**	**–**	**73,320**
Replacement cost (after master netting agreements)—March 31, 2011	33,266	22,721	–	55,987
Replacement cost (after master netting agreements)—April 1, 2010	28,799	35,985	–	64,784
Number of counterparties				
March 31, 2012	**5**	**5**	**1**	**11**
March 31, 2011	5	7	–	12
April 1, 2010	7	10	–	17

Finally, to manage the credit risk arising from an issuer of cash equivalents, the Treasury Risk Management Unit ensures the liquidity portfolio is composed of securities issued or guaranteed by entities that have a minimum credit rating of A.

22. RISK MANAGEMENT (continued)

MARKET RISK

Market risk is the impact on the fair value or future cash flows of a financial instrument that will fluctuate as a result of changes in financial market variables, such as interest and foreign exchange rates, as well as equity and commodity prices. Market risk for BDC also arises from volatile unpredictable market events affecting the value of venture capital investments.

Equity market risks

As set out in the treasury risk policy, BDC manages market risks by matching the terms of assets and liabilities. As a result, BDC structured notes are economically hedged, using derivatives, to eliminate market risks such as exposure to interest rates in foreign markets, equity prices, and commodity or index fluctuations (refer to Note 8—*Derivative Financial Instruments*, for additional information). Therefore, BDC is not exposed to equity price risk, except for its venture capital investments, which is further explained in the Venture capital market risk section of this note.

Interest rate risks

Interest rate risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. For BDC, the risk and potential variability in earnings arise primarily when cash flows associated with interest-sensitive assets and liabilities have different repricing dates. A positive interest rate gap exists when interest-sensitive assets exceed interest-sensitive liabilities for a specific maturity or repricing period. A positive gap will result in an increase in Net interest income when market interest rates rise, since assets reprice earlier than liabilities. The opposite impact will occur when market interest rates fall.

To manage the interest rate gap on its asset-backed securities, BDC funds each issuance of asset-backed securities with specific long-term borrowings. Long-term borrowings have similar payment schedules and repricing periods to mitigate interest rate risk. Refer to Note 17—*Borrowings*, for additional information.

To manage the interest rate gap on its other interest-sensitive assets and interest-sensitive liabilities, BDC establishes policy guidelines for interest rate gap positions and regularly monitors the Bank's situation and decides future strategies in light of changing market conditions. The objective is to manage the interest rate risk using sound and prudent guidelines. Interest rate risk policies included in the treasury risk policy are approved and reviewed at least annually by the board of directors.

Exposure to interest rate risk is controlled by managing the size of the static gap positions between interest-sensitive assets and interest-sensitive liabilities. Gap analysis is supplemented by computer simulation of the asset liability portfolio structure and by a duration analysis. The interest rate gap is measured daily.

Exposure to interest rate risk is also monitored with a net interest income sensitivity stress test. A parallel and sustainable 200-basis-point shock on the Canadian yield curve is simulated and the impact on net interest income has to be less than 10%. As at March 31, 2012, the impact was 4% or $30 million on net income and equity (4% or $25 million as at March 31, 2011).

(in thousands of Canadian dollars)

22. RISK MANAGEMENT (continued)

MARKET RISK (continued)

Interest rate risks (continued)

The following tables summarize BDC's interest rate sensitivity position based on the difference between the carrying value of assets and the carrying value of liabilities and equity, grouped by the earlier of contractual repricing or maturity date. The effective yield represents the weighted average effective yield based on the earlier of contractual repricing or maturity date. This gap analysis is a static measurement of interest rate-sensitive gaps at a specific time. These gaps can change significantly in a short period of time.

Canadian dollars transactions

	Floatting rate	Within 3 months(2)	4 to 12 months	1 to 5 years	Over 5 years	Non-rate-sensitive	Allowance and fair value	Total
Assets								
Cash and cash equivalents	1,179	717,554	–	–	–	–	–	**718,733**
Effective yield (%)		*1.08*						
Derivative assets	–	80,731	–	–	–	–	–	**80,731**
Asset-backed securities	–	–	–	676,791	86,409	–	–	**763,200**
Effective yield (%)				*3.03*	*2.63*			
Loans	11,886,947	370,171	364,803	1,582,212	518,214	550,783	(610,167)	**14,662,963**
Effective yield (%)	*5.45*	*5.37*	*6.50*	*5.96*	*6.45*			
Subordinate financing investments	23,113	17,317	43,150	282,147	31,898	70,896	(11,152)	**457,369**
Effective yield(1) (%)	*11.57*	*12.37*	*12.01*	*11.83*	*10.44*			
Venture capital investments	–	–	–	–	–	243,308	–	**243,308**
Other	–	–	–	–	–	72,743	–	**72,743**
	11,911,239	**1,185,773**	**407,953**	**2,541,150**	**636,521**	**937,730**	**(621,319)**	**16,999,047**
Liabilities and equity								
Derivative liabilities	–	3,583	–	12,059	–	–	–	**15,642**
Short-term notes	–	11,214,713	–	–	–	–	–	**11,214,713**
Effective yield (%)		*0.87*						
Long-term notes	–	925,479	–	503,383	345,408	184,754	–	**1,959,024**
Effective yield (%)		*0.86*		*1.38*	*2.17*			
Other	–	–	–	–	–	353,621	–	**353,621**
Total equity	–	–	–	–	–	3,625,261	–	**3,625,261**
	–	**12,143,775**	**–**	**515,442**	**345,408**	**4,163,636**	**–**	**17,168,261**
Total gap position before derivatives								
March 31, 2012	**11,911,239**	**(10,958,002)**	**407,953**	**2,025,708**	**291,113**	**(3,225,906)**	**(621,319)**	**(169,214)**
March 31, 2011	11,165,000	(10,012,937)	386,393	2,455,976	245,281	(3,561,125)	(786,122)	(107,534)
April 1, 2010	9,794,928	(7,781,561)	377,792	1,738,024	286,452	(3,350,211)	(799,333)	266,091
Total derivative position	**–**	**(1,114,876)**	**60,000**	**584,714**	**285,408**	**184,754**	**–**	**–**
Total gap position March 31, 2012	**11,911,239**	**(12,072,878)**	**467,953**	**2,610,422**	**576,521**	**(3,041,152)**	**(621,319)**	**(169,214)**
Total gap position March 31, 2011	11,165,000	(10,709,334)	453,768	2,773,279	557,000	(3,561,125)	(786,122)	(107,534)
Total gap position April 1, 2010	9,794,928	(8,635,697)	322,441	2,275,143	658,820	(3,350,211)	(799,333)	266,091

(1) Excludes non-interest return

(2) This grouping includes asset-backed securities, short-term and long-term notes for which interest rates reset monthly. The short-term and long-term notes are used to fund floating-rate assets.

(in thousands of Canadian dollars)

22. RISK MANAGEMENT (continued)

MARKET RISK (continued)

Interest rate risks (continued)

Foreign currency transactions, expressed in Canadian dollars

	Floatting rate	Within 3 months(2)	4 to 12 months	1 to 5 years	Over 5 years	Non-rate-sensitive	Allowance and fair value	Total
Assets								
Cash and cash equivalents	21,934	–	–	–	–	–	–	**21,934**
Effective yield (%)								
Derivative assets	–	4,840	–	–	–	2,110	–	**6,950**
Loans	76,308	–	–	–	–	–	–	**76,308**
Effective yield (%)	3.32							
Subordinate financing investments	–	–	–	–	–	–	–	**–**
Effective yield(1) (%)								
Venture capital investments	–	–	–	–	–	115,643	–	**115,643**
Other								
	98,242	**4,840**	**–**	**–**	**–**	**117,753**	**–**	**220,835**
Liabilities and equity								
Derivative liabilities	–	638	–	–	–	964	–	**1,602**
Short-term notes	–	100	–	–	–	–	–	**100**
Effective yield (%)		*0.00*						
Long-term notes	–	–	–	19,531	30,388	–	–	**49,919**
Effective yield (%)				*0.95*	*0.95*			
Other	–	–	–	–	–	–	–	**–**
Total equity	–	–	–	–	–	–	–	**–**
	–	**738**	**–**	**19,531**	**30,388**	**964**	**–**	**51,621**
Total gap position before derivatives								
March 31, 2012	**98,242**	**4,102**	**–**	**(19,531)**	**(30,388)**	**116,789**	**–**	**169,214**
March 31, 2011	73,600	866	–	(6,115)	(145,139)	188,277	(3,955)	107,534
April 1, 2010	61,189	(28,504)	–	(6,055)	(438,784)	150,860	(4,797)	(266,091)
Total derivative position	**–**	**(49,919)**	**–**	**19,531**	**30,388**	**–**	**–**	**–**
Total gap position March 31, 2012	**98,242**	**(45,817)**	**–**	**–**	**–**	**116,789**	**–**	**169,214**
Total gap position March 31, 2011	73,600	(151,557)	–	952	217	188,277	(3,955)	107,534
Total gap position April 1, 2010	61,189	(502,677)	–	1,015	28,319	150,860	(4,797)	(266,091)

(1) Excludes non-interest return.
(2) This grouping includes asset-backed securities, short-term and long-term notes for which interest rates reset monthly. The short-term and long-term notes are used to fund floating-rate assets.

Total transactions, expressed in Canadian dollars

	Floatting rate	Within 3 months	4 to 12 months	1 to 5 years	Over 5 years	Non-rate-sensitive	Allowance and fair value	Total
Total gap position for Canadian dollar transactions	**11,911,239**	**(12,072,878)**	**467,953**	**2,610,422**	**576,521**	**(3,041,152)**	**(621,319)**	**(169,214)**
Total gap position for Foreign currency transactions	**98,242**	**(45,817)**	**–**	**–**	**–**	**116,789**	**–**	**169,214**
Total gap position March 31, 2012	**12,009,481**	**(12,118,695)**	**467,953**	**2,610,422**	**576,521**	**(2,924,363)**	**(621,319)**	**–**
Total gap position March 31, 2011	11,238,600	(10,860,891)	453,768	2,774,231	557,217	(3,372,848)	(790,077)	–
Total gap position April 1, 2010	9,856,117	(9,138,374)	322,441	2,276,158	687,139	(3,199,351)	(804,130)	–

(in thousands of Canadian dollars)

22. RISK MANAGEMENT (continued)

MARKET RISK (continued)

Foreign exchange risk

Foreign exchange risk arises when there is a difference between assets and liabilities held in foreign currencies. Foreign exchange risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates. BDC's policy and practice is to economically hedge borrowings, investments and loans in foreign currencies so that the residual exposure to foreign exchange risk is not significant. Refer to Note 8—*Derivative Financial Instruments* for more information.

Venture capital market risk

The unpredictable financial markets, as well as the presence and appetite of buyers, dictate the timing of venture capital divestitures. This timing, in turn, affects the value of BDC Venture capital investments. To manage this risk, BDC uses a rigorous selection process of investments and works closely with its investee companies. BDC also lowers the risk of its Venture capital investments by applying conservative valuations when purchasing participation in a company, co-investing with other venture capital investors and monitoring investments regularly.

The Internal Risk Committees, composed of senior managers, review all investment transactions and approve those within their delegated limits. For larger transactions, these committees make recommendations to the Venture Capital Investment and Risk Committee of the board for approval.

LIQUIDITY RISK

Liquidity risk is the risk that BDC will be unable to honour all its contractual cash outflows as they become due. Contractual payments for BDC represent: (i) repayment of debt; (ii) timely disbursement of committed loans, investments and asset-backed securities; and (iii) payments of dividends and operating and administrative expenses.

The following table presents contractual maturities of financial liabilities and commitments and is based on notional amounts, which may differ from carrying values.

					March 31, 2012
	Within 1 year	1 to 5 years	Over 5 years	No fixed maturity	Total
Accounts payable and accrued liabilities	60,769	28,460	–	–	89,229
Derivative liabilities(1)	4,657	13,237	2,500	–	20,394
Short-term notes(2)	11,242,021	–	–	–	11,242,021
Long-term notes(2)	794,161	1,412,745	678,069	–	2,884,975
Other financial liabilities	–	–	–	28,752	28,752
Commitments					
Loans and Subordinate financing investments	1,628,090	–	–	–	1,628,090
Venture capital investments	–	–	–	261,103	261,103
Asset-backed securities	354,000	–	–	–	354,000
Letters of credit and loan guarantees	–	–	–	30,876	30,876
Total as at March 31, 2012	14,083,698	1,454,442	680,569	320,731	16,539,440

(1) Derivative liabilities reflect the interest payments to maturity of derivatives.
(2) Short-term and long-term notes reflect the notional amount that will be paid as per the contractual note agreements.

(in thousands of Canadian dollars)

22. RISK MANAGEMENT (continued)

LIQUIDITY RISK (continued)

					March 31, 2011
	Within 1 year	1 to 5 years	Over 5 years	No fixed maturity	**Total**
Accounts payable and accrued liabilities	69,560	22,410	–	–	91,970
Derivative liabilities(1)	6,906	15,393	5,001	–	27,300
Short-term notes(2)	9,739,626	–	–	–	9,739,626
Long-term notes(2)	706,631	3,395,718	528,342	–	4,630,691
Preferred shares	–	–	–	230,000	230,000
Other financial liabilities	–	–	–	25,554	25,554
Commitments					
Loans and Subordinate financing investments	1,360,100	–	–	–	1,360,100
Venture capital investments	–	–	–	228,051	228,051
Asset-backed securities	150,000	–	–	–	150,000
Letters of credit and loan guarantees	–	–	–	62,395	62,395
Total as at March 31, 2011	12,032,823	3,433,521	533,343	546,000	16,545,687

					April 1, 2010
	Within 1 year	1 to 5 years	Over 5 years	No fixed maturity	**Total**
Accounts payable and accrued liabilities	58,602	15,502	–	–	74,104
Derivative liabilities(1)	9,154	19,798	7,502	–	36,454
Short-term notes(2)	5,562,996	–	–	–	5,562,996
Long-term notes(2)	2,795,751	4,998,112	973,577	–	8,767,440
Preferred shares	–	–	–	230,000	230,000
Other financial liabilities	–	–	–	28,228	28,228
Commitments					
Loans and Subordinate financing investments	1,446,047	–	–	–	1,446,047
Venture capital investments	–	–	–	217,259	217,259
Asset-backed securities	300,000	–	–	–	300,000
Letters of credit and loan guarantees	–	–	–	61,546	61,546
Total as at April 1, 2010	10,172,550	5,033,412	981,079	537,033	16,724,074

(1) Derivative liabilities reflect the interest payments to maturity of derivatives.
(2) Short-term and long-term notes reflect the notional amount that will be paid as per the contractual note agreements.

22. RISK MANAGEMENT (continued)

LIQUIDITY RISK (continued)

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

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

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

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

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

Annually, the board of directors approves the treasury risk policy that has been reviewed and recommended for approval by the Asset-Liability Committee (ALCO). The policy establishes risk tolerance parameters, provides delegation of authority to BDC's Treasury Department to transact in approved products and provides limits related to specific measures. The policy governs management, measurement, monitoring and reporting requirements related to liquidity. Paragraph 18(3) of the BDC Act defines the instruments in which BDC may invest its liquidity.

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

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

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

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

The cash and cash equivalents received from derivative counterparties to cover credit risk exposure as per the *Credit Support Annex* of the *International Swap and Derivatives Association* agreements are not included in the liquidity level and limits. As of March 31, 2012, the carrying amount of these collaterals is $12,850 ($4,752 at March 31, 2011 and $47,874 at April 1, 2010).

Liquidity risk for asset-backed securities is managed on a transaction basis due to the large size of each investment included in this porfolio. Consequently, asset-backed securities are excluded from the regular liquidity management practices and processes.

The following tables represent results of BDC's liquidity risk management.

Liquidity level ($ in millions)

	Minimum	Actual	Maximum
As at March 31, 2012	**419**	**633**	**1,404**
As at March 31, 2011	395	635	1,351
As at April 1, 2010	257	353	1,002

Maturity and concentration limits	**Limits**	**March 31, 2012**	March 31, 2011	April 1, 2010
Cash and cash equivalents maturing within 100 days	Min 75%	**100%**	100%	100%
Cash and cash equivalents in Canadian provinces	Max 50%	**0%**	0%	0%

The Treasury Risk Management Unit identifies, measures and monitors these liquidity limits daily. It reports any deviations from these liquidity limits to the ALCO and the board of directors. The Treasury Risk Management Unit determines whether they remain valid or changes to assumptions and limits are required in light of internal or external developments. This process ensures that a close link is maintained between liquidity, market and credit risk.

(in thousands of Canadian dollars)

23.

ADDITIONAL INFORMATION ON THE CONSOLIDATED STATEMENT OF INCOME

Additional information on financial instruments

	FVTPL		Other financial instrument classification		Total	
	2012	2011	2012	2011	2012	2011
Interest income(1)	**47,726**	43,516	**926,086**	897,924	**973,812**	941,440
Interest expense	**11,586**	9,985	**110,257**	103,121	**121,843**	113,106
Fee and other income	**19,250**	14,616	**15,685**	14,599	**34,935**	29,215

(1) Interest income includes $34,593 for impaired loans in 2012 ($33,994 in 2011).

2012

	FVTPL						
	Held-for-trading	Designated as FVTPL	Available-for-sale	Cash flow hedges	Loans and receivables	Other financial liabilities	Total
Total gains (losses)							
Net realized gains (losses) on investments	–	**6,396**	–	–	–	–	**6,396**
Net realized gains (losses) on other financial instruments	**(2,363)**	–	–	**236**	–	**(112)**	**(2,239)**
Net change in unrealized appreciation (depreciation) of investments	–	**(31,368)**	–	–	–	–	**(31,368)**
Net unrealized foreign exchange gains (losses) on investments	–	**4,805**	–	–	–	–	**4,805**
Net unrealized gains (losses) on other financial instruments	**17,886**	**(18,688)**	–	**1,128**	–	–	**326**
	15,523	**(38,855)**	–	**1,364**	–	**(112)**	**(22,080)**

2011

	FVTPL						
	Held-for-trading	Designated as FVTPL	Available-for-sale	Cash flow hedges	Loans and receivables	Other financial liabilities	Total
Total gains (losses)							
Net realized gains (losses) on investments	–	(87,234)	1,273	–	–	–	(85,961)
Net realized gains (losses) on other financial instruments	5,773	75	–	105	–	(3,740)	2,213
Net change in unrealized appreciation (depreciation) of investments	–	75,907	–	–	–	–	75,907
Net unrealized foreign exchange gains (losses) on investments	–	(7,356)	–	–	–	–	(7,356)
Net unrealized gains (losses) on other financial instruments	2,983	(21,552)	–	32	–	–	(18,537)
	8,756	(40,160)	1,273	137	–	(3,740)	(33,734)

(in thousands of Canadian dollars)

23. ADDITIONAL INFORMATION ON THE CONSOLIDATED STATEMENT OF INCOME (continued)

Other additional information

	2012	2011
Amortization/depreciation of		
Loss on initial recognition of asset-backed securities included in interest income	(3,884)	(2,640)
Property and equipment included in operating and administrative expenses	6,089	7,923
Intangible assets included in operating and administrative expenses	4,241	3,919
Salaries and benefits		
Salaries and other benefits	222,125	210,242
Post-employment benefits (Note 18)	34,063	29,942
	256,188	240,184

24.

SEGMENTED INFORMATION

BDC has five reportable segments, as described below, which are the Bank's business lines. Each business line offers different products and services, and is managed separately based on BDC's management and internal reporting structure.

The following summary describes the operations in each of the Bank's reportable segments.

- **Financing** provides secured and specialized loans with a focus on small and medium-sized enterprises across Canada.
- **Subordinate Financing** provides flexible quasi-equity and equity-type financing to more mature businesses to support specific growth projects.
- **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.
- **Consulting** provides customized consulting services related to business activities.
- **Securitization** purchases investments in asset-backed securities through the Canadian Secured Credit Facility and the Multi-Seller Platform for Small Originators. These securities are backed by vehicle and equipment loans and leases, as well as dealer floor plan loans.

The assumptions and methodologies used in BDC's reporting framework are periodically reviewed by management to ensure they remain valid. The main allocation methods used by BDC are described below.

Interest expense is allocated to each operating segment based on its business portfolio and the capital attributed to the segment. The attribution of capital to BDC's business segments is maintained in accordance with the capital adequacy ratios provided by the Treasury Board of Canada Secretariat, and is consistently aligned to the economic risks of each specific business segment. Refer to Note 21—*Capital Management*, for more information.

Operating and administrative expenses include costs that were incurred directly by the business segments. Indirect costs incurred at the enterprise level are attributed to each segment using management's internal reporting framework.

Loan and investment portfolios are managed separately based on BDC's business segments. None of the other assets or liabilities are managed by segment.

(in thousands of Canadian dollars)

24. SEGMENTED INFORMATION (continued)

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

						March 31, 2012
	BDC	Financing	Subordinate Financing	Venture Capital	Consulting	Securitization
Interest income	**973,812**	869,136	47,595	–	–	57,081
Interest expense	**121,843**	103,842	6,928	552	–	10,521
Net interest income (expense)	**851,969**	**765,294**	**40,667**	**(552)**	**–**	**46,560**
Net realized gains (losses) on investments	**6,396**	–	(1,204)	7,600	–	–
Consulting revenue	**22,384**	–	–	–	22,384	–
Fee and other income	**34,935**	14,220	15,585	3,665	–	1,465
Net realized gains (losses) on other financial instruments	**(2,239)**	236	–	(2,363)	–	(112)
Net revenue (loss)	**913,445**	**779,750**	**55,048**	**8,350**	**22,384**	**47,913**
Impairment reversal (losses) on loans	**38,235**	38,235	–	–	–	–
Net change in unrealized appreciation (depreciation) of investments	**(31,368)**	–	4,248	(35,606)	–	(10)
Net unrealized foreign exchange gains (losses) on investments	**4,805**	–	–	4,805	–	–
Net unrealized gains (losses) on other financial instruments	**326**	1,261	–	(935)	–	–
Income (loss) before operating and administrative expenses	**925,443**	**819,246**	**59,296**	**(23,386)**	**22,384**	**47,903**
Salaries and benefits	**256,188**	203,122	19,865	13,227	18,663	1,311
Premises and equipment	**36,334**	33,041	761	1,328	1,083	121
Other expenses	**99,474**	78,347	2,458	4,699	13,658	312
Operating and administrative expenses	**391,996**	**314,510**	**23,084**	**19,254**	**33,404**	**1,744**
Net income (loss)	**533,447**	**504,736**	**36,212**	**(42,640)**	**(11,020)**	**46,159**
Net income (loss) attributable to:						
BDC's shareholder	**520,335**	504,736	21,645	(41,185)	(11,020)	46,159
Non-controlling interests	**13,112**	–	14,567	(1,455)	–	–
Net income (loss)	**533,447**	**504,736**	**36,212**	**(42,640)**	**(11,020)**	**46,159**
Business segment portfolio as at March 31	**16,318,791**	**14,739,271**	**457,369**	**358,951**	**–**	**763,200**

(in thousands of Canadian dollars)

24. SEGMENTED INFORMATION (continued)

						March 31, 2011
	BDC	Financing	Subordinate Financing	Venture Capital	Consulting	Securitization
Interest income	**941,440**	808,474	43,516	–	–	89,450
Interest expense	**113,106**	85,594	5,557	560	–	21,395
Net interest income (expense)	**828,334**	722,880	37,959	(560)	–	68,055
Net realized gains (losses) on investments	**(85,961)**	–	(15,888)	(71,346)	–	1,273
Consulting revenue	**24,564**	–	–	–	24,564	–
Fee and other income	**29,215**	13,527	11,951	2,665	–	1,072
Net realized gains (losses) on other financial instruments	**2,213**	(5,619)	–	5,773	–	2,059
Net revenue (loss)	**798,365**	730,788	34,022	(63,468)	24,564	72,459
Impairment reversal (losses) on loans	**(104,044)**	(104,044)	–	–	–	–
Net change in unrealized appreciation (depreciation) of investments	**75,907**	–	3,782	72,125	–	–
Net unrealized foreign exchange gains (losses) on investments	**(7,356)**	–	–	(7,356)	–	–
Net unrealized gains (losses) on other financial instruments	**(18,537)**	(18,348)	–	(189)	–	–
Income (loss) before operating and administrative expenses	**744,335**	608,396	37,804	1,112	24,564	72,459
Salaries and benefits	**240,184**	193,035	15,059	12,642	18,106	1,342
Premises and equipment	**37,117**	34,727	511	1,068	695	116
Other expenses	**100,513**	75,031	1,834	8,167	14,646	835
Operating and administrative expenses	**377,814**	302,793	17,404	21,877	33,447	2,293
Net income (loss)	**366,521**	305,603	20,400	(20,765)	(8,883)	70,166
Net income (loss) attributable to:						
BDC's shareholder	**360,292**	305,603	11,648	(18,242)	(8,883)	70,166
Non-controlling interests	**6,229**	–	8,752	(2,523)	–	–
Net income (loss)	**366,521**	305,603	20,400	(20,765)	(8,883)	70,166
Business segment portfolio as at March 31	**17,600,833**	13,731,011	387,091	413,782	–	3,068,949

25.

GUARANTEES AND CONTINGENT LIABILITIES

Financial guarantees

Letters of Credit and Loan Guarantees

BDC issues "letters of credit and loans guarantees" (guarantees) to support businesses with reduced access to capital through a risk-sharing partnership with other lenders. Those guarantees represent BDC's obligation to make payments to third parties if clients are unable to meet their contractual commitments. Collateral requirements are consistent with BDC collateral requirements for loans. The fee income earned is calculated on a straight-line basis over the life of the instrument and recognized in fee and other income in the Consolidated Statement of Income. The maximum amount payable under the guarantees totalled $30.9 million as at March 31, 2012 ($62.4 million at March 31, 2011 and $61.5 million at April 1, 2010) and the existing terms expire within 27 months (within 14 months as at March 31, 2011 and March 31, 2010). The total contractual amount is not representative of the maximum potential amount of future payments to be required for these commitments.

These financial guarantees were initially recognized at fair value on the date the guarantees were given. The fair value was considered nil, as all guarantees were agreed to on arm's-length terms and no initial fee was received. In addition, no receivable for the future expected fees was recognized. Subsequent recognition of a liability will only occur when it becomes more likely than not that a client will not meet its contractual commitments. As at March 31, 2012 a liability of $150 thousand has been recognized (nil at March 31, 2011 and April 1, 2010) in BDC's Consolidated Statement of Financial Position related to these guarantees.

Indemnification agreements

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

These indemnification obligations will vary based upon each contract. In many cases, there are no predetermined amounts or limits included in these contracts, and the occurrence of contingent events that will trigger payment under them is difficult to predict. The nature of these indemnification contracts is such that BDC cannot reasonably estimate the maximum potential future amount that may be payable to counterparties. Historically, BDC has not made any significant payments under these indemnities and there were no significant provisions for indemnities as of March 31, 2012 and 2011, and as of April 1, 2010.

Contingent liabilities

Various legal proceedings arising from the normal course of business are pending against BDC. Management believes that should BDC be found liable pursuant to one or more of these proceedings, the aggregate liability resulting from such proceedings would not be material. Therefore, no provision has been recorded in respect of litigation for the reporting periods.

(in thousands of Canadian dollars)

26.

COMMITMENTS

The following tables present undisbursed amounts of authorized loans and subordinate financing investments, by geography and industry. Undisbursed amounts of authorized loans and Subordinate financing investments are expected to be disbursed within the next 12 months. The weighted average effective interest rate is 4.96% on loan commitments (5.50% at March 31, 2011 and 5.07% at April 1, 2010) and 10.77% on Subordinate financing commitments (11.53% at March 31, 2011 and 10.65% at April 1, 2010), excluding non-interest return.

Commitments, by geographic distribution	March 31, 2012	March 31, 2011	April 1, 2010
Newfoundland and Labrador	**69,501**	40,671	39,939
Prince Edward Island	**2,001**	10,080	1,215
Nova Scotia	**55,462**	17,509	26,362
New Brunswick	**31,576**	55,871	50,521
Quebec	**539,088**	418,852	327,717
Ontario	**432,113**	444,874	500,378
Manitoba	**30,346**	37,959	46,056
Saskatchewan	**28,825**	36,155	41,747
Alberta	**283,532**	157,781	208,206
British Columbia	**149,251**	133,422	195,223
Yukon	**4,532**	4,651	3,762
Northwest Territories and Nunavut	**1,863**	2,275	4,921
Total	**1,628,090**	1,360,100	1,446,047

Commitments, by industry sector	March 31, 2012	March 31, 2011	April 1, 2010
Manufacturing	**406,462**	253,657	245,167
Wholesale and retail trade	**252,503**	293,164	297,061
Tourism	**231,847**	200,417	278,855
Construction	**164,553**	148,103	155,814
Commercial properties	**131,969**	118,630	168,238
Services	**221,334**	174,739	183,910
Transportation and storage	**86,272**	60,381	55,198
Mining and utilities	**59,646**	57,795	23,148
Other	**73,504**	53,214	38,656
Total	**1,628,090**	1,360,100	1,446,047

The undisbursed amounts of authorized Venture capital investments were related to the following industry sectors.

Commitments, by industry sector	March 31, 2012	March 31, 2011	April 1, 2010
Biotechnology and pharmacology	**9,359**	9,652	9,537
Medical and health	**6,372**	11,799	4,672
Communications	**3,415**	2,455	2,426
Industrial	**1,000**	4,650	1,750
Electronics	**765**	4,099	1,820
Information technology	–	5,476	6,874
Other	–	1,960	–
	20,911	40,091	27,079
Funds	**240,192**	187,960	190,180
Total	**261,103**	228,051	217,259

The undisbursed amounts of authorized asset-backed securities were $354,000 at March 31, 2012 ($150,000 at March 31, 2011 and $300,000 at April 1, 2010).

(in thousands of Canadian dollars)

26. COMMITMENTS (continued)

Leases

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

	March 31, 2012	March 31, 2011	April 1, 2010
Within 1 year	**25,706**	21,931	21,808
1 to 5 years	**95,484**	68,476	65,250
After 5 years	**55,896**	49,070	57,493
Total	**177,086**	139,477	144,551

During the year, lease payments recognized as an expense amounted to $23.5 million ($22.7 million in 2011). This amount consists of minimum lease payments. No significant sublease payments or contingent rent payments were made or received.

27.

RELATED PARTY TRANSACTIONS

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

The defined benefit plans referred to in Note 18—*Post-employment Benefits*, are also related parties. BDC's transactions with these funds include contributions paid to the plans, which are disclosed in Note 18. BDC has no other transactions or balances related to these defined benefit plans.

Borrowings with the Minister of Finance

During the reporting periods, BDC has borrowed funds from Her Majesty the Queen in Right of Canada acting through the Minister of Finance. This borrowing is in accordance with the FAA and the BDC Act and is compliant with (i) BDC's borrowing plan, which is approved by the Minister of Finance; and (ii) the Master Loan Framework for Interim Funding from the Consolidated Revenue Fund to the Business Development Bank of Canada, dated February 14, 2008.

The following table presents the transactions and outstanding balances related to the borrowing with the Minister of Finance. Refer to Note 17—*Borrowings*, for additional information on short-term and long-term notes.

	Short-term notes		Long-term notes		Total	
	2012	2011	**2012**	2011	**2012**	2011
Balance at beginning of year	**9,714,545**	5,510,337	**3,513,901**	6,738,030	**13,228,446**	12,248,367
Net change in short-term notes	**1,486,868**	4,200,944	**–**	–	**1,486,868**	4,200,944
Net changes in accrued interest	**537**	3,264	**(980)**	(1,460)	**(443)**	1,804
Issuance of long-term notes	**–**	–	**278,387**	305,000	**278,387**	305,000
Repayment of long-term notes	**–**	–	**(2,427,100)**	(3,527,669)	**(2,427,100)**	(3,527,669)
Balance at end of year	**11,201,950**	9,714,545	**1,364,208**	3,513,901	**12,566,158**	13,228,446

During the year, BDC recorded $111 million of interest expense related to this borrowing ($94 million in 2011). In addition, in order to comply with BDC's risk management policies, certain short-term and long-term notes with the Minister of Finance were repaid prior to maturity. This resulted in a net realized loss of $0.1 million in fiscal 2012 ($4 million net realized loss in 2011).

(in thousands of Canadian dollars)

27. RELATED PARTY TRANSACTIONS (continued)

Share Capital and preferred shares

On March 30, 2012, BDC repurchased all its outstanding Class A preferred shares and some of its common shares for a total consideration of $660.5 million. During the year, BDC paid a dividend to the Government of Canada. Refer to Note 20—*Share Capital and Preferred Shares* for more information.

Key management personnel

Key management personnel are defined as those officers having authority and responsibility for planning, directing and controlling the activities of BDC, including members of the board of directors. The following table presents the compensation expense of key management personnel.

	2012	2011
Salaries and short-term employee benefits	**3,895**	4,024
Post-employment benefits	**972**	809
Other long-term benefits	**1,072**	764
Total	**5,939**	5,597

28.

FIRST-TIME ADOPTION OF IFRS

These Consolidated Financial Statements represent the first annual Consolidated Financial Statements of BDC prepared in accordance with IFRS, which requires the application of IFRS 1, *First-time adoption of International Financial Reporting Standards*. The first date at which IFRS was applied was April 1, 2010 (hereafter, the "transition date").

BDC's IFRS accounting policies presented in Note 3—*Significant Accounting Policies* have been applied in preparing the Consolidated Financial Statements for the year ended March 31, 2012, the comparative information and the opening Consolidated Statement of Financial Position as at the transition date.

INITIAL ELECTIONS UPON ADOPTION

IFRS 1 requires that an entity apply all IFRS effective at the end of its first IFRS reporting year retrospectively. IFRS 1 also provides a first-time adopter certain optional exemptions and requires certain mandatory exceptions from full retrospective application of IFRS. BDC has applied the relevant mandatory exceptions and has elected to apply the following optional exemptions:

- Immediate recognition of all cumulative actuarial gains and losses deferred under previous GAAP in opening retained earnings as of the date of transition; and
- Disclosure of the defined benefit obligations, plan assets, deficit and experience adjustments on post-employment benefit assets and liabilities prospectively from the date of transition, progressively building the data to present the four years of comparative information required under IFRS.

RECONCILIATIONS OF CANADIAN GAAP TO IFRS

The following represents the reconciliations from Canadian GAAP to IFRS for the respective periods noted for equity, earnings and comprehensive income. The Notes column refers to the notes to the reconciliations, which begin on page 127.

(in thousands of Canadian dollars)

28. FIRST-TIME ADOPTION OF IFRS (continued)

RECONCILIATIONS OF CANADIAN GAAP TO IFRS (CONTINUED)

RECONCILIATION OF CONSOLIDATED EQUITY

As at	Notes	March 31, 2011	April 1, 2010
Shareholder's equity under Canadian GAAP		4,008,321	3,643,016
Differences increasing (decreasing) retained earnings:			
Post-employment benefits	A	(165,669)	(219,230)
Other	E	550	807
		(165,119)	**(218,423)**
Reclassification of preferred shares in liabilities	C	(230,000)	(230,000)
Equity attributable to BDC's shareholder under IFRS		**3,613,202**	**3,194,593**
Non-controlling interests			
Joint ventures	B	139,221	170,548
Investments controlled by BDC	B	7,424	5,994
Equity attributable to non-controlling interests under IFRS		**146,645**	**176,542**
Consolidated equity under IFRS		**3,759,847**	**3,371,135**

RECONCILIATION OF CONSOLIDATED NET INCOME

	Notes	March 31, 2011
Consolidated net income under Canadian GAAP		346,713
Differences increasing (decreasing) net income:		
Post-employment benefits	A	18,848
Dividends on preferred shares included in net income	C	(5,012)
Other	E	(257)
		13,579
Net income attributable to BDC's shareholder under IFRS		**360,292**
Impact of consolidation of:		
Joint ventures	B	8,752
Investments controlled by BDC	B	(2,523)
Net income attributable to non-controlling interests under IFRS		**6,229**
Consolidated net income under IFRS		**366,521**

RECONCILIATION OF CONSOLIDATED COMPREHENSIVE INCOME

	Notes	March 31, 2011
Consolidated comprehensive income under Canadian GAAP		370,317
Differences increasing (decreasing) comprehensive income:		
Increase in net income attributable to BDC's shareholder		13,579
Actuarial gains (losses) on post-employment benefits	A	34,713
		48,292
Comprehensive income attributable to BDC's shareholder under IFRS		**418,609**
Increase in net income attributable to non-controlling interests		6,229
Comprehensive income attributable to non-controlling interests under IFRS		**6,229**
Consolidated comprehensive income under IFRS		**424,838**

28. FIRST-TIME ADOPTION OF IFRS (continued)

NOTES TO THE RECONCILIATIONS

These notes explain the significant differences shown in the reconciliations between Canadian GAAP and IFRS.

A—POST-EMPLOYMENT BENEFITS

(i) Actuarial gains and losses

Canadian GAAP: Actuarial gains and losses that arose in calculating the present value of the defined benefit obligation and the fair value of plan assets were subject to a minimum required amortization based on a "corridor" approach. Each fiscal year, BDC determined whether the cumulative actuarial gain or loss was more than 10% of the greater of the fair value of the plan assets or the defined benefit obligation. Any amount that exceeded this 10% corridor was amortized through the income statement over the average remaining service period of active employees. Amounts that fell within the 10% corridor were not amortized.

IFRS: Under IFRS, three options are available to account for actuarial gains and losses: (i) the "corridor" approach; (ii) immediate recognition in net income; or (iii) immediate recognition in other comprehensive income (OCI). Of these three options, BDC has elected to recognize all actuarial gains and losses immediately in OCI. These gains and losses are transferred immediately to retained earnings at the end of each period.

Impact on financial statements: Upon transition to IFRS, existing unamortized net actuarial losses were recognized in opening retained earnings. As a result, the post-employment benefit asset of $145.4 million that existed under Canadian GAAP as at March 31, 2010, was derecognized and an additional post-employment benefit liability of $82.5 million was recognized. Consequently, opening retained earnings decreased by $227.9 million. Subsequent to transition, the amortization component of net actuarial losses is no longer included in post-employment benefits expense and actuarial gains and losses are immediately recognized in OCI.

(ii) Attribution period

Canadian GAAP: The attribution period for recognizing the liability relating to post-employment benefits began at the hiring date of the employee, as this date normally represents the date at which the service provided by employees starts to give rise to benefits.

IFRS: Under IFRS, the benefits are attributed to periods of service under the plan's benefit formula. For long-term benefit plans that contain both an age-based vesting requirement and a vesting requirement of consecutive years of service immediately before retirement, the attribution period begins only when the employee commences working in periods that can be counted as consecutive years of service before retirement. As BDC's other post-employment benefit plans contain both requirements, the attribution period was revised at transition to IFRS.

Impact on financial statements: Upon transition, the adjustment resulting from the change in the attribution period resulted in a decrease in the post-employment benefit liability of $11.7 million and an equivalent increase in opening retained earnings. Subsequent to transition, the impact of the change in attribution period is not significant.

(iii) Measurement date

Canadian GAAP: The measurement date of the defined benefit obligation and plan assets could have been up to three months prior to the date of the financial statements, provided that the entity applied this practice consistently from year to year. BDC measured the defined benefit obligation and plan assets related to pension plans as of December 31, thus utilizing the three-month gap permitted in the standards.

IFRS: IFRS requires that the defined benefit obligation, as well as the fair value of plan assets, be determined as of the date of the financial statements. IFRS requires that the results of any valuation carried out prior to that date be updated for any material transactions and other material changes in circumstances.

Impact on financial statements: Upon transition, BDC re-measured its defined benefit obligation and plan assets related to pension plans as at April 1, 2010. As shown in the following table, the impact of this difference is not significant and is included in the total adjustment for post-employment benefits.

(in thousands of Canadian dollars)

28. FIRST-TIME ADOPTION OF IFRS (continued)

NOTES TO THE RECONCILIATIONS (CONTINUED)

A—POST-EMPLOYMENT BENEFITS (continued)

(iv) Past service costs

Canadian GAAP: Immediate recognition for vested benefits was not permitted and past service costs were amortized by assigning an equal amount to each remaining service period.

IFRS: Under IFRS, immediate recognition for vested benefits is required, and unvested past service costs are recognized as an expense on a straight-line basis over the average period until the benefits become vested.

Impact on financial statements: Upon transition, BDC recognized all vested past service costs. As shown in the table presented below, the impact of this difference is not significant and is included in the total adjustment for post-employment benefits.

The impact of these changes is summarized as follows

Differences increasing (decreasing) retained earnings as at April 1, 2010	
Actuarial gains and losses	(227,878)
Attribution period	11,690
Measurement date	(3,146)
Past service costs	104
Impact on Equity as at April 1, 2010	**(219,230)**
Increase in Fiscal 2011 net income related to post-employment benefits	18,848
Increase in Fiscal 2011 OCI related to actuarial gains on post-employment benefits	34,713
Impact on Equity as at March 31, 2011	**(165,669)**

B—CONSOLIDATION

(i) Joint ventures

Canadian GAAP: BDC holds a portion of its Subordinate financing portfolio through investment funds held jointly with the Caisse de dépôt et placement du Québec (AlterInvest Fund L.P., AlterInvest II Fund L.P., and AlterInvest Investment Fund Inc.). Under Canadian GAAP, these funds were proportionately consolidated into BDC's Consolidated Financial Statements by virtue of the fact that they are joint ventures.

IFRS: Based on the definition of control under IFRS, BDC has concluded that it has the power to govern the financial and operating policies of these funds so as to obtain benefits from their activities, and consequently must consolidate them into BDC's Consolidated Financial Statements upon conversion to IFRS. Because BDC is assessed as having control for financial reporting purposes, these funds can no longer be accounted for as joint ventures.

Impact on financial statements: Upon transition, the full consolidation of these investment funds increased assets and liabilities by $173.8 million and $3.3 million, respectively. Non-controlling interests of $170.5 million are now presented within equity and there is no impact on opening retained earnings. Subsequent to transition, BDC's consolidated net income includes 100% of the subsidiaries' net income, including the portion attributable to non-controlling interests.

(ii) Subordinate financing and Venture capital investments

Canadian GAAP: Subordinate financing and Venture capital investments were measured and presented at fair value in accordance with Accounting Guideline 18 (AcG-18), *Investment companies*. Consequently, they were not consolidated into BDC's Consolidated Financial Statements.

IFRS: Under IFRS, BDC must consolidate investments over which it exercises control. After analysis of Subordinate financing and Venture capital investments, it has been determined that three investments must be consolidated.

Impact on financial statements: Upon transition, consolidation of these investments resulted in an increase in assets of $6.1 million and an increase in liabilities of $0.1 million. Non-controlling interests, presented within equity, increased by $6.0 million. There was no impact on opening retained earnings. Subsequent to transition, BDC's consolidated net income includes 100% of the net income of these entities, including the net income attributable to non-controlling interests.

28. FIRST-TIME ADOPTION OF IFRS (continued)

NOTES TO THE RECONCILIATIONS (CONTINUED)

C—RECLASSIFICATION OF PREFERRED SHARES
Canadian GAAP: As per Canadian GAAP, BDC's preferred shares were classified as equity instruments.

IFRS: Under IFRS, BDC's preferred shares need to be classified as a combined instrument, with a liability and an equity component, given that they have a feature that requires a non-discretionary annual dividend payment at a rate that is periodically adjusted to the market rate, and a feature that allows the holder of the shares to exchange a fixed number of preferred shares for a fixed number of common shares. The equity component represents the residual amount, if any, after deducting the fair value assigned to the liability component.

BDC's preferred shares were reclassified from equity to liabilities upon conversion to IFRS and no residual value was assigned to the equity component. In addition, since the preferred shares are classified as a liability, the dividends are recognized in net income as interest expense.

Impact on financial statements: Upon transition, preferred shares of $230 million were reclassified from equity to liabilities. Subsequent to transition, dividends on preferred shares were recognized in net income as interest expense.

D—FINANCIAL INSTRUMENT CLASSIFICATION
(i) Subordinate financing and Venture capital investments
Canadian GAAP: With the application of AcG-18, Subordinate financing and Venture capital investments were out of scope of the financial instrument classification requirements of section 3855, *Financial Instruments—Recognition and measurement*.

IFRS: Investments held by investment companies become subject to financial instrument classification. BDC has designated both Subordinate financing and Venture capital investments to be carried at fair value through profit or loss.

Impact on financial statements: Subordinate financing and Venture capital investments are carried at fair value under both Canadian GAAP and IFRS, and therefore the new classification under IFRS did not have an impact on the Consolidated Financial Statements.

(ii) Preferred shares
Canadian GAAP: Preferred shares, presented as equity, were not subject to financial instrument classification.

IFRS: Preferred shares, recognized as a liability, are subject to financial instrument classification. BDC has classified its preferred shares as other financial liabilities. Consequently, preferred shares are required to be measured at amortized cost.

Impact on financial statements: Preferred shares are carried at the same value under both Canadian GAAP and IFRS, and therefore the new classification under IFRS did not have an impact on the Consolidated Financial Statements.

(iii) Cash and Cash equivalents
Canadian GAAP: Cash and cash equivalents were classified as either available for sale or held-for-trading.

IFRS: Cash and cash equivalents were classified as loans and receivables upon transition to IFRS.

Impact on financial statements: The change of classification did not impact the measurement of the cash and cash equivalents, as their amortized costs were fair approximations of their fair values.

(in thousands of Canadian dollars)

28. FIRST-TIME ADOPTION OF IFRS (continued)

NOTES TO THE RECONCILIATIONS (CONTINUED)

E—OTHER DIFFERENCES

Other differences and reclassifications were recorded as a result of the transition to IFRS. Individually and collectively, none of these adjustments were considered significant to the Consolidated Statement of Financial Position or to the Consolidated Statement of Income.

RECONCILIATION OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION, NET INCOME AND COMPREHENSIVE INCOME FROM CANADIAN GAAP TO IFRS

The following reconciliations illustrate the reclassifications and adjustments from Canadian GAAP to IFRS to the Consolidated Statement of Financial Position as at March 31, 2011 and April 1, 2010.

	Notes	GAAP March 31, 2010	Reclassification for presentation purposes	IFRS adjustments other than consolidation	IFRS adjustments related to consolidation (Note B)	IFRS April 1, 2010
ASSETS						
Cash and cash equivalents		1,013,757	–	–	8,814	1,022,571
Derivative assets		85,779	–	–	7	85,786
Loans and investments						
Asset-backed securities		3,274,974	2,317	–	–	3,277,291
Loans		12,525,521	–	–	–	12,525,521
Subordinate financing investments		193,203	–	–	164,529	357,732
Venture capital investments		362,270	–	–	5,647	367,917
		16,355,968	2,317	–	170,176	16,528,461
Property and equipment		16,944	–	–	–	16,944
Intangible assets		19,406	–	–	–	19,406
Post-employment benefit asset	A	145,434	–	(145,434)	–	–
Other assets		42,639	(2,317)	–	955	41,277
Total assets		17,679,927	–	(145,434)	179,952	17,714,445
LIABILITIES AND EQUITY						
Liabilities						
Accounts payable and accrued liabilities	E	71,640	–	(807)	3,271	74,104
Accrued interest on borrowings		11,893	(11,893)	–	–	–
Derivative liabilities		73,233	–	–	–	73,233
Borrowings						
Short-term notes		5,557,862	1,128	–	–	5,558,990
Long-term notes		8,166,357	10,765	–	–	8,177,122
		13,724,219	11,893	–	–	13,736,112
Preferred shares	C	–	–	230,000	–	230,000
Post-employment benefit liability	A	113,059	–	73,796	–	186,855
Other liabilities		42,867	–	–	139	43,006
Total liabilities		14,036,911	–	302,989	3,410	14,343,310
Equity						
Share capital	C	2,744,400	–	(230,000)	–	2,514,400
Contributed surplus		27,778	–	–	–	27,778
Retained earnings		869,849	–	(218,423)	–	651,426
Accumulated other comprehensive income		989	–	–	–	989
Equity attributable to BDC's shareholder		3,643,016	–	(448,423)	–	3,194,593
Non-controlling interests		–	–	–	176,542	176,542
Total equity		3,643,016	–	(448,423)	176,542	3,371,135
Total liabilities and equity		17,679,927	–	(145,434)	179,952	17,714,445

(in thousands of Canadian dollars)

28. FIRST-TIME ADOPTION OF IFRS (continued)

RECONCILIATION OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION, NET INCOME AND COMPREHENSIVE INCOME FROM CANADIAN GAAP TO IFRS (continued)

	Notes	GAAP March 31, 2011	Reclassification for presentation purposes	IFRS adjustments other than consolidation	IFRS adjustments related to consolidation (Note B)	IFRS March 31, 2011
ASSETS						
Cash and cash equivalents		643,578	–	–	9,653	653,231
Derivative assets		67,122	–	–	–	67,122
Loans and investments						
Asset-backed securities		3,065,589	3,360	–	–	3,068,949
Loans		13,731,011	–	–	–	13,731,011
Subordinate financing investments		250,375	–	–	136,716	387,091
Venture capital investments		407,793	–	–	5,989	413,782
		17,454,768	3,360	–	142,705	17,600,833
Property and equipment		18,524	–	–	–	18,524
Intangible assets		21,770	–	–	–	21,770
Post-employment benefit asset	A	169,807	–	(153,498)	–	16,309
Other assets		24,499	(3,360)	–	650	21,789
Total assets		18,400,068	–	(153,498)	153,008	18,399,578
LIABILITIES AND EQUITY						
Liabilities						
Accounts payable and accrued liabilities	E	86,203	–	(550)	6,317	91,970
Accrued interest on borrowings		10,094	(10,094)	–	–	–
Derivative liabilities		25,751	–	–	–	25,751
Borrowings						
Short-term notes		9,715,686	4,237	–	–	9,719,923
Long-term notes		4,399,265	5,857	–	–	4,405,122
		14,114,951	10,094	–	–	14,125,045
Preferred shares	C	–	–	230,000	–	230,000
Post-employment benefit liability	A	115,497	–	12,171	–	127,668
Other liabilities		39,251	–	–	46	39,297
Total liabilities		14,391,747	–	241,621	6,363	14,639,731
Equity						
Share capital	C	2,744,400	–	(230,000)	–	2,514,400
Contributed surplus		27,778	–	–	–	27,778
Retained earnings		1,211,550	–	(165,119)	–	1,046,431
Accumulated other comprehensive income		24,593	–	–	–	24,593
Equity attributable to BDC's shareholder		4,008,321	–	(395,119)	–	3,613,202
Non-controlling interests		–	–	–	146,645	146,645
Total equity		4,008,321	–	(395,119)	146,645	3,759,847
Total liabilities and equity		18,400,068	–	(153,498)	153,008	18,399,578

(in thousands of Canadian dollars)

28. FIRST-TIME ADOPTION OF IFRS (continued)

RECONCILIATION OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION, NET INCOME AND COMPREHENSIVE INCOME FROM CANADIAN GAAP TO IFRS (continued)

The following reconciliation illustrates the restatements from Canadian GAAP to IFRS to the Consolidated Statement of Net Income for the year ended March 31, 2011.

	Notes	GAAP 2011(1)	IFRS adjustments other than consolidation	IFRS adjustments related to consolidation (Note B)	IFRS 2011
Interest income	E	**915,678**	6,926	18,836	**941,440**
Interest expense	C	**108,142**	5,012	(48)	**113,106**
Net interest income		**807,536**	1,914	18,884	**828,334**
Net realized gains (losses) on investments		**(75,954)**	–	(10,007)	**(85,961)**
Consulting revenue		**24,564**	–	–	**24,564**
Fee and other income		**31,869**	–	(2,654)	**29,215**
Net realized gains (losses) on other financial instruments		**2,213**	–	–	**2,213**
Net revenue		**790,228**	1,914	6,223	**798,365**
Impairment reversal (losses) on loans	E	**(97,118)**	(6,926)	–	**(104,044)**
Net change in unrealized appreciation (depreciation) of investments		**74,896**	–	1,011	**75,907**
Net unrealized foreign exchange gains (losses) on investments		**(7,114)**	–	(242)	**(7,356)**
Net unrealized gains (losses) on other financial instruments		**(18,537)**	–	–	**(18,537)**
Income before operating and administrative expenses		**742,355**	(5,012)	6,992	**744,335**
Salaries and benefits	A,E	**258,313**	(18,591)	462	**240,184**
Premises and equipment		**37,117**	–	–	**37,117**
Other expenses		**100,212**	–	301	**100,513**
Operating and administrative expenses		**395,642**	(18,591)	763	**377,814**
Net income		**346,713**	13,579	6,229	**366,521**
Net income attributable to:					
BDC's Shareholder		**346,713**	13,579	–	**360,292**
Non-controlling interests		**–**	–	6,229	**6,229**
Net income		**346,713**	13,579	6,229	**366,521**

(1) Represents a combined version of the statement presented in the fiscal 2011 annual report under Canadian GAAP, as the Consolidated Statement of Income was previously presented by operating segments.

The following reconciliation illustrates the restatements from Canadian GAAP to IFRS to the Consolidated Statement of Comprehensive Income for the year ended March 31, 2011.

	Notes	GAAP 2011	IFRS adjustments other than consolidation	IFRS adjustments related to consolidation (Note B)	IFRS 2011
Net income		**346,713**	13,579	6,229	**366,521**
Other comprehensive income (loss)					
Net change in unrealized gains (losses) on available-for-sale assets		**19,800**	–	–	**19,800**
Net change in unrealized gains (losses) on cash flow hedges		**3,804**	–	–	**3,804**
Actuarial gains (losses) on post-employment benefits	A	**–**	34,713	–	**34,713**
Other comprehensive income (loss)		**23,604**	34,713	–	**58,317**
Total comprehensive income		**370,317**	48,292	6,229	**424,838**
Total comprehensive income attributable to:					
BDC's Shareholder		**370,317**	48,292	–	**418,609**
Non-controlling interests		**–**	–	6,229	**6,229**
Total comprehensive income		**370,317**	48,292	6,229	**424,838**

28. FIRST-TIME ADOPTION OF IFRS (continued)

MATERIAL ADJUSTMENTS TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Following the transition to IFRS, disbursements of $3,333,706 and repayments of $2,026,117 in loans have been classified as operating activities. Under Canadian GAAP, cash flows relating to loans were classified as cash flows from investing activities.

Furthermore, interest paid and interest received are now presented as separate line items in the Consolidated Statement of Cash Flows under operating activities.

The consolidation of BDC's subsidiaries has also affected the cash flows provided by operating, investing and financing activities. The impact is not significant for any category of cash flow.

There are no other material differences between the statement of cash flows presented under IFRS and the statement of cash flows previously presented under Canadian GAAP.

Corporate Governance

RESPONSIBLE STEWARDSHIP REQUIRES CLEAR ROLES AND ACCOUNTABILITIES, AND THE RIGHT PEOPLE.

In collaboration with the government, BDC has defined the profile and skills that board members need to help BDC fulfill its mandate. It has also worked closely with the Minister to recommend potential board members who possess them. The resulting team is a diverse, talented group that is well equipped to steward BDC: seasoned businesspeople who set BDC's strategic direction and hold it accountable. These members have significant financial expertise and a steadfast dedication to BDC's mandate.

Over the past decade, BDC has adopted robust corporate governance policies and structures. These were invaluable in overcoming the difficulties of the credit crisis and recession of recent years.

This past year, the board of directors continued to oversee the execution of the strategic initiatives put in place by the Government of Canada in response to these events. While some initiatives were wound down, others required the board's attention.

In fiscal 2011, BDC completed a review of Canada's venture capital industry. This review concluded that the industry is facing profound system-wide challenges. Also in fiscal 2011, in response to this review, the board approved a new strategic approach for BDC's venture capital activities. During fiscal 2012, the board oversaw the deployment of this new strategy. It created a new committee of the board (the Venture Capital Investment Committee) to concentrate on venture capital activities.

The board also supervised the deployment of BDC's strategy with regards to entrepreneurs' use of information and communications technologies, developed at the request of the shareholder.

The legislative review of the BDC Act continued in fiscal 2012. The board led this project. A central concern was flexibility—that is, allowing BDC to offer the range of services that experts anticipate entrepreneurs will need in the complex, fast-changing global marketplace. An agreement in principle was reached to amend the Act, and Industry Canada started adapting the text of the draft legislation to reflect the government's recommendations.

Also to be noted is the board's work following the agility and efficiency (A&E) project to modernize BDC's business processes and adopt new business tools, as well as its approval of amendments to BDC's organizational structure to support its succession plan.

STATEMENT FROM THE BOARD OF DIRECTORS

We set BDC's strategic direction. We also hold BDC accountable by overseeing its activities to ensure it achieves its statutory mandate while respecting its statutory role, all in accordance with the highest standards of corporate governance.

Except for the president and CEO, we are all independent of management. None, except the president, is a BDC employee. We have first-hand experience in governance, finance, business management, entrepreneurship, risk management and human resources. Together, we have the required mix of skills and experience needed for our stewardship role.

Our core challenge is to manage the tension inherent in BDC's role. BDC's mandate is to support entrepreneurs—an inherently risky activity. We must support our shareholder by offering complementary services to stimulate economic activity and greater productivity. And in doing so, we must remain commercially viable.

Our principal guidelines are parliamentary statutes. The *Business Development Bank of Canada Act* sets out BDC's purpose, powers and duties. The *Financial Administration Act*, Part X, sets out the control and accountability regime for Crown corporations.

Like other Crown corporations, BDC is subject to other laws, such as the *Federal Accountability Act*, the *Privacy Act*, the *Access to Information Act*, the *Canadian Environmental Assessment Act* and the *Official Languages Act*, as well as numerous regulations.

Every year, Parliament receives a summary of BDC's annually updated five-year corporate plan, which has been approved by the board of directors, Treasury Board of Canada Secretariat and the Minister of Industry.

Also every year, Parliament receives BDC's annual report. This report contains financial statements that have been audited by both the Auditor General of Canada and an external audit firm.

The Auditor General of Canada, jointly with an external audit firm, also does a special examination of BDC at least once every 10 years. This examination is a performance audit. It goes beyond strictly financial issues to examine systems and practices related to economy, efficiency and effectiveness. In the most recent examination report (2009), the auditors favourably reviewed BDC, writing that it has "sound systems and practices in areas such as governance, strategic planning, human resources and financing activities."

At 10-year intervals, the Minister of Industry must have a review undertaken of the provisions and operation of the BDC Act, in consultation with the Minister of Finance. This process is currently happening.

We look to Treasury Board of Canada Secretariat, for guidance and expertise on public sector governance practices. BDC meets or exceeds all of the governance standards that Treasury Board recommends.

We also look to private sector organizations for best practices to emulate.

OUR DUTIES

Within the parameters set by Parliament and government, our duties are to:

- approve BDC's strategic direction and corporate plan to meet its public policy mandate and monitor progress;
- set performance targets and monitor progress;
- ensure that BDC is identifying and managing its risks;
- ensure the highest standards of corporate governance;
- establish compensation policies;
- review and approve management's succession plan, a task that includes approving appointments to the senior management team and evaluating the performance of the president and CEO;
- review BDC's internal controls and management information systems;
- oversee communications and public disclosure;
- oversee BDC's pension plans and establish its fund policies and practices;
- approve financing and investment activities beyond management's authority; and
- review the complementarity of BDC's market approach and activities.

CODES OF CONDUCT

The employee code of conduct, ethics and values affirms BDC's fundamental tenets: ethical behaviour, client connection, team spirit, accountability and work/life balance. The code applies to all employees. It sets out the principles that guide and shape our business activities: compliance with the law, trust, fairness, objectivity, integrity, and corporate social and individual responsibility.

The board code of conduct incorporates the same basic principles as the BDC employee code of conduct, ethics and values. Every year, we all affirm that we have complied with the code. The segregated roles and responsibilities of the chairman and the president, already documented, reflect current best practices. We declare possible conflicts of interest, if any.

We work very closely with senior managers but also meet regularly in camera, without their presence.

One of the board committees initially examines most of the work that comes before us. Written terms of reference codify each committee's mandate. These terms are available to the public at www.bdc.ca. We regularly review and revise the membership of these committees to ensure they reflect the strengths of the entire board.

All committee members are independent of management, with one exception: the president and CEO is a member of the Board Credit and Risk Committee and of the Venture Capital Investment Committee, which authorize larger transactions within certain limits. We have appropriately high levels of financial literacy, as well as the broader skills and competencies needed to oversee the management of a large financial organization.

We keep abreast of best practices and review the code of conduct, ethics and values regularly to improve our internal governance. The code includes the policy on personal trading for employees, the policy on disclosure of wrongdoing in the workplace, the anti-fraud directive, and the anti-money laundering and anti-terrorism financing directive.

If a member of Parliament, senator or director were to exert undue pressure in making a referral to a BDC employee, the BDC referral policy requires the employee to report this situation to senior management, which in turn informs the board of directors.

In this past year, we rotated committee memberships so that a greater number of committees could benefit from our varying kinds of expertise and experience. Also, reflecting best practices, the chair decided to separate the role of chair from the role of chair of the Governance and Nominating Committee. Now, different people fill these two roles. Also, membership in the Governance and Nominating Committee is no longer limited to chairs of other committees. We believe this greater sharing of authority is a better practice.

We worked with the shareholder to facilitate the re-appointment of Brian Hayward and John A. MacNaughton. We believe this continuity to be beneficial.

Finally, in fiscal 2012, in our oversight of the new venture capital strategy and with the goal of having management decision-making reflect private industry practices, we decided to delegate more to management. We created a new board committee, the Venture Capital Investment Committee. Under its terms of reference, the committee approves the business plans of internal venture capital funds, as well as their strategies and guardrails within which fund managers approve transactions. The board then approves capital allocations.

REORGANIZATION OF COMMITTEES

As stated above, to effectively deploy BDC's new strategy on venture capital and ensure that governance standards are adapted to this line of activity, the Venture Capital Investment Committee was created.

As a result, the committee previously responsible for overseeing all credit and investment activities, the Credit/Investment and Risk Committee, was replaced by the Board Credit and Risk Committee. This committee retains oversight of the Bank's lending activities and risk management strategy.

COMMITTEES

THE AUDIT COMMITTEE

CHAIR
Stan Bracken-Horrocks

NUMBER OF MEETINGS
5

MEMBERS
Brian Hayward
Jean Martel
Sarah Raiss
Thomas R. Spencer

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

> review and advise the board on annual financial statements before BDC discloses them to the public;
> review financial disclosures;
> review the adequacy and effectiveness of internal controls, and, in particular, major accounting and financial reporting systems;
> oversee BDC's standards of integrity and conduct;
> oversee the process for disclosing wrongdoing;
> give advice and recommendations about the appointments and terms of auditors and special examiners;
> review the terms of engagement of auditors and special examiners who report directly to the committee and are accountable to the board;
> review and advise the board on the audit of the annual financial statements, the scope of the special examination and the special examination report;
> consider the appointment and work of the internal auditor, who reports directly to the committee and administratively to the president and CEO; and
> review directors' and officers' expenses.

THE BOARD CREDIT AND RISK COMMITTEE

CHAIR
Thomas R. Spencer

NUMBER OF MEETINGS
16

MEMBERS
Eric Boyko
Stan Bracken-Horrocks
Jean-René Halde
Brian Hayward
Rick Perkins

This committee's main duties are to:

> identify and manage BDC's principal risks;
> regularly review the enterprise risk management policy and other policies and processes concerning credit risk, market risk, operational risk and other principal risks;
> review reports and indicators related to portfolio management, including indicators related to capital adequacy review and compliance, industry-specific studies, and portfolio management strategies;
> approve loans and transactions that exceed the delegated authorities of senior management; and
> review policies and guidelines related to the delegation of authority for all financial products except those of venture capital.

THE GOVERNANCE AND NOMINATING COMMITTEE

CHAIR
Jean Martel

NUMBER OF MEETINGS
5

MEMBERS
Stan Bracken-Horrocks
Sarah Raiss
Thomas R. Spencer
Rosemary Zigrossi

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

> continually review best practices and regulations related to governance in Canada and, if necessary, recommend changes to BDC's approach;

> annually review BDC's corporate governance policies, including the board code of conduct and the employee code of conduct, ethics and values;

> annually assess the board's compliance with these policies;

> regularly review the mandates, structures and memberships of the board and its committees;

> develop selection criteria for the president and CEO position;

> recommend candidates for the CEO position, as well as directors;

> review and annually approve the list of skills directors require;

> develop processes to assess the performance of the board, its committees and its individual members; and

> ensure that comprehensive director orientation and continuous training programs are in place.

THE HUMAN RESOURCES COMMITTEE

CHAIR
Sarah Raiss

NUMBER OF MEETINGS
7

MEMBERS
Sue Fawcett
Jean Martel
Rosemary Zigrossi

This committee fulfills its duties by:

> assessing the "tone at the top" established by senior management with respect to integrity and ethics;

> overseeing the human resources strategy to ensure it is aligned with the corporate plan;

> reviewing—and, if appropriate, recommending to the board for approval—the CEO's recommendations for appointments of senior management committee members, the chief audit executive and the ombudsman, as well as any CEO proposal for major changes to the organization's structure;

> assessing the CEO's objectives and performance;

> reviewing compensation for senior executives;

> reviewing and approving the design of compensation programs and payments;

> approving performance measures and metrics;

> receiving and examining actuarial evaluation reports and financial statements related to BDC pension plans, as well as recommending funding contributions; and

> ensuring there is a valid succession plan in place.

THE PENSION FUNDS INVESTMENT COMMITTEE

CHAIR
Rosemary Zigrossi

NUMBER OF MEETINGS
4

MEMBERS
Sue Fawcett
Prashant Pathak
Rick Perkins
Alan Marquis (representative for retirees)

This committee's main duties are to:

> monitor, and advise the board on, all matters related to the investment of the funds' assets;

> recommend asset allocation and investment policies and strategies;

> ensure that investments comply with established policies;

> recommend to the board the appointment, termination and replacement of external investment managers; and

> monitor the performance of these managers.

SPECIAL COMMITTEE FOR THE LEGISLATIVE REVIEW

CHAIR
Brian Hayward

NUMBER OF MEETINGS
2

MEMBERS
Jean Martel
Prashant Pathak
Rick Perkins

This committee's duties are to:

> advise and guide management during the legislative review process;

> advise and guide the board on any proposed changes to the BDC Act;

> review the stakeholder communications plan for the review, as well as its implementation; and

> report regularly to the board—and take recommendations to and advice from the board—about the reviews and oversee management's implementation of same.

VENTURE CAPITAL INVESTMENT COMMITTEE

CHAIR
Prashant Pathak

NUMBER OF MEETINGS
19

MEMBERS
Eric Boyko
Sue Fawcett
Jean-René Halde
Rosemary Zigrossi

This committee's duties are to:

> regularly review the venture capital investment policy, and other policies and processes for venture capital activities and related risks;
> approve the business plan of the three venture capital internal funds, as well as investment strategies and guardrails;
> review strategic initiatives aimed at improving the venture capital ecosystem;
> review and recommend capital allocations for the internal funds;
> review and recommend delegations of authority;
> monitor portfolio performance; and
> approve investments that exceed the delegated authorities of senior management.

For the mandates of the board committees, please see www.bdc.ca.

BOARD AND BOARD COMMITTEE MEETINGS AND ATTENDANCE

	Board		Audit		CIRC(3)		BCRC(3)		VCIC(3)		Governance		Human Resources		Pension Funds Investment				
Directors	Attendance	Total	Attendance	Total	Attendance	Total	Attendance	Total	Attendance	Total	Attendance	Total	Attendance	Total	Attendance	Total	Total Attendance	Total Meetings	Percentage
E. Boyko	10	11	2	2	5	6	8	16	14	19	–	–	–	–	–	–	39	54	72.22%
S. Bracken-Horrocks	9	11	4	5	5	6	14	16	–	–	4	5	–	–	–	–	36	43	83.72%
S. Fawcett	11	11	–	–	–	–	–	–	18	19	–	–	7	7	4	4	40	41	97.56%
B. Hayward	11	11	5	5	–	–	15	16	–	–	–	–	–	–	–	–	31	32	96.88%
J. A. MacNaughton(1)	11	11	–	–	–	–	–	–	–	–	2	2	–	–	–	–	13	13	100.00%
J. Martel	10	11	3	5	–	–	–	–	–	–	2	3	5	7	–	–	20	26	76.92%
P. Pathak	10	11	–	–	6	6	–	–	18	19	–	–	–	–	4	4	38	40	95.00%
R. Perkins	11	11	–	–	–	–	15	16	–	–	–	–	–	–	4	4	30	31	96.77%
S. Raiss	11	11	5	5	–	–	–	–	–	–	4	5	7	7	–	–	27	28	96.43%
T. Spencer	11	11	5	5	5	6	15	16	–	–	5	5	–	–	–	–	41	43	95.35%
R. Zigrossi	11	11	–	–	4	6	–	–	17	19	5	5	5	5	4	4	46	50	92.00%
J.-R. Halde(2)	11	11	–	–	2	6	11	16	19	19	–	–	–	–	–	–	43	52	82.69%

(1) As chairman of the board, Mr. MacNaugton is an ex officio member of all of the committees (except for the period of April 1 to June 8, 2012, when he was chair of the Governance and Nominating Committee), which he attends regularly, rotating committees as appropriate.

(2) As president and CEO, Mr. Halde may attend the meeting of any committee of which where he is not a member and he attends those committees regularly, rotating them as appropriate.

(3) The Credit/Investment and Risk Committee was dissolved on June 8, 2011, and replaced by the Board Credit and Risk Committee and the Venture Capital Investment Committee.

Note that in order to capitalize on the broad spectrum of the committee members' knowledge, the composition of committees was revised on June 8, 2011.

BOARD OF DIRECTORS

(March 31, 2012)

JOHN A. MACNAUGHTON
Chairman of the Board
BDC
Toronto, Ontario

John A. MacNaughton joined the BDC board of directors as chairman in 2007 and was re-appointed in 2010.

Mr. MacNaughton has experience in the financial and public sectors.

From 1999 to 2005, he served as the founding president and CEO of the Canada Pension Plan Investment Board. Previously, he spent 31 years with Nesbitt Burns Inc. (the investment banking arm of the Bank of Montreal) and its predecessor companies, serving as president of Burns Fry and then Nesbitt Burns from 1989 to 1999.

Mr. MacNaughton has served on the boards of many private, public and not-for-profit organizations. Presently, he is a director of TransCanada Corporation, trustee of the University Health Network, director of the Ontario Arts Foundation and North American member of the Trilateral Commission.

He is also a member of the Order of Canada and member of the Prime Minister's Advisory Committee on the Public Service.

He has previously served as director, Nortel Networks Corporation; chairman, CNSX Markets Inc.; chairman, Princess Margaret Hospital Foundation; chairman, Investment Dealers Association of Canada; and vice president and director, the Canadian Stage Company.

Mr. MacNaughton holds a Bachelor of Arts in Economics from the University of Western Ontario (Huron College). In 2007 he was awarded Huron's Medal of Distinction. He is a fellow of the Institute of Corporate Directors.

As chairman of the board, Mr. MacNaughton is an ex officio member of all the committees.

JEAN-RENÉ HALDE
President and
Chief Executive Officer
BDC
Montreal, Quebec

Jean-René Halde joined BDC as president and CEO in 2005 and was re-appointed in 2010 for a term of five years.

Mr. Halde had more than 30 years of management and entrepreneurial experience before joining BDC. He held CEO positions at leading companies, including Metro-Richelieu Inc., Culinar Inc. and Livingston Group Inc.

He presently serves as vice chairman of the Conference Board of Canada, director of the Montreal General Hospital Foundation and director of the Quebec Chapter of the Institute of Corporate Directors.

Mr. Halde previously served as a director in a number of for-profit companies, including CCL Industries Inc., Gaz Metropolitain Inc., Groupe Vidéotron Ltée and Provigo Inc.; he also served on numerous non-profit organizations and acted as chairman of the Montreal Heart Institute, the Grocery Products Manufacturers of Canada and the Association des MBA du Québec.

Mr. Halde holds a Master of Arts in Economics from the University of Western Ontario and an MBA from Harvard Business School. He also holds the corporate director (ICD.D) designation from the Institute of Corporate Directors.

Member of the Board Credit and Risk Committee and member of the Venture Capital Investment Committee.

ERIC BOYKO
President
Stingray Digital Inc.
Montreal, Quebec

Eric Boyko joined the BDC board of directors in 2007 and was re-appointed in 2011.

An entrepreneur with nearly two decades of experience with start-ups, Mr. Boyko has extensive expertise in early-stage business innovations.

He is president and CEO of Stingray Digital Inc., the world-leading supplier of advanced music services for television service operators. Stingray Digital develops, programs and delivers compelling music products to more than 60 million homes in over 45 countries.

Previously, Mr. Boyko founded and was president of eFundraising.com Corporation, which became a leading player in the North American fundraising industry. In 2006, he was named one of Canada's Top 40 Under 40.

Mr. Boyko is also a board member of the Montreal Development Program, the Young Presidents' Organization (YPO), the Montreal Economic Institute and the Société de développement économique Ville-Marie (SDEVM). He sits on the board of the Angel Investors of the Junior Chamber of Commerce of Montreal (JCCM).

A graduate with great distinction of McGill University, he holds a Bachelor of Commerce, with a specialization in accounting and entrepreneurship. Mr. Boyko became a certified general accountant (CGA) in 1997.

Member of the Board Credit and Risk Committee and member of the Venture Capital Investment Committee.

STAN E. BRACKEN-HORROCKS
Corporate Director
Kelowna, British Columbia

Stan Bracken-Horrocks joined the BDC board of directors in 2005 and was re-appointed in 2008.

Mr. Bracken-Horrocks brings broad expertise with boards of directors of public companies and their audit and finance committees.

He is a retired partner of PricewaterhouseCoopers LLP. He held various leadership positions during his career with the firm, including global leader of its Forest and Paper Industry Practice. Mr. Bracken-Horrocks acquired extensive experience in financial reporting, security offerings, prospectuses, debt instruments and trust indentures, and corporate governance matters.

Mr. Bracken-Horrocks is a director of Canfor Pulp Products Inc. and chairman of its audit committee.

As a member of the Canadian Institute of Chartered Accountants, he served as a member of the board of governors and a member of its accounting standards committee. As a member of the Institute of Chartered Accountants of British Columbia, he served as a member of council, vice president and president.

Mr. Bracken-Horrocks studied at the University of British Columbia and holds the chartered accountant (CA) designation. He is also a fellow of the Institute of Chartered Accountants of British Columbia.

Chair of the Audit Committee, member of the Board Credit and Risk Committee, and member of the Governance and Nominating Committee.

SUE FAWCETT
President
Fawcett Financial Inc.
Calgary, Alberta

Sue Fawcett joined the BDC board of directors in 2008.

Ms. Fawcett has more than 25 years of experience in the financial industry in Canada and Asia (Singapore).

She is president of Fawcett Financial Inc., a private firm that works closely with angel investors and provides strategic advice to early-stage companies.

Previously a vice president and advisor with CIBC Wood Gundy, Ms. Fawcett is an associate of Independent Review Inc., advising Canada's prominent investment fund companies on governance issues pertaining to the setting up and running of independent review committees.

Ms. Fawcett sits on the board of the Alberta Economic Development Authority, which provides recommendations and long-term strategic advice on key economic issues to the premier and cabinet.

Ms. Fawcett has previously served on the boards of the Ottawa-Carleton Economic Development Corporation, the Riverside Hospital Foundation and the Ottawa Ballet.

She holds a Bachelor of Commerce from the University of Calgary and the corporate director (ICD.D) designation from the Institute of Corporate Directors. Ms. Fawcett is also a chartered financial analyst (CFA).

Member of the Human Resources Committee, member of the Pension Funds Investment Committee and member of the Venture Capital Investment Committee.

BRIAN HAYWARD
President
Aldare Resources
Winnipeg, Manitoba

Brian Hayward joined the BDC board of directors in 2008 and was re-appointed in 2011.

Mr. Hayward has over 16 years of experience as a chief executive officer in large Canadian companies. He is an accomplished senior executive with a proven track record in driving large-scale financial and cultural change to build organizational effectiveness and profitable growth.

He is president of Aldare Resources, a business consultancy that provides business advisory and governance services.

From 2001 until 2007, Mr. Hayward was CEO of Agricore United, one of the largest agribusinesses in Canada, exporting to over 50 countries and generating annual sales of about $4 billion.

Before that, he was CEO of United Grain Growers, the second-largest agribusiness in Western Canada. In this position, he successfully negotiated on behalf of his company the merger that led to the creation of Agricore United.

Mr. Hayward has extensive board experience, serving on public and private company boards, including Glacier Media Inc., Ridley Inc. and MBAC Fertilizer Inc. He has also provided leadership to a number of non-profit organizations, including the Royal Winnipeg Ballet, the Conference Board of Canada and the Arthritis Society.

Mr. Hayward has a Master of Agricultural Economics degree from McGill University. He also holds the chartered director (C.Dir.) designation from the Directors College of McMaster University's DeGroote School of Business.

Member of the Audit Committee and member of the Board Credit and Risk Committee.

JEAN MARTEL
Lawyer
Lavery L.L.P.
Montreal, Quebec

Jean Martel joined the BDC board of directors in 2006 and was re-appointed in 2010. Mr. Martel is a partner at Lavery, the largest regional Quebec-based law firm, where he has been practising since 1999.

He has extensive experience in regulatory policy and the law-making process involving financial institutions and capital markets, as well as financial law.

From 1995 to 1999, Mr. Martel was chairman and chief executive officer of the Quebec Securities Commission, then the province's securities regulator. During this time, he sat on the technical committee of the International Organization of Securities Commissions (IOSCO), an international body promoting regulatory cooperation and financial stability. Prior to that, as assistant deputy minister of finance for Quebec and deputy minister responsible for the financial sector, he had overall responsibility for financial sector policy in the province.

Mr. Martel serves on the board of directors of TMX Group Inc., which operates the Toronto Stock Exchange, the Montreal Exchange and the TSX Ventures Exchange (the Canadian market for small and medium-sized companies). He chairs the rules and policies committee of the Montreal Exchange and the independent review committee of the Quebec Bar Investment Funds.

He is a former member of the board of the Investment Dealers Association of Canada and of State Street Global Advisors, Ltd., a prime institutional investment advisor in Canada.

A graduate of the Faculty of Law of l'Université Laval, he was admitted to the Quebec Bar in 1976.

Chair of the Governance and Nominating Committee, member of the Audit Committee and member of the Human Resources Committee.

PRASHANT PATHAK
Managing Partner
ReichmannHauer
Capital Partners
Toronto, Ontario

Prashant Pathak joined the BDC board of directors in 2008.

Mr. Pathak has extensive international management and operational experience, having worked in Europe, the Middle East, Southeast Asia and North Asia.

He is managing partner of ReichmannHauer Capital Partners, a private investment firm, where he is focused on addressing all strategic, financial, operational and organizational aspects of investments to drive superior returns. In 2008, he was named one of Canada's Top 40 Under 40.

Previously, he was a partner at McKinsey & Company Inc. where, for six years, he advised executives of global corporations.

Before joining McKinsey, he held several management and operational positions in the energy services industry at Halliburton and Schlumberger.

Mr. Pathak sits on the board of the North York General Hospital and is a member of the Young Presidents' Organization (YPO). In his role as senior adviser to Project Beyshick, he supports a program for driving entrepreneurship among First Nations youth.

He was a charter member of TiE, the world's largest non-profit network dedicated to the advancement of entrepreneurship.

Mr. Pathak holds an MBA with distinction from INSEAD, and a Bachelor of Technology in Electrical Engineering and a diploma in fuzzy logic from the Indian Institute of Technology (IIT).

Chair of the Venture Capital Investment Committee and member of the Pension Funds Investment Committee.

RICK PERKINS
Vice President,
Business Development
and Communications
Nova Scotia Liquor
Corporation
Halifax, Nova Scotia

Rick Perkins joined the BDC board of directors in 2008.

Mr. Perkins has over two decades of experience in strategic marketing, communications and public affairs positions in both the public and private sectors.

He is the Nova Scotia Liquor Corporation's vice president of business development and communications.

Mr. Perkins was a co-founder of Genoa Management Inc., a Toronto-based capital markets counsel firm, specializing in strategic investor relations for small and mid-cap companies.

Before this, he worked with Newcourt Credit Group Inc., the Canadian Imperial Bank of Commerce (CIBC), and the Government of Canada's Department of Finance and Department of Foreign Affairs and International Trade. At CIBC, he was a member of the business team that created and introduced the Job Creation Loan Fund, the first initiative in Canada linking small business credit with job creation.

Mr. Perkins sits on the board of the Nova Scotia Hearing and Speech Foundation. He is also a member of the council for chief marketing executives committee of the Conference Board of Canada.

He studied Political Science and Economics at the University of Toronto. He holds an MBA from the Sobey School of Business, Saint Mary's University, and has been inducted into the latter's Hall of Academic Excellence.

Member of the Board Credit and Risk Committee and member of the Pension Funds Investment Committee.

SARAH RAISS
Corporate Director
Calgary, Alberta

Sarah Raiss joined the BDC board of directors in 2008.

Ms. Raiss has almost 30 years of experience in Canada and the U.S. in human resources management, compensation, strategy, engineering and operations.

From 1999 until 2011, she was with TransCanada Corporation, where she most recently was executive vice president of corporate services.

Previously, Ms. Raiss was president of S.E. Raiss Group Inc., a consulting firm providing culture change, merger integration and performance improvement advice to Fortune 500 companies.

She was named one of the Top 100 Most Powerful Women in Canada for four consecutive years (2003-2006) and to the Hall of Fame in 2007.

Ms. Raiss is a board member of Canadian Oil Sands, Shoppers Drug Mart and Commercial Metals Company, a large publicly traded U.S. company. She is the incoming president of the board of governors of the Calgary Petroleum Club and the Calgary chapter chair of the Institute of Corporate Directors (ICD).

She has previously provided leadership to Harvard University's Women's Leadership Board and to the board of directors of the Energy Council of Canada. She has also been a member of the Advisory Council on Executive Compensation and Retention for the Treasury Board of Canada.

Ms. Raiss has a Bachelor of Science in Applied Mathematics and an MBA from the University of Michigan. She holds the corporate director (ICD.D) designation from the Institute of Corporate Directors. She has attended Wharton University for "Creating Value Through Finance" and Harvard University for "Making Boards More Effective."

Chair of the Human Resources Committee, member of the Audit Committee and member of the Governance and Nominating Committee.

THOMAS R. SPENCER
Corporate Director
Toronto, Ontario

Thomas R. Spencer joined the BDC board of directors in 2008.

With almost 30 years of experience in the financial services industry, Mr. Spencer has a comprehensive understanding of risk management, corporate governance and private market investing.

He is retired from TD Bank Financial Group, where he held various positions, including vice chair, risk management; executive vice president, risk management; senior vice president, risk management policy group; senior vice president, corporate and investment banking; and vice president, merchant banking services.

From 1998 to 2003, he was chief risk officer of TD Bank Financial Group.

Mr. Spencer is a trustee of the Data Group Income Fund and a director of Equity Financial Holdings Inc., and sits on the Advisory Board for Kruger Inc. He is a member of the Northleaf Capital Partners Advisory Committee. Mr. Spencer has previously served on the board of the Jim Pattison Group.

Mr. Spencer holds an MBA and a Bachelor of Arts in Economics from York University and the corporate director (ICD.D) designation from the Institute of Corporate Directors.

Chair of the Board Credit and Risk Committee, member of the Audit Committee and member of the Governance and Nominating Committee.

ROSEMARY ZIGROSSI
Director
Promontory Financial Group
Toronto, Ontario

Rosemary Zigrossi joined the BDC board of directors in 2008.

Ms. Zigrossi has almost 30 years of experience in the financial sector, both in investments and in financial reporting and analysis at leading Canadian organizations.

Ms. Zigrossi is currently a director with Promontory Financial Group, LLC, a consulting firm for global financial services companies.

Previously, she was with the Ontario Teachers' Pension Plan, the largest single-profession pension plan in Canada. Over the course of 19 years, she held various positions, including vice president, asset mix and risk; vice president, venture capital (a program she initiated); and controller. Before that, Ms. Zigrossi was with J.P. Morgan Bank of Canada and KPMG.

She currently serves on the board of governors of Trent University and the board of trustees of the McMichael Canadian Art Collection. She is also a member of the Council of Canadian Academies Expert Panel on the State of Industrial Research and Development in Canada and a member of the investment committee of Sustainable Development Technology Canada.

Ms. Zigrossi is a former member of the board of the Canadian Venture Capital Association. She has also served as a member of the board and chairman of a number of start-up companies.

Ms. Zigrossi is a chartered accountant (CA) and a chartered financial analyst (CFA), and holds the corporate director (ICD.D) designation from the Institute of Corporate Directors. She earned a Bachelor of Commerce from the University of Toronto and has completed the Harvard Business School program for management development.

Chair of the Pensions Funds Investment Committee, member of the Venture Capital Investment Committee, member of the Human Resources Committee and member of the Governance and Nominating Committee.

SENIOR MANAGEMENT TEAM

(Membership as announced in late fiscal 2012, and effective April 1, 2012)

JEAN-RENÉ HALDE
President and Chief
Executive Officer

Jean-René Halde joined BDC as president and CEO in 2005 and was re-appointed in 2010 for a term of five years.

Mr. Halde had more than 30 years of management and entrepreneurial experience before joining BDC. He held CEO positions at leading companies, including Metro-Richelieu Inc., Culinar Inc. and Livingston Group Inc.

He presently serves as vice chairman of the Conference Board of Canada, director of the Montreal General Hospital Foundation and director of the Quebec Chapter of the Institute of Corporate Directors.

Mr. Halde previously served as a director in a number of for-profit companies, including CCL Industries Inc., Gaz Metropolitain Inc., Groupe Vidéotron Ltée and Provigo Inc.; he also served on numerous non-profit organizations and acted as chairman of the Montreal Heart Institute, the Grocery Products Manufacturers of Canada and the Association des MBA du Québec.

Mr. Halde holds a Master of Arts in Economics from the University of Western Ontario and an MBA from Harvard Business School. He also holds the corporate director (ICD.D) designation from the Institute of Corporate Directors.

PAUL BURON
Executive Vice President and
Chief Financial Officer
Interim Executive Vice
President, Financing and
Consulting

Paul Buron was appointed executive vice president and chief financial officer in 2006.

He is responsible for finance, risk management, treasury and securitization.

In the fall of 2011, Mr. Buron was also appointed interim executive vice president, financing and consulting. In this role, he is responsible for consulting, financing, corporate financing, global expansion and operations support.

Mr. Buron has over 30 years of experience in finance. Before joining BDC, he held leadership positions in major corporations such as Société générale de financement du Québec, Donohue Inc. and the TVA Group Inc., where he assumed responsibility for television operations and regional stations in addition to his role as senior vice president and chief financial officer.

He holds a Bachelor of Business Administration from HEC Montréal and is a member of the Ordre des comptables agréés du Québec.

PAUL KIRKCONNELL
Executive Vice President,
Venture Capital

Paul Kirkconnell was appointed executive vice president, venture capital in 2011.

He leads all of BDC's venture capital activities, including direct and indirect venture capital investments in technology-based businesses and strategic initiatives to stimulate Canada's venture capital environment. BDC has approximately $1 billion in current and planned investments.

Mr. Kirkconnell has over 25 years of experience in investments, business development, corporate strategy and consulting gained in Canada, the U.S. and Europe.

Prior to joining BDC, he owned P-A-K Limited, providing strategy, financing and corporate development advice to emerging companies and their investors. From 2005 to 2007, he was managing director of DRI Capital, a privately held investment management company with US$1 billion under management. Before this, he established Aventis Capital, which had over US$750 million under management.

He is a member of the board of directors of Canada's Venture Capital and Private Equity Association, of the Advisory Council of the Ivey International Centre for Health Innovation at the University of Western Ontario, and of Osteoporosis Canada.

Mr. Kirkconnell holds an MBA from the Richard Ivey School of Business at the University of Western Ontario and a Bachelor of Arts from the University of Toronto.

CHANTAL BELZILE
Senior Vice President and
Chief Information Officer

Chantal Belzile was appointed senior vice president and chief information officer in 2012.

In this role, she has overall responsibility for developing and implementing the Bank's information technology strategy and services. This includes information security and compliance, IT operations, planning and architecture, corporate project portfolio management, and solutions delivery.

Ms. Belzile has over 25 years of experience in technology and project management roles within large companies, and joined BDC in 2007 as vice president, information technology.

Before this, she held various senior management positions at Air Canada, where she was responsible for aircanada.com and was involved in key initiatives, including the company's merger with Canadian Airlines and the implementation of Six Sigma.

She began her career working for a major information technology consulting firm, where she had the opportunity to learn about various industries.

Ms. Belzile holds a Bachelor of Computer Science from the University of New Brunswick and a Master of Science from Queen's University.

MICHEL BERGERON
Senior Vice President,
Marketing and Public Affairs

Michel Bergeron was appointed senior vice president, marketing and public affairs in 2012.

He oversees branding and advertising, economic analysis, internal and external communications, marketing, public and media relations, research, strategic alliances and partnerships, and web strategy.

Mr. Bergeron has over 20 years of private, public and parapublic experience, dealing with financial sector issues, strategic planning, communication, branding and international trade matters.

He joined BDC in 1999 and held a variety of field and corporate positions during his career with the Bank, including senior manager, loans; director, corporate planning; director, strategic and business solutions; and vice president, corporate relations.

Mr. Bergeron began his career in the federal government, where he worked in international trade negotiations for the Department of Finance.

He is a board member of the Canadian Youth Business Foundation (CYBF) and of IC^2 Technologies.

Mr. Bergeron holds law degrees from l'Université Laval and Dalhousie University, and a Master of International Relations from l'Université Laval.

MARY KARAMANOS
Senior Vice President,
Human Resources

Mary Karamanos was appointed senior vice president, human resources in 2004.

In this role, she works closely with other members of the senior management team and is responsible for the development and implementation of BDC's human capital strategies, including talent management and leadership development.

Over a 25-year career in business, she has acquired extensive experience in strategic human resources in both entrepreneurial companies and large global organizations in the retail, consumer goods and financial sectors.

Ms. Karamanos joined BDC in October 2002 as vice president, human resources. Prior to this, she held executive positions at Corby Distilleries in Montreal and Toronto, and Allied Domecq, Spirits and Wine in Westport, Connecticut.

A native of Montreal, she is a graduate of McGill University and holds a Bachelor of Arts in Industrial Relations and a certified compensation professional (CCP) designation from World at Work. She is active in the community and supports children's charities.

JÉRÔME NYCZ
Senior Vice President,
Corporate Strategy and
Subordinate Financing

Jérôme Nycz was appointed senior vice president, corporate strategy and subordinate financing in 2012.

He is responsible for corporate strategy and initiatives, shareholder relations, the five-year corporate plan, and the subordinate financing group.

Mr. Nycz has over 20 years of experience in the financial and public sectors.

Prior to his current role, Mr. Nycz was senior vice president, strategy and corporate development. His responsibilities included enterprise risk management, knowledge management and economic analysis.

Since joining BDC in 2002, he has held a variety of positions, including interim executive vice president, venture capital.

Previously, he worked in the federal government, notably as senior economist and policy advisor at the Department of Finance, Industry Canada and National Defence. He also worked at Export Development Canada and as an investment officer at the Canadian Consulate in Boston.

Mr. Nycz is a member of the board of CIRANO and the advisory board for international competitiveness of the Desautels Faculty of Management of McGill University. He is also a member of the OECD Steering Group of SME and Entrepreneurship Financing.

He holds a Bachelor of Arts in Economics and Political Science from Concordia University and an IMBA from Hartford University.

LOUISE PARADIS
Senior Vice President,
Legal Affairs and
Corporate Secretary

Louise Paradis was appointed senior vice president, legal affairs and corporate secretary in 2006.

She provides legal support to all business units, as well as the board of directors, and is responsible for developing and implementing strategies on records management.

Over a 35-year career in the financial sector, Ms. Paradis has acquired extensive experience in legal, administration and compliance matters, as well as human resources, finance and operations.

Ms. Paradis began her career at BDC as legal counsel in 1976 and re-joined BDC in 2004 as vice president, legal affairs and corporate secretary. Previously, she was responsible for legal affairs, human resources, the corporate secretariat and administration at the Canadian office of Société Générale, and was director of operations at Société Générale for two years.

Ms. Paradis holds a Licence in Law from McGill University and is a member of the Barreau du Québec.

FIVE-YEAR OPERATIONAL AND FINANCIAL SUMMARY

for the years ended March 31 ($ in thousands of Canadian dollars)

Operational statistics	**2012**	2011	2010	2009	2008
BDC Financing					
Committed to clients					
as at March 31					
Amount	**16,956,675**	15,913,193	14,783,510	12,176,290	10,951,760
Number of clients	**27,582**	27,989	28,331	27,617	27,418
Acceptances					
Amount	**3,623,075**	3,244,713	4,343,068	2,831,534	2,906,667
Number	**6,926**	9,795	8,014	7,749	9,143
BDC Subordinate Financing					
(includes both BDC and Caisse portion)(1)					
Committed to clients					
as at March 31					
Amount	**498,670**	414,394	380,680	349,905	331,147
Number of clients	**385**	352	348	354	341
Acceptances					
Amount	**163,775**	106,451	97,705	92,688	97,320
Number	**137**	97	68	92	107
BDC Venture Capital(2)					
Committed to clients					
as at March 31					
Amount	**735,454**	726,431	734,932	804,665	749,107
Number of clients	**103**	104	118	159	173
Authorizations					
Amount	**126,751**	99,377	84,591	137,385	130,484
Number	**45**	45	43	55	87
BDC Consulting					
Number of mandates	**2,236**	2,300	2,504	2,720	2,770
BDC Securitization					
Amount committed to clients as at March 31	**1,110,024**	3,193,441	3,575,327	–	–
Amount authorized	**290,000**	150,000	3,653,740	–	–

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

(1) Excludes amounts that are not under BDC's management.

(2) For BDC Venture Capital commitment to clients, please see Note 12—*Venture Capital Investments* and Note 26—*Commitments* to the Consolidated Financial Statements. Data prior to fiscal 2011 are reported based on Canadian GAAP.

(in thousands of Canadian dollars)

Financial information	2012	2011	2010	2009	2008
	IFRS		Canadian GAAP		
Net Income and Comprehensive Income – by Business Segments[1]					
for the years ended March 31					
Financing	**504,736**	305,603	76,232	194,028	160,878
Subordinate Financing	**36,212**	20,400	10,214	6,760	11,007
Venture Capital	**(42,640)**	(20,765)	(74,137)	(106,291)	(82,801)
Consulting	**(11,020)**	(8,883)	(4,645)	(2,930)	(4,521)
Securitization	**46,159**	70,166	(1,605)	(1,000)	–
Net income	**533,447**	366,521	6,059	90,567	84,563
Net income attributable to:					
BDC's shareholder	**520,335**	360,292	6,059	90,567	84,563
Non-controlling interests	**13,112**	6,229	n/a	n/a	n/a
Net income	**533,447**	366,521	6,059	90,567	84,563
Other comprehensive income (loss)[2]	**(152,486)**	58,317	5,710	(2,249)	(301)
Total comprehensive income	**380,961**	424,838	11,769	88,318	84,262
Total comprehensive income attributable to:					
BDC's shareholder	**367,849**	418,609	11,769	88,318	84,262
Non-controlling interests	**13,112**	6,229	n/a	n/a	n/a
Total comprehensive income	**380,961**	424,838	11,769	88,318	84,262
Financial Position information					
as at March 31					
Asset-backed securities[3]	**763,200**	3,068,949	3,277,291	n/a	n/a
Loans, net of allowance for credit losses	**14,739,271**	13,731,011	12,525,521	10,452,173	9,481,449
Subordinate financing investments	**457,369**	387,091	193,203	155,070	156,158
Venture capital investments	**358,951**	413,782	362,270	441,631	475,985
Total assets	**17,219,882**	18,399,578	17,679,927	12,090,911	11,423,566
Total liabilities	**13,594,621**	14,639,731	14,036,911	9,901,347	9,556,249
Total equity attributable to:					
BDC's shareholder	**3,509,980**	3,613,202	3,643,016	2,189,564	1,867,317
Non-controlling interests	**115,281**	146,645	n/a	n/a	n/a
Total equity	**3,625,261**	3,759,847	3,643,016	2,189,564	1,867,317

(1) For detailed information on fiscal 2012 and fiscal 2011 segmented information under IFRS, please also refer to Note 24—*Segmented Information* to the Consolidated Financial Statements.
(2) For detailed information on fiscal 2012 and 2011 Other comprehensive income, please refer to Consolidated Statement of Comprehensive Income (p. 72).
(3) The fiscal 2010 amount has been restated to include accrued interest.

TERMINOLOGY CORRESPONDENCE TABLE

CANADIAN GAAP	IFRS
Accrued benefit asset	Post-employment benefit asset
Accrued benefit liability	Post-employment benefit liability
Consolidated Balance Sheet	Consolidated Statement of Financial Position
General allowance	Collective allowance
Provision for credit losses	Impairment losses on loans
Specific allowance	Individual allowance

GLOSSARY

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

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

ASSET-BACKED SECURITIES
Securities created through the securitization of a pool of assets. For example, BDC's securitization contains Canadian AAA-rated term securities backed by loans and leases on vehicles and equipment, as well as dealer floor plan loans.

AUTHORIZATION
The point at which BDC has completed its due diligence and approved the financing request or venture capital investment. Authorization precedes acceptance. (Information on authorizations disclosed in this report is net of cancellations or reductions after BDC authorization.)

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

CONSULTING REVENUE
Fees from services provided by BDC's national network of consultants to assess, plan and implement management solutions.

CROSS-CURRENCY SWAPS
Agreements to exchange payments in different currencies over pre-determined periods of time.

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

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

DIRECT INVESTMENTS
Investments BDC makes directly in investee companies.

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

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

HEDGING
A risk management technique used to insulate financial results from market, interest rate or foreign currency exchange risk (exposure) arising from normal banking operations.

IMPAIRED LOANS
Loans where, in management's opinion, credit quality has deteriorated so much that there is no longer reasonable assurance that BDC can collect the full amount of principal and interest on time.

IMPAIRMENT LOSSES ON LOANS
A charge to income that represents an amount that management deems adequate to fully provide for impairment in the existing loan portfolios, given the composition of the loan portfolios, the probability of default on the loans, the economic environment and the allowance for credit losses already established.

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

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

LOSS ON INITIAL RECOGNITION
Represents the difference between the fair value of a financial instrument and its cost at the time of purchase. Loss on initial recognition is recognized in net income at the time of purchase and subsequently amortized through interest income over the life of the financial instrument, using the effective interest rate method.

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

NET CHANGE IN UNREALIZED APPRECIATION OR DEPRECIATION OF INVESTMENTS
Amount included in income resulting from movements in the fair value of investments for the period.

NET INTEREST INCOME
The difference between interest revenues generated by interest-bearing portfolios, as well as cash equivalents and securities, and the cost of borrowings to fund these assets.

NET REALIZED GAINS OR LOSSES ON INVESTMENTS
Gains realized, net of realized capital losses, upon sale or write-off of investments, excluding the net change in unrealized appreciation or depreciation of venture capital and subordinate financing investments.

NET REALIZED GAINS OR LOSSES ON OTHER FINANCIAL INSTRUMENTS
Amounts that are related to structured notes and their associated derivatives. Realized gains or losses occur when financial instruments are repurchased prior to maturity at a price higher or lower than the original purchase price.

NET UNREALIZED GAINS OR LOSSES ON OTHER FINANCIAL INSTRUMENTS
Amounts that are related to structured notes and their associated derivatives. These represent the amounts included in income resulting from movements in the fair value of financial instruments for the period.

NON-CONTROLLING INTEREST
The equity in a subsidiary not attributable, directly or indirectly, to BDC.

PERFORMING PORTFOLIO
Loans for which there is reasonable assurance that BDC can collect the principal and interest on time.

RETURN ON COMMON EQUITY (ROE)
Net income, less preferred share dividends, expressed as a percentage of average common equity. It excludes other comprehensive income or loss on post-employment benefits, accumulated other comprehensive income or loss, and non-controlling interest.

START-UP
A business that is being established for the first time. Also included in this category are existing enterprises that have not yet registered 12 consecutive months of sales.

SUBORDINATE FINANCING
A hybrid instrument that brings together some features of both debt financing and equity financing.

Ce document est aussi disponible en français.

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