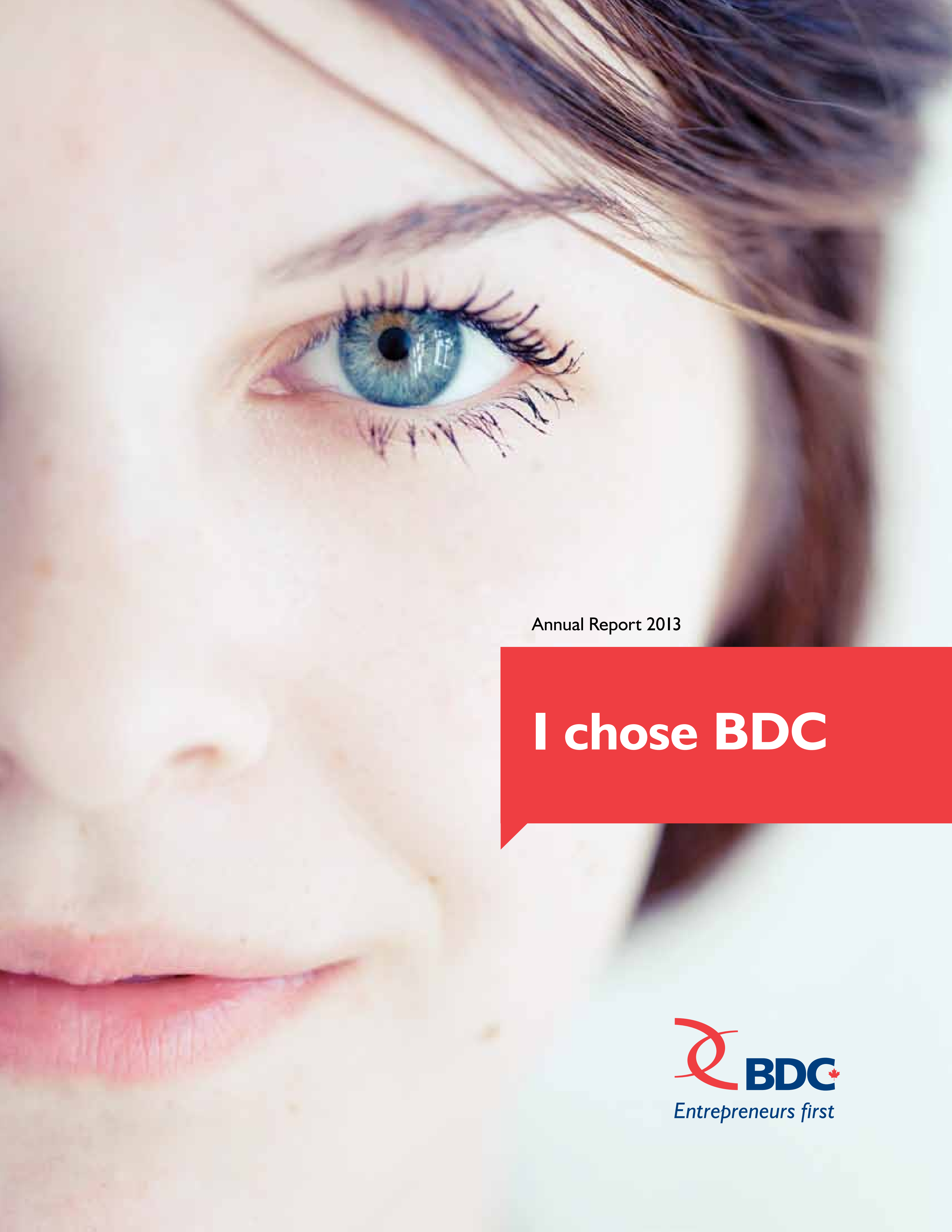


Annual Report 2013

I chose BDC

BDC

Entrepreneurs first

12 Interview With the Acting Chair
14 Interview With the President and CEO
31 Management's Discussion and Analysis
69 Consolidated Financial Statements
129 Corporate Governance
143 Additional Information

BDC is the only bank dedicated exclusively to entrepreneurs.

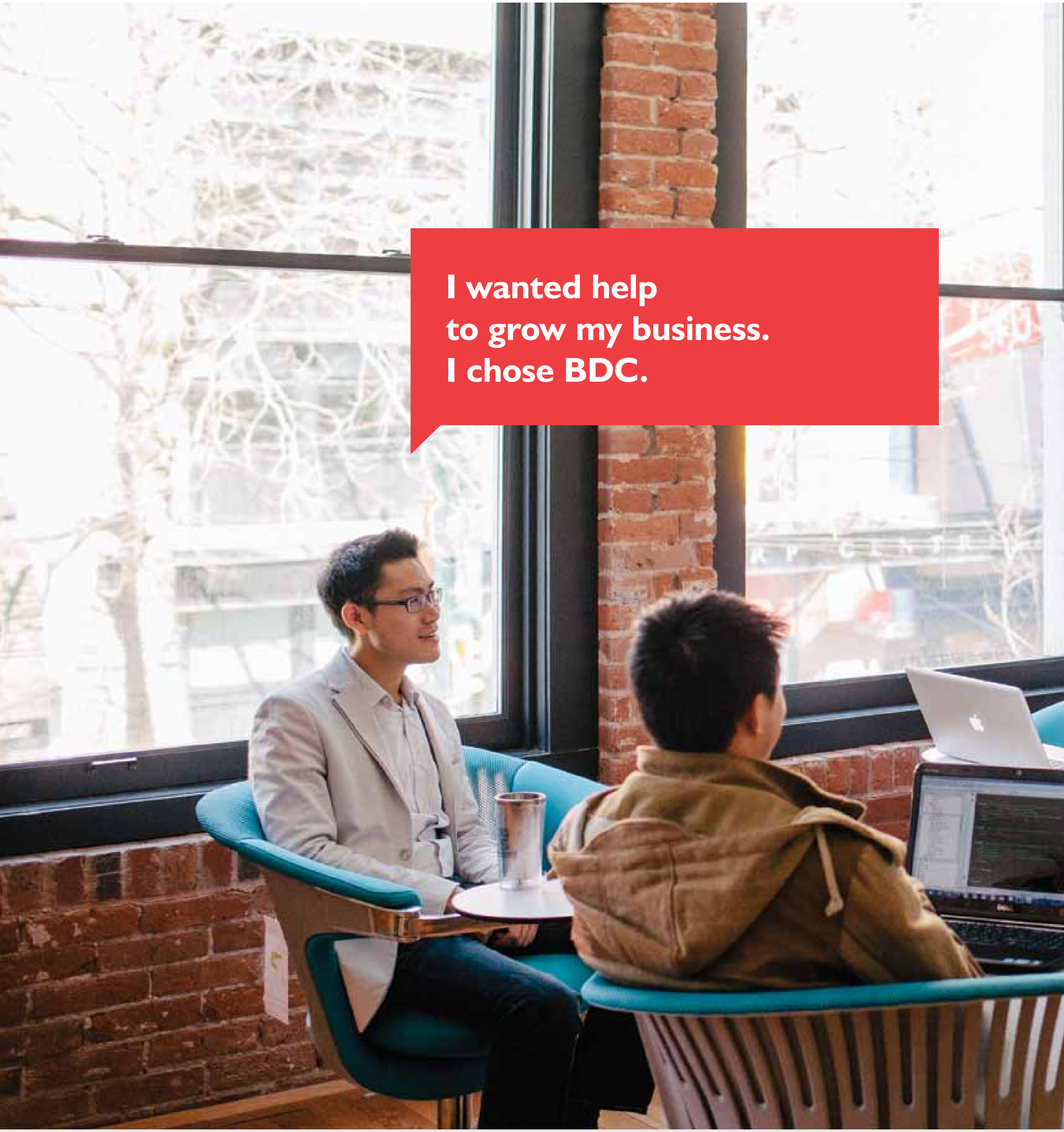
BDC is partnering with more than

28,000

entrepreneurs across Canada,
for total commitments of more than

$20 billion,

in the economic prosperity
that they create.


I wanted help
to grow my business.
I chose BDC.

Arnold Leung, Appnovation, British Columbia

Appnovation builds open-source websites for corporate and public sector clients, in North America and Europe.

Arnold wanted to diversify his firm's markets further by expanding into Asia.

Arnold wanted to study Asian markets, choose where to focus and make contacts.

BDC provided financing and consulting.

Paul Brodeur, Niagara Tools, Ontario

Niagara Tools specializes in tools that cut metals, with clients in the automotive, aerospace and power generation sectors in Ontario and the U.S.

When the recession hit, sales stagnated. Plus, more competitors had entered the marketplace.

Paul wanted to innovate his business model and invest in new machinery.

BDC provided financing and consulting.


I wanted to make
my business more productive.
I chose BDC.

Judith Bobbitt, Oceans Ltd., Newfoundland and Labrador

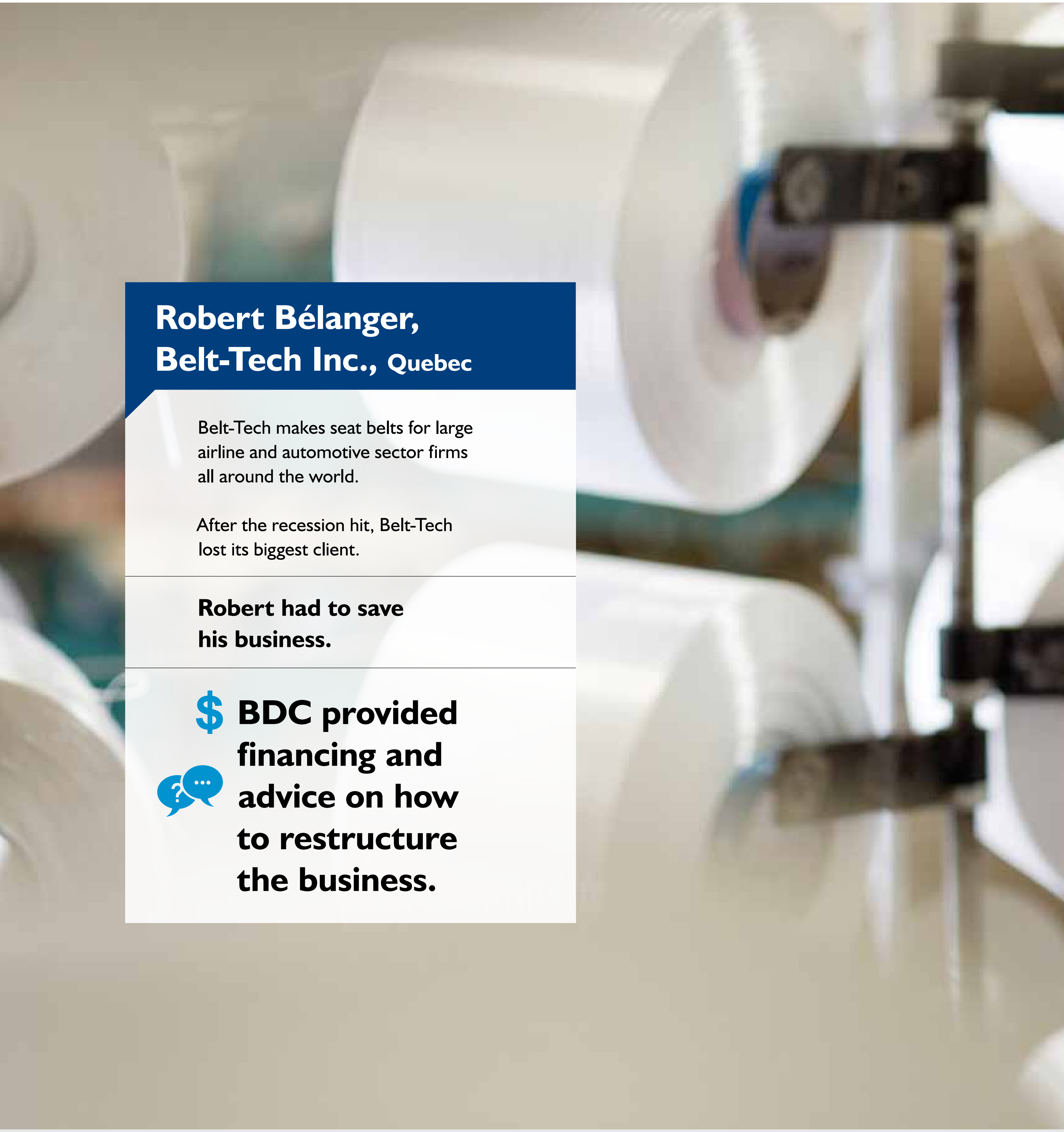
Oceans Ltd. provides services vital to people who work on the high seas, such as 24/7 marine weather forecasting, wind and wave analysis, and iceberg profiling.

It employs 30 biologists, oceanographers, electrical engineers and sea-going technologists.

Judith needed more space to grow her company's services.

$ BDC provided financing.


I've built a business
by innovating.
I chose BDC to support me.



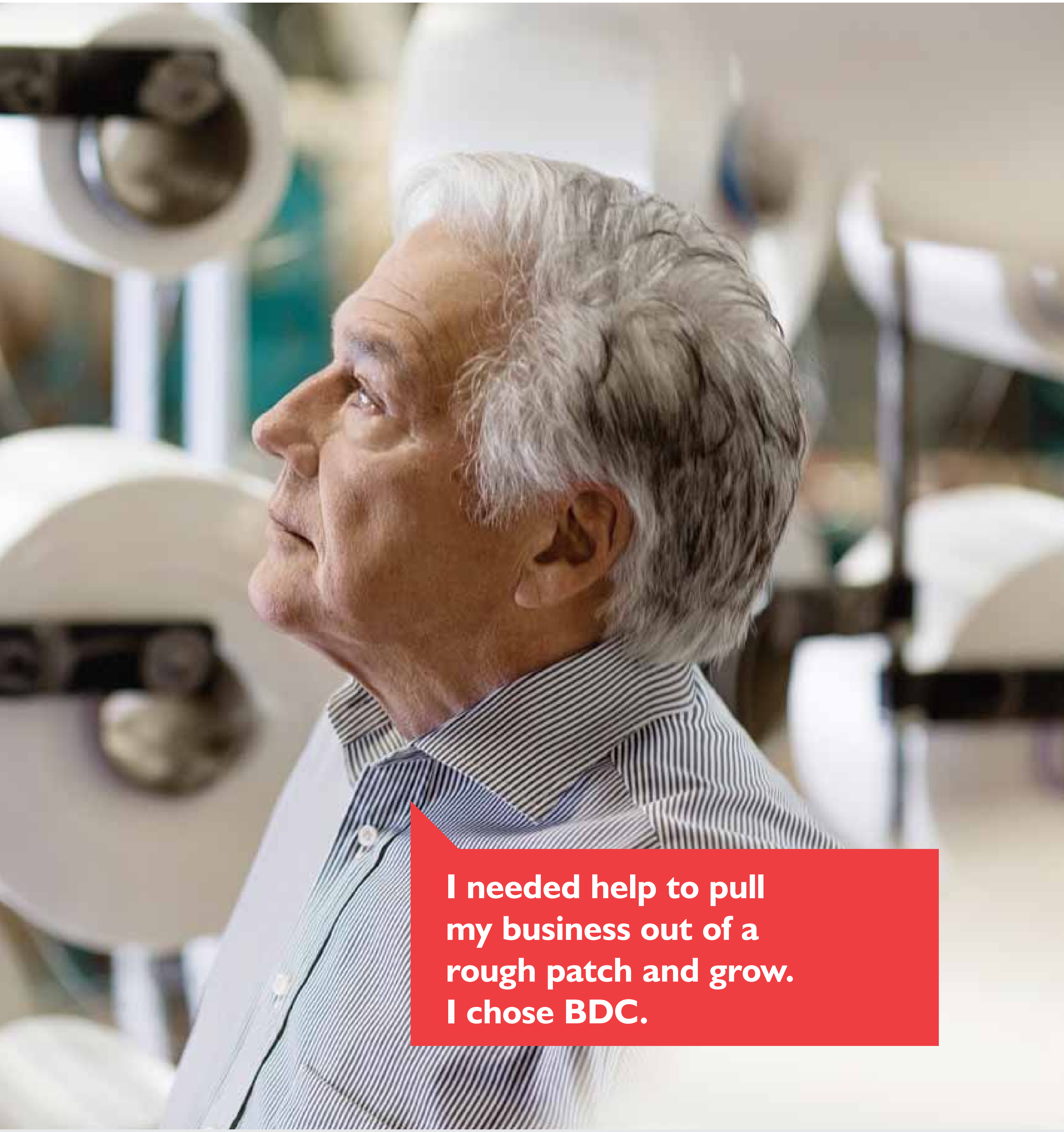
Robert Bélanger, Belt-Tech Inc., Quebec

Belt-Tech makes seat belts for large airline and automotive sector firms all around the world.

After the recession hit, Belt-Tech lost its biggest client.

Robert had to save his business.

$ BDC provided financing and advice on how to restructure the business.



I needed help to pull my business out of a rough patch and grow. I chose BDC.

We're pleased with the results of BDC's work to encourage and support entrepreneurs as they invest in information and communications technology.

INTERVIEW WITH THE ACTING CHAIR, THOMAS SPENCER

Did BDC fulfill its parliamentary mandate to support entrepreneurs?

Yes, it did. It's supporting more than 28,000 of them across Canada.

It offers financing and advice that they need to create, grow and make their firms more competitive.

How, specifically, does BDC support entrepreneurs?

Specifically, it offers financing, consulting and venture capital, delivering them in a way that complements the activities of private sector financial institutions.

It also uses partnerships with other organizations that share its interest in entrepreneurial success. Examples include chambers of commerce across Canada and think tanks that research issues relevant to entrepreneurs. A partnership can create an impact greater than the sum of its parts.

How else does BDC support shareholder priorities?

We're pleased with the results of BDC's work to encourage and support entrepreneurs as they invest in information and communications technology. In today's Internet-driven, automated world, this is a must. It is very encouraging that the Smart Tech section of www.bdc.ca—where people can learn how technology use can improve their bottom line—had more than 200,000 visits last year.

A second example: to help entrepreneurs boost the productivity of their firm, we offer special financing for machinery and equipment. This has been very popular.

We're also pleased that the government has recently entrusted BDC with new tasks, such as investing in the vitality of the broader venture capital ecosystem, so that entrepreneurs who are creating new technology-based companies stand a greater chance of succeeding.

Does BDC also promote entrepreneurship in society at large?

Yes. This is hugely important. As a nation, we must encourage as many homegrown, would-be entrepreneurs as possible to take the step from dreaming of creating a business to actually doing so. It is they who create the prosperity Canada needs. We should also celebrate the resourceful, risk-taking and can-do attitudes that define entrepreneurs.

For example, BDC promotes entrepreneurship to the general public in a variety of ways. Last year, the Young Entrepreneur Awards went online. Now they are attracting more entrants than ever.

Many thanks to BDC's clients for their continued trust.

Since the passing of John A. MacNaughton, you've been acting as chair of the board. The coming year will see the appointment of his replacement. Tell me about governance at BDC during this time of changeover.

We have a solid base: a transparent, sophisticated structure that makes roles, decision-making and accountability crystal clear.

Also recall that boards of directors are teams. The role of the chair is critical, but this person is supported by a group of capable, experienced and hard-working colleagues. Our team is strong. Plus, we're supported in turn by BDC's very able senior managers and corporate secretariat.

So, it's very robust.

Any closing words?

I'd like to extend a heartfelt thank you to my fellow board members. Their time, energy and dedication are invaluable.

We were all saddened by John's passing, but we find inspiration and pride in the public-minded, rigorous example that he set. He set the right tone at the top and got the best out of everyone.

We thank Stan Bracken-Horrocks and Sarah Raiss, whose terms ended, for their years of dedication and diligent work. And we are very pleased to welcome two new members, Shahir Guindi and Michael Calyniuk.

And thanks, of course, to everyone at BDC—they're the ones who make it happen!

Finally, many thanks to BDC's clients for their continued trust.

I'm confident clients benefit from our support.

INTERVIEW WITH THE PRESIDENT AND CEO, JEAN-RENÉ HALDE

How was the past year?

Busy and satisfying: more than 28,000 clients continued to rely on BDC to help finance their business projects, as well as to support them as they worked to make their businesses more competitive.

Are you satisfied with the effectiveness of the support BDC offers?

Yes, yet never. Yes, because I'm confident clients benefit from our support. A recent external comparison of the performance of BDC clients with that of non-clients found that, based on key performance indicators—such as sales growth, employment, productivity, profits and survival rates—BDC has had a positive impact.

Never, because the challenges entrepreneurs face keep changing, so we can't sit still, either. Also, there are always ways BDC can improve. We're working hard to enhance our business practices and procedures to better serve our clients. And we're re-engineering our consulting services to improve their relevance and effectiveness.

What big challenges are Canada's entrepreneurs facing?

We see three: innovation, productivity and growth.

The rationale for this list is simple. Entrepreneurs in other countries are investing in continuous improvement through all three elements—constant innovation, greater productivity and growth to greater scale—to be globally competitive.

So Canadians have to do the same.

How is BDC helping them meet these challenges?

We help them with information, financing and consulting.

Our work to encourage and help entrepreneurs to use information and communications technology to improve their businesses is a good example. We provide free information and tools they can use to assess their firm's needs, plus advice and financing.

We're making our processes and services more client friendly. We've already made some changes and are working hard to deliver more improvements next spring.

We're also making progress in our work to improve our consulting services. This is important, as the quality of the management of a business is vital to its success. Advice is the essence of our organization's purpose, so we want to provide relevant counsel in an effective and efficient way.

In recent years, BDC has been investing much effort in its venture capital strategy. How's that going?

We've just had our best year in more than a decade. I like to think we are helping lead an industry-wide turnaround.

Let's remember the rationale for BDC's support for the entrepreneurs who create new, technology-based firms—the firms that commercialize the fruits of research and development to convert them into the prosperity Canada wants. It's important to understand that most people would never agree to face the big, complex pressures and risks that these entrepreneurs do. And because we all benefit when they succeed, it's in the national interest to support them.

The past decade or so has been particularly tough. So, two years ago, we strategically renewed our venture capital services. In this past year, we started to see the results of our new approach.

Entrepreneurs continue to seek and choose our services. And we're efficient.

We end fiscal 2013 with a greater number of clients in our portfolio and more money invested in a larger number of venture capital funds. Across the industry as a whole, the financial health of both venture capital entrepreneurs and funds has improved.

Equally important is our success in stimulating the broader Canadian venture capital ecosystem through investments and partnerships. I encourage you to read more on page 23.

How is BDC's financial health?

It's strong.

We've had another profitable year because our clients are doing well, so our losses are lower than expected. Entrepreneurs continue to seek and choose our services. And we're efficient.

This year, we'll pay a dividend of $59.6 million to our sole shareholder, the Government of Canada.

What's ahead for BDC?

In addition to our current strategic challenges—enhance clients' experience at BDC, and improve our consulting and venture capital services—there are the perennials: keep abreast of the challenges that entrepreneurs are facing, adjust or create services to help them meet these challenges, attract and keep the right employees, and constantly improve the efficiency of our services. None of these are easy. And all take constant effort.

Expect more thought leadership on issues important to SMEs. We now have a dedicated chief economist at BDC to research and explore these issues.

We also have some important new assignments from our shareholder, the Government of Canada. It has asked us to increase our support for the venture capital ecosystem by an additional $100 million, as well as to organize a new, national Entrepreneur of the Year award. We've already rolled up our sleeves.

Any closing words?

To start, thank you to our board of directors. I applaud their professionalism, rigour and commitment to entrepreneurs, and see these characteristics as an eloquent reflection of the same fine qualities that our departed colleague John A. MacNaughton cultivated during his chairmanship.

John was a wonderful leader. He was tremendously respectful of management, which recognized and sought his wisdom. He always raised the right issues. I often asked his advice and always got thoughtful answers.

I'd also like to thank everyone at BDC. Their dedication, expertise and efforts are the basis of every success we enjoy—and the starting point in tackling future challenges!

Finally, thank you to our clients! Serving you is why BDC exists.

Our Role and Activities

2,000
employees

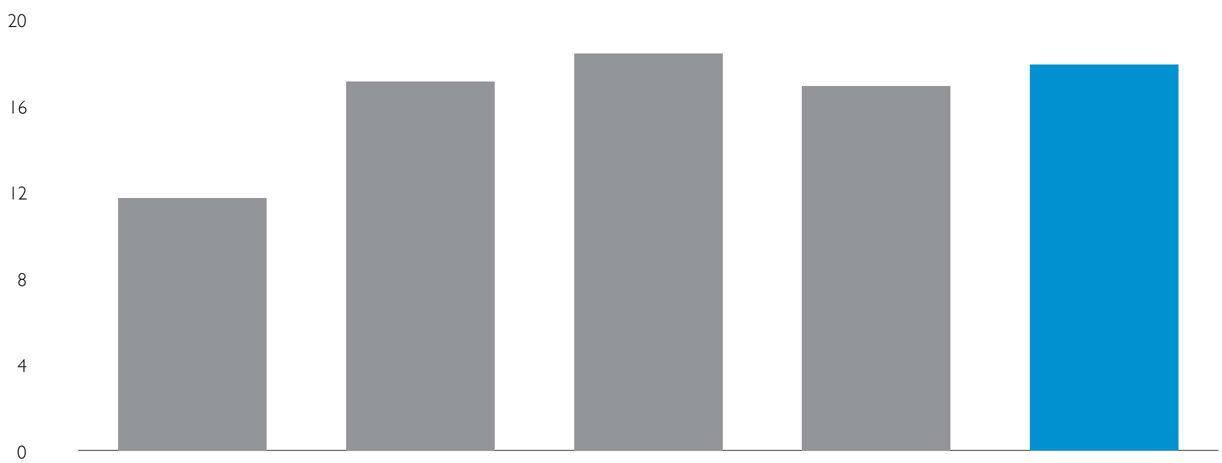
100+
locations across Canada

1
purpose:
support Canadian entrepreneurs

We are the only bank in Canada that is dedicated exclusively to entrepreneurs.

Every dollar in our portfolio is used to support them.

Total BDC Portfolio
as at March 31 ($ in billions)



	2009	2010	2011	2012	2013
	Canadian GAAP		IFRS		
	11.7	17.1	18.4	16.9	17.9

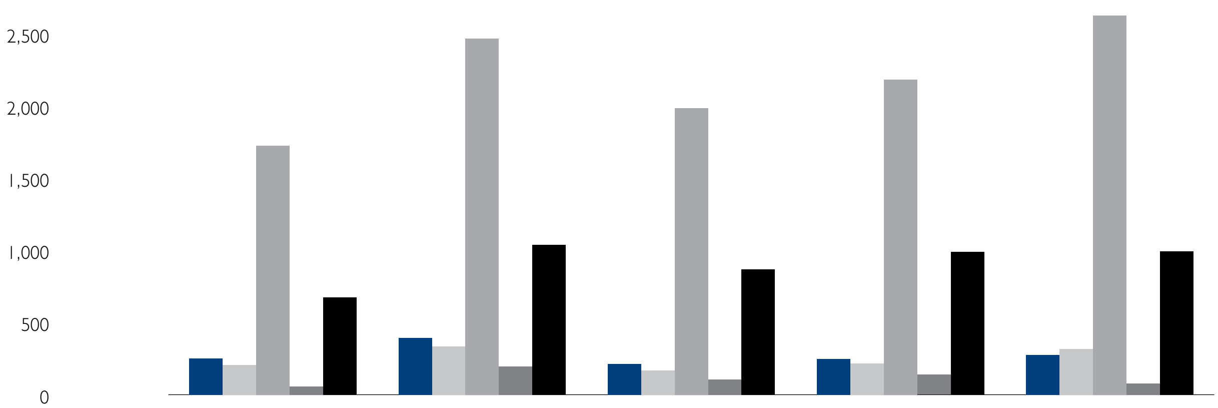
Based on loan portfolio before allowances for credit losses, plus BDC Subordinate Financing, BDC Venture Capital and asset-backed securities portfolios at fair value.

The operating environment of BDC was one in which business investment was higher. This explains the growth in BDC's activities.

We support entrepreneurs at every stage of their business.

BDC Financing and BDC Subordinate Financing, by Stage of Development

for the years ended March 31 ($ in millions)

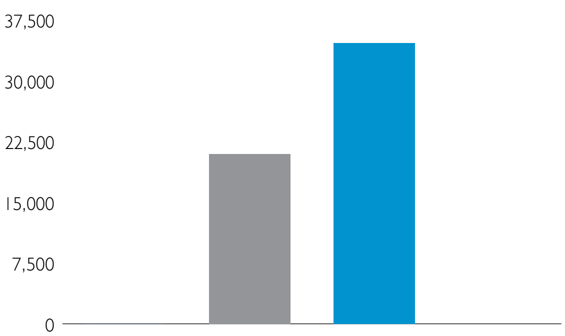


	2009	2010	2011	2012	2013
Start-up	253	395	213	249	275
Development	208	337	168	216	318
Expansion	1,730	2,474	1,992	2,189	2,633
Turnaround	57	195	107	139	79
Mature	677	1,040	871	994	996
Total	2,925	4,441	3,351	3,787	4,301

We support entrepreneurs who want to innovate.

Number of Information and Communications Technology (ICT) Interventions[1]

for the year ended March 31, 2013

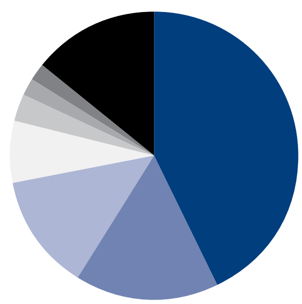


Target 2013	Actual 2013
21,000	34,716

(1) Information and communications technology (ICT) "interventions" are online web and ICT assessments; consulting mandates; and financing and subordinate financing authorizations.

BDC Financing and Subordinate Financing ICT Authorizations, by Industry

for the year ended March 31, 2013 (percentage of dollar value)



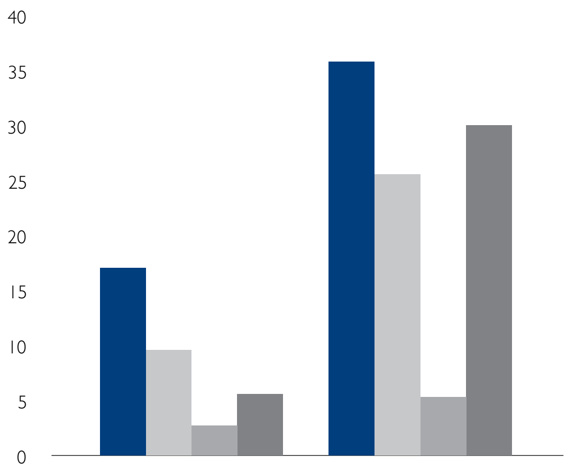
Business services	43%
Manufacturing	16%
Retail trade	13%
Wholesale trade	7%
Transportation and storage	3%
Construction	2%
Tourism	2%
Other	14%
Total	**100%**

In today's Internet-driven, automated world, one way all entrepreneurs must innovate is by using information and communication technology (ICT). They need to invest in hardware, software and consulting advice.

To support them, we offer online information and services, personalized consulting services, and affordable financing. For our existing clients, we also offer online, prequalified loans for up to $50,000.

ICT Authorizations, by Purpose

for the years ended March 31 ($ in millions)

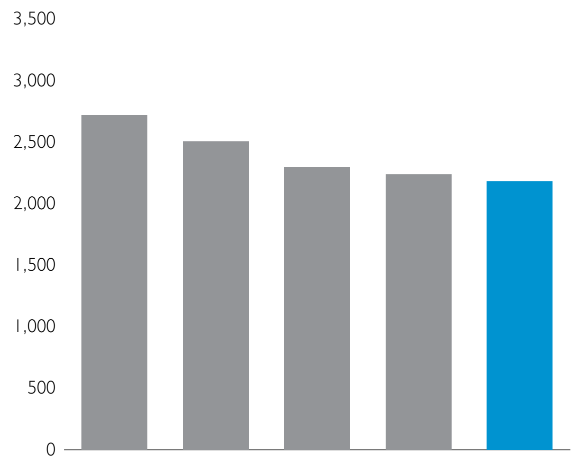


Authorizations	2012(1)	2013
ICT hardware	17.1	35.9
ICT software	9.6	25.6
ICT internet	2.7	5.3
ICT services	5.6	30.1
Total	35.0	96.9

(1) ICT implemented in November 2012.

BDC Consulting Mandates

for the years ended March 31 (in numbers)



2009	2010	2011	2012	2013
2,720	2,504	2,300	2,236	2,180

Our consulting services are a crucial part of our support for entrepreneurs. Small and medium-sized enterprises (SMEs) need access to quality advice at a price they can afford.

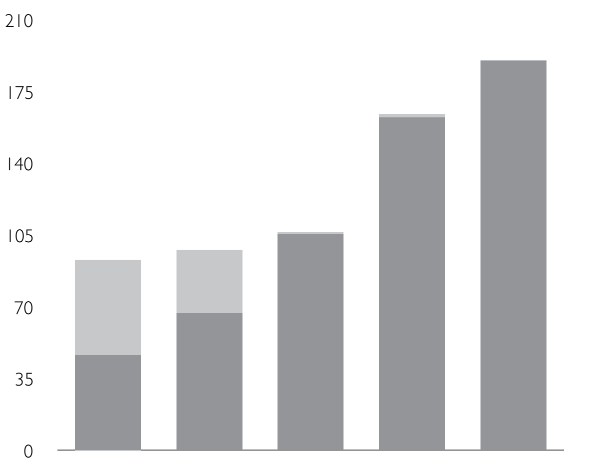
The recent decline in the number of mandates is a trend we must reverse. We are working to do this by improving the relevance, quality and efficiency of these services.

Our services are thus in transition. Transitions take resources and time. We therefore anticipate losses in BDC Consulting until the transition is complete.

We support entrepreneurs who want to grow their business.

BDC Subordinate Financing

for the years ended March 31 ($ in millions)



Acceptances	2009	2010	2011	2012	2013
BDC portion	46.3	66.7	105.1	162.1	**189.8**
Caisse portion[1]	46.3	31.0	1.4	1.7	–
Total	92.6	97.7	106.5	163.8	**189.8**

(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.

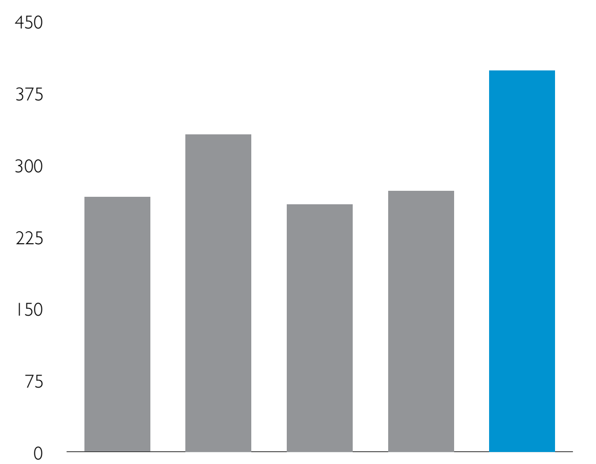
For entrepreneurs who need capital to grow but who lack the tangible security that conventional lenders need, we offer a hybrid of debt and equity financing called subordinate financing. This is sought by those who do not want to sell a share of their business to another person simply because they need money to grow.

Subordinate financing helps firms grow and stay in Canada. They are mainly entrepreneurs in the manufacturing sector and include others whose firms are growing fast or those who are transitioning to a new generation of owners.

We support entrepreneurs who want to make their business more productive.

BDC Financing Machinery and Equipment Loans

for the years ended March 31 ($ in millions)



Acceptances	2009	2010	2011	2012	2013
	266.0	331.7	258.6	272.4	**398.4**

Our financing allows entrepreneurs to buy machinery and equipment over a 12-month period. This allows them to shop and negotiate with confidence, knowing that their financing is in place.

They can also receive additional financing for related expenses, such as shipping, installation and training.

These investments enable entrepreneurs to make their firms more productive.

We support entrepreneurs who are building technology-based companies.

WE ARE THE MOST ACTIVE VENTURE CAPITAL INVESTOR IN CANADA, AND THIS PAST YEAR WAS OUR BEST IN MORE THAN A DECADE

We support entrepreneurs who create new, technology-based firms because this is how the fruits of research and development will be converted into the prosperity Canada wants. These entrepreneurs work in conditions of very high risk, in an often volatile market.

But when they succeed, Canada benefits. It is in the national interest to support them.

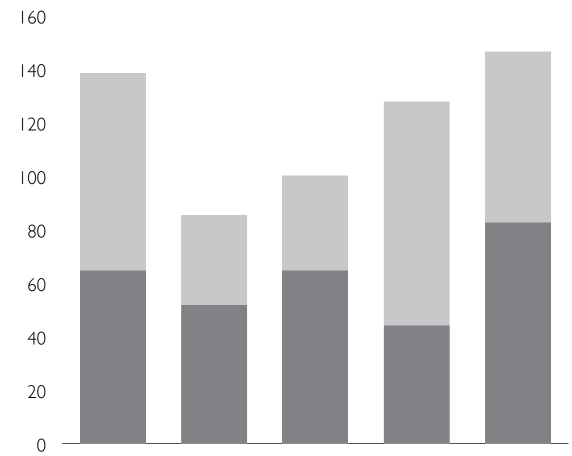
The past decade or so has been particularly tough for this industry. Today, we've emerged as a "go-to" institutional investor—trusted to bring together a variety of potential customers, investors and strategic partners. We are working to help create a turnaround in the Canadian venture capital industry.

This past year, we've seen signs of improvement. We ended fiscal 2013 with a greater number of clients in our portfolio—clients whose financial health is stronger than it was in the past. We also have more money invested in a greater number of large, private sector venture capital funds, which in turn invest in Canadian entrepreneurs.

However, the road to a robust venture capital industry will remain difficult. Success will take time, patience and perseverance.

BDC Venture Capital Authorizations

for the years ended March 31 ($ in millions)



Authorizations	2009	2010	2011	2012	2013
Direct	64.0	51.3	64.1	43.6	81.9
Funds	73.4	33.3	35.3	83.2	63.4
Total	137.4	84.6	99.4	126.8	145.3

Data prior to fiscal 2011 are based on Canadian GAAP.

Our goal:

Turn great ideas into great Canadian companies

Three ways we do it:

1 Invest in young, technology-based firms whose ideas can potentially produce big benefits in energy, health care and information technology.

2 Attract new, private sector dollars to Canadian technology-based companies.

3 Work with carefully chosen start-up firms, investors and organizations that are using new ways to stoke innovation in the venture capital industry.

At BDC-supported Notman House in Montreal, tech start-up entrepreneurs and investors network, share ideas and collaborate. (Left to right) Dominique Bélanger of BDC Venture Capital, Renaud Teasdale of MyCustomizer, John Stokes of OSMO Foundation and Christian Painchaud of MyCustomizer.

We promote entrepreneurship.

ABORIGINAL CANADIANS

We support Aboriginal entrepreneurs directly. Our total commitment to their projects is $162 million.

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

To raise entrepreneurship awareness among Aboriginal youth, we also hold E-Spirit, an Aboriginal youth business plan competition. To date, about 6,400 students have participated.

YOUNG CANADIANS

Many young entrepreneurs find it hard to secure financing because they have little or no management experience, financial resources or track record.

From our Entrepreneurship Centres, we offer lending, consulting and other business resources aimed specifically at meeting their needs.

This past year, we put the annual Young Entrepreneur Awards contest online, and we now attract more candidates and followers than ever.

Other specific initiatives include the Junior Achievement program for high school students; the Canadian Youth Business Foundation, which offers coaching, resources, start-up financing and mentoring; and Enactus, which helps stimulate an entrepreneurial mindset among college and university students.

We collaborate for greater reach

By collaborating with other organizations that share our interest in entrepreneurship, we reach more people, learn and do more than we would on our own.

Collaborative relationships enable us to reach more people. We routinely work with fellow Crown corporations such as Export Development Canada (EDC) and private sector banks to finance specific projects brought to us by entrepreneurs.

Formal partnerships also enable us to reach more people. Our partnerships with more than 220 Community Futures Development Corporations, a cross-country network of contact points located mostly in rural areas, allow us to now support more than 1,060 entrepreneurs.

Collaboration enables us to learn. Our membership in The Montreal Group is a good example of this. It is a global forum of state-supported financial development institutions that we initiated to create a venue for sharing ideas for ways to help micro, small and medium-sized businesses with their challenges.

Collaboration can have a multiplier effect, too. For example, when we work with organizations and people who are trying new ways to stoke innovation in Canada's venture capital industry, our impact will be not just what we do, but what we help enable.

Corporate Social Responsibility

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 using greener practices, helping entrepreneurs to do the same and investing in clean-tech firms.

Entrepreneurs we support	**28,000**
Percentage of our portfolio dedicated to Canadian businesses	**100%**
Locations across Canada, including the Aboriginal Banking Unit	**100+**
Corporate objectives designed to help clients create, grow and make their businesses more competitive	✓ (see pages 34–37)
Percentage of our research studies that focus on topics that matter to SMEs	**100%**
Specialized business unit dedicated to helping client businesses in difficulty	✓
Financial sustainability(1)	**ROE: 8.6%**

Compliance with all applicable laws, notably the BDC Act, the *Financial Administration Act* and the *Canadian Environmental Assessment Act*	✓
Yearly audits and regular special exams by the Auditor General of Canada and external audit firms	✓
BDC employee code of conduct, ethics and values	**All employees sign, every year.**
Anti-money-laundering and anti-terrorist policy, OECD Guidelines for Multinational Corporations, UN Global Compact Principles	✓
Employee training in human rights	✓
Employee engagement	**88%**

Percentage of loans for which we do an environmental risk review	**100%**
Percentage of buildings we finance for which we do an environmental review	**100%**
Percentage of office materials and furnishings we choose according to LEED(2) criteria for leasehold improvements to our offices	**80–90%**
Employee training on financing LEED buildings	✓
Consulting services in energy efficiency	✓
Support for entrepreneurs developing clean tech	✓

(1) BDC return on equity (10-year moving average.)
(2) LEED stands for Leadership in Energy and Environmental Design

Management's Discussion and Analysis

1. The Canadian Economic Environment 33
2. Performance Measures 34
3. Risk Management 41
4. Analysis of Financial Results 49
5. Accounting and Control Matters 67

The operating environment was one of higher business investment.

I. The Canadian Economic Environment

The Canadian economy experienced modest growth in 2012. Consumer spending continued to increase, supported by low interest rates and high employment levels. The housing market, which has been a strong contributor to economic growth in Canada since the end of the 2008 recession, continued to improve; however, it did show some signs of slowing down at the end of the year. Business investments were solid, stimulated by favourable credit conditions and strong business confidence. Canada's trade balance was negative in 2012 and slowed down the progress of the Canadian economy. Imports rose during the year, stimulated by a high Canadian dollar, while Canadian exports stagnated. The recovery of the American economy was slow, Canadian exporters faced more competition from exporters in other countries and a high Canadian dollar put pressure on exports. They have yet to reach pre-recession levels and become strong contributors to economic growth again.

Financing conditions favoured business investments in Canada in 2012. The cost of borrowing for businesses was historically low and credit conditions were good. On average, the Canadian dollar was at par with the U.S. dollar, favouring investment in machinery and equipment. Canadian businesses were well positioned to invest, as the debt-to-equity ratio of non-financial firms was at an historic low and corporate balance sheets were healthy. As a result, business investments were solid in 2012 and business credit increased significantly. Chartered banks' short-term credits increased by 14.3 per cent and long-term credits rose by 9.1 per cent.

In summary, the operating environment of BDC was one in which business investment was higher. This explains the growth in BDC's activities.

2. Performance Measures

In our corporate plan, we present performance measures and objectives that we use to measure our organizational effectiveness and efficiency.

We track and present our performance against these objectives.

Innovation	**Accelerate innovation by Canadian businesses.**	Number of information and communications technology (ICT) "interventions," which include online web and ICT assessments; consulting mandates; and financing and subordinate financing authorizations
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 of capital(2)
Client experience	**Make it easier for entrepreneurs to do business with BDC.**	Client Value Index (financing and consulting)

TARGET 2013	ACTUAL 2013	COMMENTS
21,000	**34,716**	SMEs have embraced BDC's ICT strategy, which is helping to improve innovation and productivity at the firm level.

TARGET 2013	ACTUAL 2013	COMMENTS
8%	**8%**(1)	BDC Financing and Consulting clients continue to outperform comparable businesses in terms of revenue growth.
1.00	**1.01**	An excellent result, given ongoing challenges in the venture capital market.

TARGET 2013	ACTUAL 2013	COMMENTS
96	**105**	This reflects BDC's work to continuously improve how its clients experience its services.

(1) Clients using BDC Financing and BDC Consulting services.
(2) Return on each dollar disbursed (includes both direct and fund investments).

Entrepreneurial culture	**Champion Canadian entrepreneurship.**	Number of authorizations to new businesses (in business for two years or less) (financing and subordinate financing) Percentage of BDC-financed start-ups that survive at least five years Number of small business clients (fewer than 20 employees) (BDC Financing and BDC Subordinate Financing)
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
Partnerships	**Leverage partnerships to reach and better serve SMEs.**	Number of transactions authorized with partners (syndications, pari passu transactions, loan referrals and alliances)

TARGET 2013	ACTUAL 2013	COMMENTS
1,100	**1,141**	BDC continues to support start-ups, which play an integral role in the entrepreneurial ecosystem.
65%	**61%**	BDC clients are able to succeed in their ventures and contribute to Canada's entrepreneurial culture.
21,000	**21,295**	Small businesses are an important focus for BDC.

TARGET 2013	ACTUAL 2013	COMMENTS
85%	**84%**	This result reflects BDC's ongoing work to ensure that it plays a complementary role in the financial services marketplace.

TARGET 2013	ACTUAL 2013	COMMENTS
1,650	**1,713**	BDC recognizes the importance of leveraging a wide variety of partners to better serve and support SMEs across Canada.

We regularly refine our performance measures to ensure they remain valid, helpful and relevant to evolving public policy goals.

In our fiscal 2014 annual report, we will use:

PERFORMANCE MEASURES 2014

1

ENTREPRENEURSHIP

Increase entrepreneurial intensity in Canada.

> Number of loans of $500,000 or less for BDC Financing and BDC Subordinate Financing based on commitment size of $750,000 or less
> Number of authorizations to new businesses (younger than two years) (BDC Financing and BDC Subordinate Financing)
> Percentage of BDC-financed start-ups that survive at least five years
> Client Value Index (BDC Financing and BDC Consulting)

2

PARTNERSHIPS

Work with partners to increase collective impact.

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

3

INNOVATION

Support the creation and adoption of innovation.

> Number of ICT "interventions", which include online web and ICT assessments; consulting mandates; financing and subordinate financing authorizations; downloads of e-books and other informational materials from BDC.ca; and attendance at BDC-hosted ICT events
> Venture Capital return of capital

4

PRODUCTIVITY

Facilitate firm-level efficiency improvements.

> Number of loans authorized for equipment purchase (Equipment Line and loans with "equipment purchase" as purpose)

5

GROWTH

Enable clients to achieve their full potential.

> Percentage of high-growth firms in the BDC Subordinate Financing portfolio (a high-growth firm is defined as having annualized sales growth greater than 20% per year over a three-year period)

6

BDC EFFICIENCY

> BDC's reported efficiency ratio

We take risk for our clients.

We price for this risk.

And manage it well.

3. Risk Management

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 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 feature of entrepreneurial activity. And as we enter into business relationships with Canada's entrepreneurs, we must identify and manage 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 essential, independent oversight of BDC's exposure to risk.

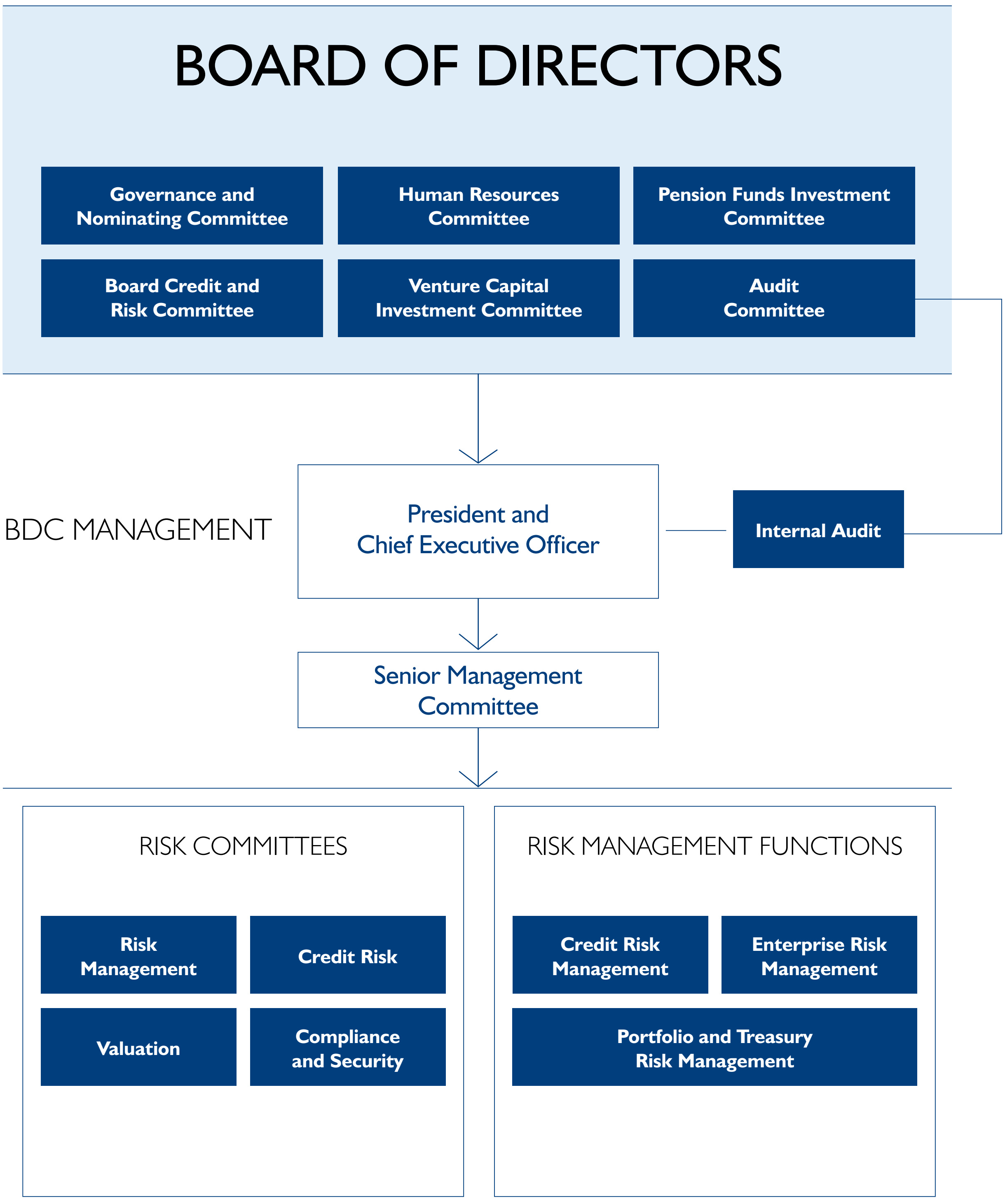
ENTERPRISE RISK MANAGEMENT POLICY

BDC's board of directors annually reviews and approves the enterprise risk management (ERM) policy. That policy codifies the integrated, enterprise-wide process we use to identify, analyze, accept, mitigate, monitor and report risks. It also defines the roles and responsibilities of board members, management, functional units and employees in implementing the policy.

BDC'S PRINCIPLES OF ENTERPRISE RISK MANAGEMENT

1. Risk management is everyone's responsibility, from the board of directors to employees.
2. We manage risk by balancing it with appropriate return.
3. We integrate risk management into key business processes, such as strategic business and budget planning, lending, investing and consulting activities.
4. The ERM policy codifies a comprehensive, disciplined and continuous process that we use to identify, analyze, accept, mitigate, monitor and report risks within approved risk tolerances.
5. BDC's policies and processes are consistent with ERM best practices.
6. In risk management-related policies, the board sets the acceptable levels of risk that BDC will tolerate.

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, appetite and strategies; ensures BDC's risk management is effective; reviews portfolio and treasury risks; reviews capital adequacy; sets clear levels of delegation of authority for various transactions; and ensures an appropriate link between risk and reward.

Although all committees consider risk in their deliberations, as appropriate, three committees—the Board Credit and Risk Committee, the Venture Capital Investment Committee, and the Audit Committee—have specific responsibilities for managing risk. For full details on the board and its committees, please see the Corporate Governance section on page 133.

The Board Credit and Risk Committee advises the board that BDC is effectively identifying and managing significant risks. 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 how effectively BDC is managing its venture capital investment activities. It also approves transactions above a certain threshold.

The Audit Committee advises the board on BDC's oversight and assessment of its financial performance and financial statements, internal controls, financial reporting, accounting standards, and disclosure controls. It also keeps the board informed of the quality and independence of BDC's internal and external audit functions.

BDC MANAGEMENT: RISK COMMITTEES AND FUNCTIONS

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

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

More specifically, the committee reviews the migration of risk and quality in the loan portfolio, the securitization portfolio, and venture capital and subordinate financing investments. It also:

- monitors industry concentrations of BDC's assets;
- reviews and manages financial performance, capital adequacy and risk appetite;
- ensures that treasury activities and related asset liability management comply with BDC policies; and
- oversees the investments of BDC's pension funds.

The committee focuses on significant risks requiring immediate attention. It briefs the SMC and the board on these risks and plans to mitigate them.

The **Credit Risk and Investment Committees** include senior key leaders. They adjudicate and approve transactions within prescribed limits. For larger transactions, they make recommendations to the Board Credit and Risk Committee or the Venture Capital Investment Committee.

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

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

BDC's three risk management functions are ERM, credit risk management and portfolio risk management, which includes treasury risk management. These three functions:

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

> develop tools to measure, monitor and report on these risks; 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, which are outlined in BDC's corporate risk management policies. Through its annual audit plan, it works to ensure that BDC follows these practices.

THE ERM FRAMEWORK

Using an ERM framework helps BDC protect itself by managing risk exposure, resolving uncertainty and building reputational equity. It ensures that BDC makes risk-related decisions in a methodical, consistent way, rather than an uncoordinated, piecemeal way.

The ERM policy outlines the way BDC manages risk by identifying and assessing significant risks, and managing them on an enterprise-wide basis.

IDENTIFY

Every quarter, we identify, assess, document and classify risks at the corporate and functional levels. Then we present them to the Risk Management Committee, the SMC and the board of directors for discussion. We also assess and discuss risks related to all significant projects, new products or services, and policy changes.

ANALYZE AND MEASURE

We quantify and qualitatively assess the significant risks that our activities pose. BDC updates related tools and models, taking into consideration best practices in 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 reflect BDC's objectives and strategies. We also use policies and guidelines to 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 to ensure that BDC is using appropriate and sound risk management practices (every quarter, the Internal Audit Department presents the results of these audits to the Audit Committee).

MONITOR, DISCLOSE AND REPORT

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

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

MAJOR RISK CATEGORIES

STRATEGIC RISK

Strategic risk is the risk that BDC will set inappropriate objectives, will adopt strategies based on inaccurate knowledge of the market or will not allocate enough resources to achieve its objectives.

Managing strategic risk

Our dedicated team annually updates our five-year corporate plan using a rigorous process. The plan reflects BDC's knowledge, which is based on its research capacity and on its relationships with knowledgeable stakeholders and more than 28,000 entrepreneurs. Senior management, the board of directors and our shareholder, the Government of Canada, approve the plan. BDC releases a public summary of the plan.

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 details BDC's financial risk management policies and measurements.

Credit risk

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

Managing credit risk

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

It is at the business centre level, with the support of credit risk adjudication, that we choose to take, mitigate or avoid risk on individual transactions. All of our managers are trained to assess credit risk. We base our decisions on our experience with similar clients, and we use policies, corporate directives, 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 from developments in marketplace dynamics or from our inability to forecast poor economic conditions quickly enough to mitigate losses in our 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 reduce 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 business disruptions, BDC invests the minimal required level of cash in highly liquid and high-quality securities with active secondary markets that it can sell to a wide range of counterparties.

OPERATIONAL RISK

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

Operational risk is present in all daily operations at BDC. As such, all of BDC's policies and corporate directives help BDC identify, analyze, mitigate and monitor this risk. They govern the way BDC manages its human capital and processes, safeguards information, administers loans and investments, and carries out its activities. These activities are subject to internal audits. In addition, BDC has implemented an internal control framework based on the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and an internal certification process.

Human capital risk

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

Managing human capital risk

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

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

Reputational risk

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

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

- meeting the shareholder's expectation that BDC will support entrepreneurship;
- carrying out its mandate effectively;
- meeting legal and broadly held ethical standards;
- refusing to support clients who fail to meet societal expectations of responsible behaviour; and
- doing 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 due diligence and approvals. We verify that the potential client is not involved in money laundering or other corrupt activities. We also 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 and corporate directives, which include the following:

- the board code of conduct;
- the BDC employee code of conduct, ethics and values (including the policy on the disclosure of wrongdoing, the anti-fraud corporate directive, and the anti-money laundering and anti-terrorist financing corporate directive);
- the policy on personal trading for employees and the policy on personal trading for directors;
- the charter of client rights;
- the policy and corporate directives on authorization limits and levels of authority;
- the ERM policy;
- the credit risk management policy;
- the policy on the environment;
- the eligibility corporate directive, which includes the United Nations Global Compact principles and the OECD Guidelines for Multinational Corporations;
- the venture capital policy and corporate directive;
- the disclosure policy and corporate directive; 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 loan and investment lifecycle. These processes minimize direct losses due to environmental impairment of assets under BDC's charge and ensure that BDC deals only with clients who respect environmental regulations and best practices. They also ensure that BDC, in accordance with its responsibilities under the *Canadian Environmental Assessment Act*, does not fund projects that could significantly harm the environment.

Legal and regulatory risk

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

Managing legal and regulatory risk

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

Our support for entrepreneurs is *financially sustainable*.

4. Analysis of Financial Results

LINES OF BUSINESS

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

OPERATING ENVIRONMENT

Uncertainty about the ability of European countries to manage their sovereign and banking debt, as well as concern about the capacity of U.S. policy-makers to raise the debt ceiling and put a credible fiscal plan in place, tempered global economic activity in fiscal 2013. Europe went back into recession, with economic activity constrained by fiscal austerity, low confidence and credit tightening. In the United States, the recovery in the housing market gained traction but economic expansion was modest, slowed down primarily by public sector deleveraging. Growth in China dropped slightly, as the country's main export markets were depressed. This caused commodity prices to decrease, but they remain elevated by historical standards.

Canada's important global economic links, particularly with the U.S., constrained economic growth in fiscal 2013. Modest demand for exports, combined with a strong dollar, kept the current account balance negative. Again, domestic consumption was the main driver of economic growth, although the relatively high level of household debt cooled it down. Due to the tightening of mortgage conditions, as well as intense construction in recent years—especially in the multi-unit segment—the housing market has slowed and is now more in line with household formation.

Despite continued favourable financing conditions and the very healthy financial situation of Canadian businesses, economic uncertainty affected them, slightly reducing their investment levels. However, business investment remained a key economic driver throughout the year. Even with its relatively strong economic position among developed countries, Canada needs to improve businesses' productivity, innovation and internationalization. Access to appropriate advisory and financing services will remain key to helping Canadian small and medium-sized enterprises (SMEs) overcome these challenges.

ACTIVITIES

The need to encourage a healthy entrepreneurial ecosystem continued to be strong. As a complementary lender that takes higher risks and offers greater flexibility, BDC works to ensure that SMEs have the opportunity to grow and succeed.

BDC Financing clients accepted a total of $4.1 billion in loans during the year, an increase of 13.5% compared to last year. BDC Subordinate Financing performed strongly, with clients accepting a total of $189.8 million in financing this year, compared to $163.8 million last year. We also provided crucial support to Canadian businesses via our other business lines, authorizing $265.0 million in asset-backed securities and $145.3 million in venture capital investments, and starting 2,180 consulting mandates.

Recognizing the need for businesses to invest in machinery and equipment to increase productivity, BDC launched a pre-approved Equipment Line initiative in June 2012 that allows entrepreneurs to make equipment purchases over a 12-month period with guaranteed terms and conditions. Clients can receive financing for a high percentage of the cost of new or used equipment, with the possibility of additional financing for related expenses, such as shipping, installation and training. So far, Equipment Line acceptances have totalled $142.2 million.

Other initiatives, such as BDC's loans to help SMEs apply information and communication technology (ICT) to their operations, have been well received. Since implementation of the ICT strategy in November 2011, BDC has authorized 1,626 loans for a total of $131.9 million.

Launched a few years ago, the Agility and Efficiency initiative is designed to transform BDC into a more efficient, flexible and resourceful development bank. The objective is to improve and quicken our loan approval and disbursement processes to make them faster and easier for clients. Since fiscal 2012, BDC has changed some processes and released several new tools to business units across BDC to provide immediate benefits before the adoption of a more fully integrated solution.

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 remained profitable in fiscal 2013. It reported consolidated net income of $468.3 million this year, compared to $533.4 million in fiscal 2012. Net income attributable to BDC's shareholder amounted to $464.8 million and $520.3 million in fiscal 2012, while non-controlling interests amounted to $3.5 million in fiscal 2013 and $13.1 million in fiscal 2012. Non-controlling interests relate only to BDC Subordinate Financing and BDC Venture Capital operations.

Consolidated net income was generated mostly by BDC Financing. Fiscal 2013's decrease in profitability was mostly due to lower impairment reversals on loans. In other words, we reduced the amount of money that we had set aside in anticipation of loan losses.

This is the second year in a row that we have done this. However, the amount of this year's reversal was lower than that of fiscal 2012.

BDC Subordinate Financing once again performed well in fiscal 2013, while net income from BDC Securitization decreased due to a considerable reduction in that portfolio. BDC Venture Capital recorded a lower net loss this year.

Net income from BDC Financing was $441.5 million, a decrease of $63.2 million from last year. The decrease in profitability was mainly due to lower impairment reversals on loans and higher pension costs, largely driven by lower discount rates.

Net income from BDC Subordinate Financing was $35.1 million, $1.1 million lower than last year. The drop was due mainly to lower net revenue from variable-type returns and a lower net change in unrealized appreciation of investments, partially offset by higher net interest income due to portfolio growth.

Consolidated Net Income—by Business Segment

for the years ended March 31 ($ in millions)

	2013	2012	2011	2010	2009
		IFRS		Canadian GAAP	
Financing	441.5	504.7	305.6	76.2	194.0
Subordinate Financing	35.1	36.2	20.4	10.2	6.8
Venture Capital	(8.1)	(42.7)	(20.8)	(74.1)	(106.3)
Consulting	(11.6)	(11.0)	(8.9)	(4.6)	(2.9)
Securitization	11.4	46.2	70.2	(1.6)	(1.0)
Net income	468.3	533.4	366.5	6.1	90.6
Net income attributable to:					
BDC's shareholder	464.8	520.3	360.3	6.1	90.6
Non-controlling interests	3.5	13.1	6.2	n/a	n/a
Net income	468.3	533.4	366.5	6.1	90.6

BDC Venture Capital recorded an $8.1 million net loss for the year, compared to a $42.7 million net loss recorded last year. This year's results were improved by the divestiture of two investee companies with excellent returns, as well as by a significant decrease in net unrealized depreciation of the existing investment portfolio.

BDC Consulting reported a net loss of $11.6 million, compared to a net loss of $11.0 million last year.

Net income from BDC Securitization was $11.4 million, $34.8 million lower than last year. The decrease in net income was due to lower net interest and fee income, as a result of the decline in the portfolio due to repayments of asset-backed securities.

Net income attributable to non-controlling interests was $3.5 million in fiscal 2013 ($5.9 million in net income from BDC Subordinate Financing and $2.4 million net loss from BDC Venture Capital), and $13.1 million in fiscal 2012 ($14.6 million in net income from BDC Subordinate Financing and $1.5 million net loss from BDC Venture Capital).

Consolidated comprehensive income for fiscal 2013 was $423.6 million, compared to $380.9 million last year. Consolidated comprehensive income comprised $468.3 million in consolidated net income this year and $44.7 million in other comprehensive loss (OCI). OCI for the year was affected by significantly reduced actuarial losses on post-employment benefits of $38.1 million, compared to a loss of $143.1 million in fiscal 2012.

Actuarial gains or losses on post-employment benefits are affected mainly by the discount rate used to determine the defined benefit obligations and the actual return on plan assets. Lower losses recorded in fiscal 2013 were the result of a higher-than-expected return on plan assets, partially offset by a lower discount rate used to value the defined obligations. For further details, refer to Note 18—*Post-Employment Benefits* to the Consolidated Financial Statements.

Consolidated Comprehensive Income

for the years ended March 31 ($ in millions)

	2013	2012	2011	2010	2009
		IFRS		Canadian GAAP	
Net income	468.3	533.4	366.5	6.1	90.6
Other comprehensive income (loss)					
Net change in unrealized gains (losses) on available-for-sale assets	(4.4)	(19.8)	19.8	6.4	0.1
Net change in unrealized gains (losses) on cash flow hedges	(2.2)	10.4	3.8	(0.7)	(2.4)
Actuarial gains (losses) on post-employment benefits	(38.1)	(143.1)	34.7	–	–
Other comprehensive income (loss)	(44.7)	(152.5)	58.3	5.7	(2.3)
Total comprehensive income	423.6	380.9	424.8	11.8	88.3
Total comprehensive income attributable to:					
BDC's shareholder	420.1	367.8	418.6	11.8	88.3
Non-controlling interests	3.5	13.1	6.2	n/a	n/a
Total comprehensive income	423.6	380.9	424.8	11.8	88.3

PERFORMANCE AGAINST OBJECTIVES

The consolidated net income of $468.3 million was $206 million more than the corporate plan objective. Most of the variance is attributable to BDC Financing, which recorded a net income of $441.5 million, $185 million higher than the corporate plan objective, primarily due to the lower-than-anticipated impairment losses on loans. A collective impairment reversals on loans of $50 million was recorded to reflect the improved financial condition of the portfolio.

BDC Subordinate Financing's net income of $35.1 million was $8 million better than the corporate plan objective, mainly due to a better-than-anticipated net change in unrealized appreciation of investments.

BDC Venture Capital's net loss of $8.1 million was $12 million better than the corporate plan objective, mainly because of lower-than-anticipated net realized losses on investments.

BDC Consulting's net loss of $11.6 million was $0.4 million better than expected, mainly as a result of lower-than-anticipated operating and administrative expenses.

BDC Securitization's net income of $11.4 million was $0.9 million higher than expected, mostly due to lower operating and administrative expenses.

BDC FINANCING

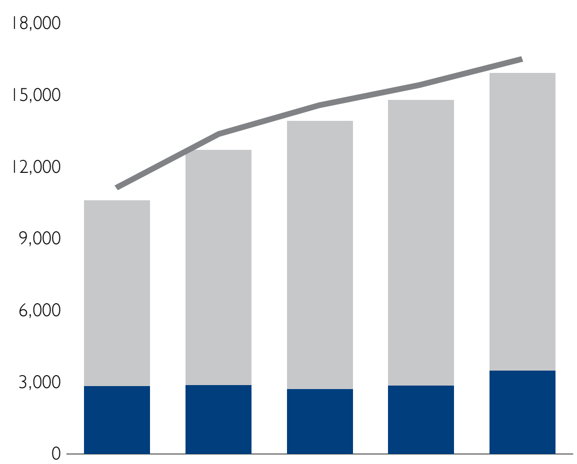
BDC Financing offers entrepreneurs secured and unsecured term loans and specialized services tailored to support them as they create and grow their firms; develop and expand their markets; invest in intangible assets, such as information technology; buy equipment to increase productivity; or transfer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

FINANCING PORTFOLIO

BDC Financing's loan portfolio, before allowance for credit losses, rose 6.9% from $15.3 billion a year ago to $16.4 billion as at March 31, 2013, an increase of $1.1 billion. BDC's loan portfolio growth was still solid this year. The closing portfolio comprises $15.9 billion in performing loans and $0.5 billion in impaired loans. As at March 31, 2013, 78.1% of the performing portfolio was composed of floating-rate loans, slightly lower than the fiscal 2012 level of 80.8%.

Financing Performing Portfolio

as at March 31 ($ in millions)



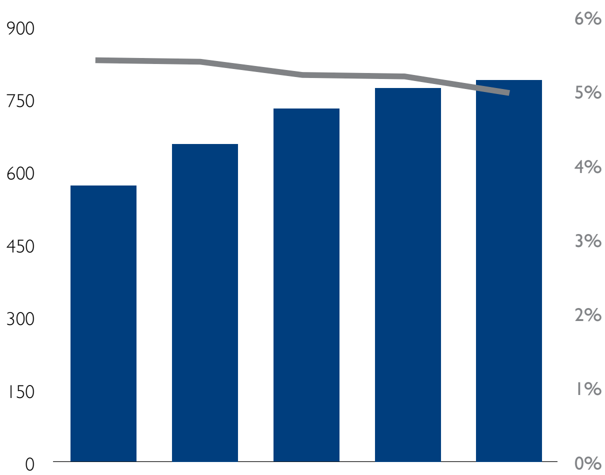
	2009	2010	2011	2012	2013
	Canadian GAAP		IFRS		
Fixed-rate performing portfolio	2,824	2,861	2,706	2,843	3,482
Floating-rate performing portfolio	7,777	9,829	11,214	11,955	12,436
Total performing portfolio	10,601	12,690	13,920	14,798	15,918
Total BDC Financing portfolio	11,117	13,311	14,506	15,349	16,410

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 $796.7 million in fiscal 2013, compared to $779.5 million in fiscal 2012. The increase of $17.2 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, slightly fell from last year, reflecting a lower interest rate environment.

Financing Net Interest and Fee Income

for the years ended March 31 ($ in millions)



	Canadian GAAP 2009	Canadian GAAP 2010	IFRS 2011	IFRS 2012	IFRS 2013
Net interest and fee income	575.8	663.1	736.4	779.5	796.7
As a % of average loan portfolio	5.45%	5.43%	5.25%	5.23%	5.01%

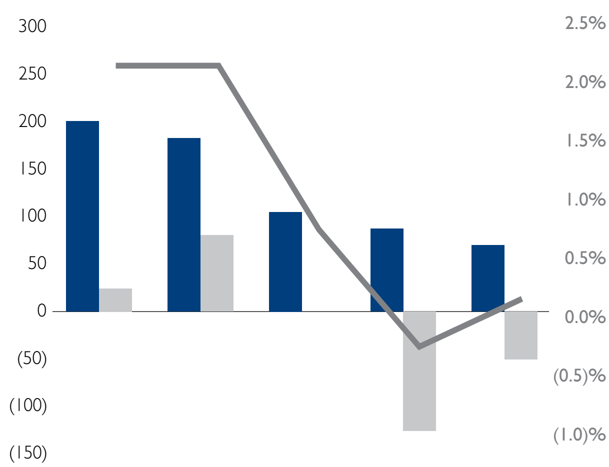
IMPAIRMENT LOSSES (REVERSALS) ON LOANS

Impairment losses (reversals) 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 loan portfolio credit quality has allowed BDC Financing to reduce the amount set aside for existing losses in the loan portfolio. Consequently, in fiscal 2013, BDC Financing recorded impairment losses on loans of $19.1 million, comprising $69.1 million in individual impairment losses and $50.0 million in collective impairment reversals. This compares to $38.2 million in impairment reversals on loans in fiscal 2012, comprising $86.3 million in individual impairment losses and $124.5 million in collective impairment reversals.

Impairment Losses (Reversals) on Loans

for the years ended March 31 ($ in millions)



	Canadian GAAP 2009	Canadian GAAP 2010	IFRS 2011	IFRS 2012	IFRS 2013
Individual	198.7	180.9	104.0	86.3	69.1
Collective	24.1	79.8	–	(124.5)	(50.0)
Impairment losses (reversals) on loans	222.8	260.7	104.0	(38.2)	19.1
As a % of average loan portfolio	2.1%	2.1%	0.7%	(0.3%)	0.1%

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 2.9% of the performing opening portfolio in fiscal 2011 to 2.8% in fiscal 2012 and to 2.1% in fiscal 2013.

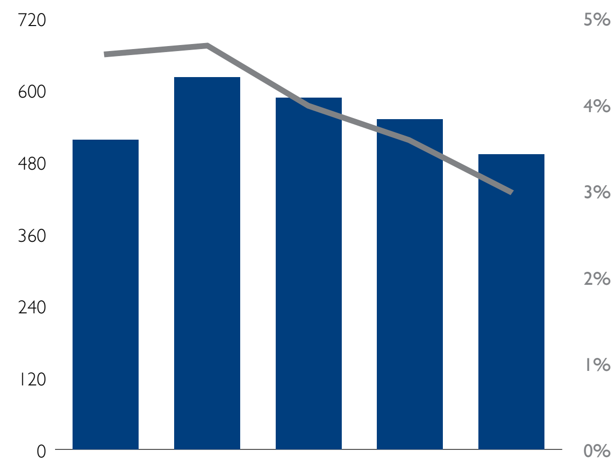
BUSINESS RESTRUCTURING UNIT AND SPECIAL ACCOUNTS
One of the reasons we have fewer impaired loans is that we have a team of employees dedicated to helping entrepreneurs whose businesses are having financial difficulties.

This dedicated team closely manages the $491.8 million in impaired loans, which improved by $59.0 million in fiscal 2013. It represented 3.0% of the total portfolio on March 31, 2013, down from 3.6% on March 31, 2012.

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

Impaired Portfolio

as at March 31 ($ in millions)



	2009	2010	2011	2012	2013
	Canadian GAAP		IFRS		
Impaired portfolio	516.2	620.5	586.2	550.8	491.8
Impaired portfolio as a % of total loan portfolio	4.6%	4.7%	4.0%	3.6%	3.0%

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 in loans downgraded to impaired status observed in our portfolio during fiscal 2012 and 2013, and the continued positive performance of our clients.

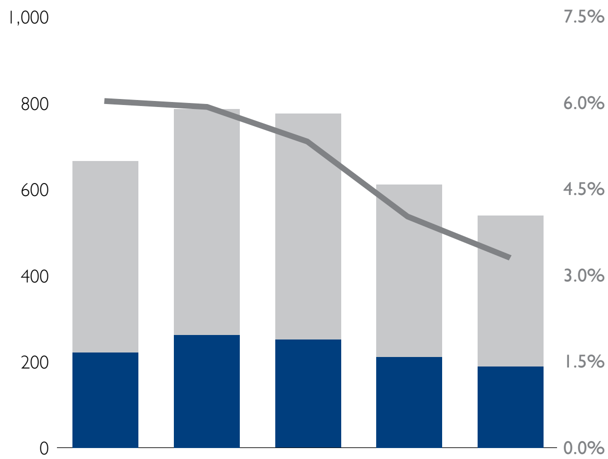
On March 31, 2013, the total allowance was $538.3 million or 3.3% of total loans outstanding compared to $610.2 million or 4.0% of total loans outstanding in fiscal 2012. This decrease reflects the improved financial conditions of our clients and the relatively positive economic environment in Canada.

BDC finances creditworthy projects that are, on average, riskier than the ones the private sector typically accepts. In the event of an economic slowdown, BDC stands ready to increase its response if required.

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)



	2009	2010	2011	2012	2013
	Canadian GAAP		IFRS		
Individual allowance	220.3	260.9	250.2	210.2	188.3
Collective allowance	444.7	524.5	524.5	400.0	350.0
Total allowance	665.0	785.4	774.7	610.2	538.3
Total allowance as a % of loan portfolio	6.0%	5.9%	5.3%	4.0%	3.3%

NET GAINS OR LOSSES ON OTHER FINANCIAL INSTRUMENTS

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

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

During fiscal 2013, BDC Financing recorded net gains on other financial instruments of $2.7 million, which included net realized gains of $1.5 million and net unrealized gains of $1.2 million. This compared with net gains on other financial instruments of $1.5 million in fiscal 2012, comprising net realized gains of $0.2 million and net unrealized gains of $1.3 million.

OPERATING AND ADMINISTRATIVE EXPENSES

Operating and administrative expenses were $338.8 million in fiscal 2013, compared to $314.5 million last year. The increase was mainly due to increased staff levels to support business growth, higher variable compensation driven by improved results, higher pension costs largely driven by lower discount rates, and higher project costs related mainly to the Agility and Efficiency project, a major investment to modernize business delivery and to increase efficiency. The increase was partially offset by cost reductions from our cost containment measures.

PERFORMANCE AGAINST OBJECTIVES

BDC Financing's closing portfolio, net of allowance for credit losses, stands at $15.9 billion, which is 4% higher than the corporate plan objective.

BDC Financing's net income was $185 million higher than planned. This positive result was mainly due to lower-than-anticipated impairment losses on loans.

The significantly lower-than-anticipated loan downgrades and the persistent resilience of our clients were major factors contributing to the decrease in our impaired loans and allowance for credit losses.

In addition, net interest and fee income was $2 million higher than the $795 million anticipated, and total operating and administrative expenses were in line with the corporate plan objective.

BDC SUBORDINATE FINANCING

BDC Subordinate Financing supports high-potential, growth-oriented firms by providing flexible debt with or without convertible features and equity-type financing for entrepreneurs. It offers tailored solutions to help firms that are past the start-up phase and need money to sustain growth. It takes more risks by accepting less security and financing intangibles, which is important as the Canadian economy becomes more knowledge based, and entrepreneurs finance ideas and concepts rather than bricks and mortar. In addition, BDC Subordinate Financing helps Canadian firms transition from one owner to the next.

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.

SUBORDINATE FINANCING PORTFOLIO

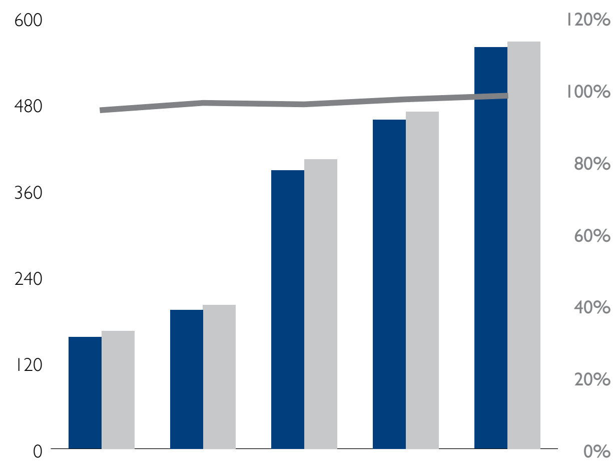
BDC Subordinate Financing's portfolio increased by 22.0%, from $457.4 million in fiscal 2012 to $557.8 million in fiscal 2013. The most important factor contributing to this growth was the higher level of activities. In fiscal 2013, total disbursements jumped by 38.5% to $195.1 million, compared with disbursements of $140.9 million in fiscal 2012.

The fair value of the portfolio as a percentage of cost reached 98.6%, an indication of its good health.

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.

Subordinate Financing Portfolio

as at March 31 ($ in millions)



	2009	2010	2011	2012	2013
	Canadian GAAP		IFRS		
Fair value	155.1	193.2	387.1	457.4	557.8
Cost	164.0	200.0	402.5	468.5	566.0
Fair value as % of cost	94.6%	96.6%	96.2%	97.6%	98.6%

INCOME FROM SUBORDINATE FINANCING

BDC Subordinate Financing reported net income of $35.1 million for the year, $1.1 million lower than in fiscal 2012. Net income included $5.9 million attributable to non-controlling interests in fiscal 2013, and $14.6 million last year. Net interest income of $47.0 million was 15.5% higher than the $40.7 million recorded last year, due to the significant growth of the portfolio. Net realized losses on investments of $12.1 million were $10.9 million higher than last year. In addition, fee and other income was up $4.2 million from last year.

The net change in unrealized appreciation of investments of $2.9 million was lower than last year, by $1.3 million. The net change in unrealized appreciation of investments included:

- a $3.1 million net fair value depreciation of the portfolio ($1.9 million appreciation in 2012); and
- a reversal of net fair value depreciation due to realized income totalling $6.0 million ($2.3 million in 2012).

Operating and administrative expenses decreased by $0.6 million from last year.

PERFORMANCE AGAINST OBJECTIVES

Net income from BDC Subordinate Financing of $35.1 million in fiscal 2013 was higher than the corporate plan objective of $27 million. This difference was mainly due to a better-than-anticipated net change in unrealized appreciation of investments.

BDC VENTURE CAPITAL

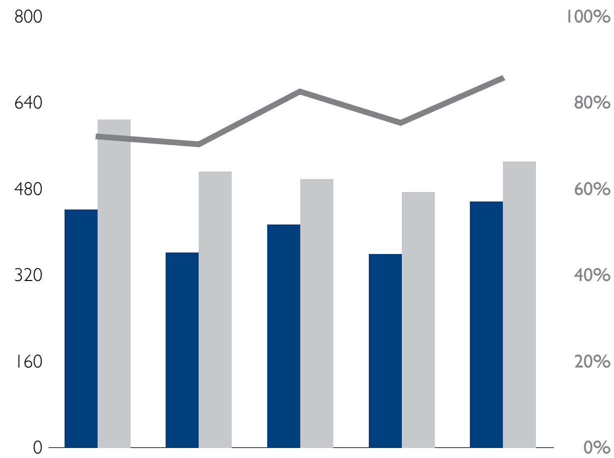
BDC Venture Capital is a major investor in Canada, active at every stage of its firms' development cycles from seed through expansion. It focuses on innovative, technology-based companies that have high growth potential, offer unique products or services, and are positioned to become dominant players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

BDC Venture Capital invests primarily in companies involved in the areas of energy/clean tech, health care and information technology.

The environment for venture capital remains challenging. BDC Venture Capital's objective is to help return the venture capital industry to health, where potential for profitability attracts private sector investors. To achieve this, it is investing in innovative, technology-driven Canadian companies directly; indirectly through external private sector venture funds; and by undertaking strategic initiatives and making targeted investments.

BDC Venture Capital Portfolio—Total Investments

as at March 31 ($ in millions)



	2009	2010	2011	2012	2013
	Canadian GAAP		IFRS		
Fair value	441.6	362.3	413.8	359.0	456.7
Portfolio (cost)	608.7	512.4	498.4	474.4	531.1
Fair value as % of cost	72.5%	70.7%	83.0%	75.7%	86.0%

VENTURE CAPITAL PORTFOLIO

The fair value of the portfolio increased from $359.0 million in fiscal 2012 to $456.7 million this year. The portfolio is composed of $329.9 million of direct investments and $126.8 million of investments in 29 funds. The increase in the portfolio fair value is mainly due to higher disbursements for investments, in addition to lower net fair value decreases.

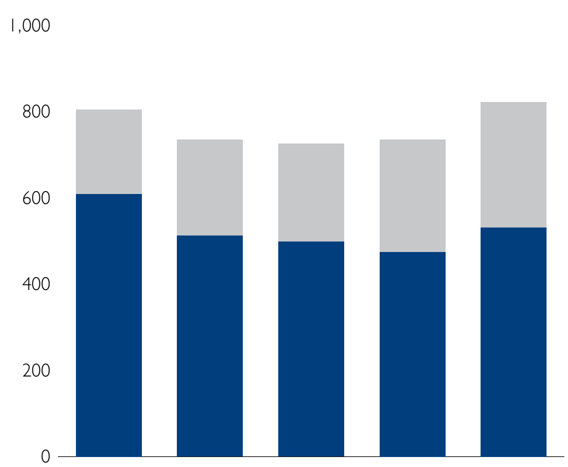
The fair value of the portfolio as a percentage of cost was 86.0% as at March 31, 2013, compared to 75.7% last year.

The total venture capital commitment to clients, which represents the portfolio outstanding at cost plus undisbursed commitments, amounted to $821.9 million as at March 31, 2013. This represents $405.5 million committed to direct investments and $416.4 million to private sector investment funds.

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

Total Commitment to Venture Capital Clients

as at March 31 ($ in millions)



	2009	2010	2011	2012	2013
	Canadian GAAP		IFRS		
Portfolio (cost)	608.7	512.4	498.4	474.4	531.1
Undisbursed commitment	196.0	222.6	228.1	261.1	290.8
Total commitment to venture capital clients	804.7	735.0	726.5	735.5	821.9

LOSS FROM VENTURE CAPITAL

BDC Venture Capital's financial profitability is tempered by strategic investments in collaborative initiatives with carefully chosen start-up firms, investors and organizations that are using new ways to stoke innovation in the venture capital industry. In the absence of these, its financial profitability would be higher.

In fiscal 2013, BDC Venture Capital recorded a net loss of $8.1 million, compared to a $42.7 million net loss last year. This year's results were improved by the positive return generated by the divestiture of two investee company, as well as by the significant improvement in unrealized appreciation of investments due to an excellent expected divesture of an investee company in April 2013.

Net realized losses on investments amounted to $34.6 million this year, compared to net realized gains of $7.6 million last year. Fiscal 2013 results included $23.0 million in net realized gains from sales and $57.6 million in write-offs. The net realized losses on investments had minimal impact on results, as the changes in fair value on these investments made in prior periods were reversed at the time of exit.

BDC recorded a net change in unrealized appreciation of investments of $38.9 million, (compared to unrealized depreciation of investments of $35.6 million last year), which included the following:

> $3.2 million in net fair value depreciation of the portfolio ($30.4 million in net fair value depreciation last year); and

> a reversal of net fair value depreciation on divested investments and write-offs totalling $42.1 million (reversal of net fair value appreciation and write-offs of $5.2 million last year).

Net unrealized foreign exchange gains of $2.1 million on investments were 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, $0.9 million in net losses on foreign exchange contracts partially offset gains recognized due to U.S. dollar fluctuations.

Operating and administrative expenses were $19.4 million, in line with the amount recorded in fiscal 2012.

BDC Venture Capital net loss attributable to non-controlling interests was $2.4 million for the year, $0.9 million higher than last year.

PERFORMANCE AGAINST OBJECTIVES

BDC Venture Capital's net loss of $8.1 million was lower than the $20 million net loss anticipated in the corporate plan. This was largely due to lower-than-anticipated net realized losses on investments. Operating and administrative expenses were lower than the corporate plan objective. Net loss attributable to non-controlling interests of $2.4 million was $1.4 million higher 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.

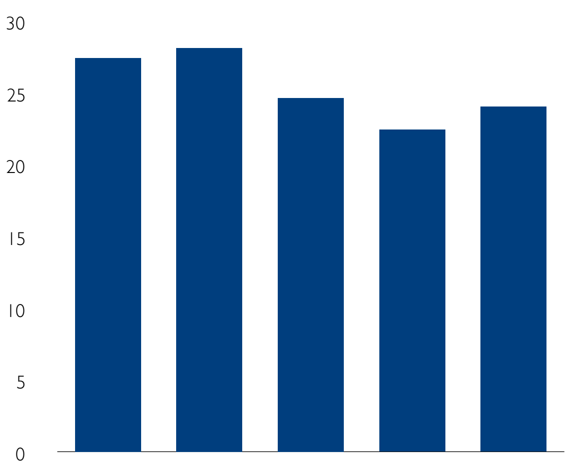
LOSS FROM CONSULTING

BDC Consulting revenues of $24.0 million were $1.6 million higher than the revenues of $22.4 million recorded last year. Operating and administrative expenses of $35.7 million were $2.3 million higher than those recorded in fiscal 2012.

The net loss for the year was $11.6 million, slightly higher than the $11.0 million net loss recorded in fiscal 2012.

Consulting Revenue

for the years ended March 31 ($ in millions)



2009	2010	2011	2012	2013
Canadian GAAP		IFRS		
27.4	28.1	24.6	22.4	**24.0**

In fiscal 2012, BDC started a review of its consulting group in order to refine its approach to providing value-added advisory services to entrepreneurs, particularly small businesses. The review of BDC Consulting was recently completed and a transition plan is expected to be phased in, starting in fiscal 2014. This transition will affect BDC Consulting results.

PERFORMANCE AGAINST OBJECTIVES

For fiscal 2013, the net loss of $11.6 million in BDC Consulting was slightly lower than the corporate plan objective of $12 million.

Revenues were $24.0 million, which was $1 million lower than anticipated. On the other hand, operating and administrative expenses were also $1.3 million less than expected.

BDC SECURITIZATION

BDC played an important role during the economic crisis at the request of the Government of Canada 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 to restart the securitization market in Canada. The CSCF program is now over and the portfolio is forecast to reach maturity in fiscal 2014.

The Funding Platform for Independent Lenders (F-PIL, formerly known as the Multi-Seller Platform for Small Originators, or MSPSO) is a program aimed at helping small and medium-sized financing and leasing companies in the vehicle, machinery and equipment sectors. F-PIL leverages existing private sector financing structures and is an efficient and effective way to complement BDC's direct financing of these assets. To date, BDC has authorized $705 million under its F-PIL program, of which $265 million was authorized in fiscal 2013.

SECURITIZATION PORTFOLIO

As at March 31, 2013, total asset-backed securities stood at $437.5 million, compared to $763.2 million in fiscal 2012. The decrease in the portfolio was mainly due to payments received as per the expected maturity profile of the CSCF portfolio. Total disbursements for the year under the F-PIL program were $193.4 million.

INCOME FROM SECURITIZATION

BDC Securitization recorded net income of $11.4 million for the year, $34.8 million lower than last year, mainly due to lower net interest income as a result of the decline of the portfolio.

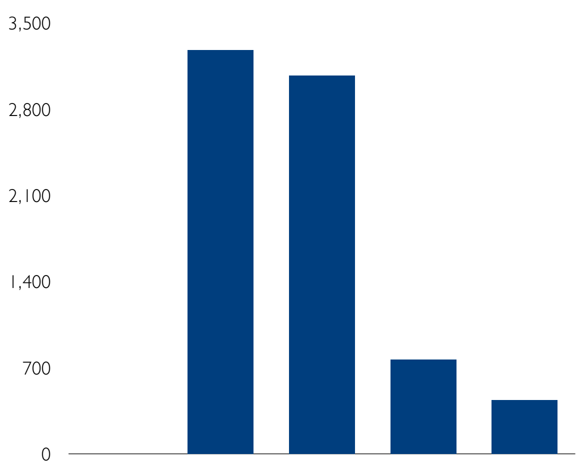
Operating and administrative expenses amounted to $1.6 million in fiscal 2013, $0.1 million lower than last year.

PERFORMANCE AGAINST OBJECTIVES

Net income of $11.4 million was $0.9 million more than anticipated, mostly due to lower-than-anticipated operating and administrative expenses.

Asset-Backed Securities Portfolio

as at March 31 ($ in millions)



	2009	2010[1]	2011	2012	**2013**
	Canadian GAAP		IFRS		
	n/a	3,277	3,069	763	**437**

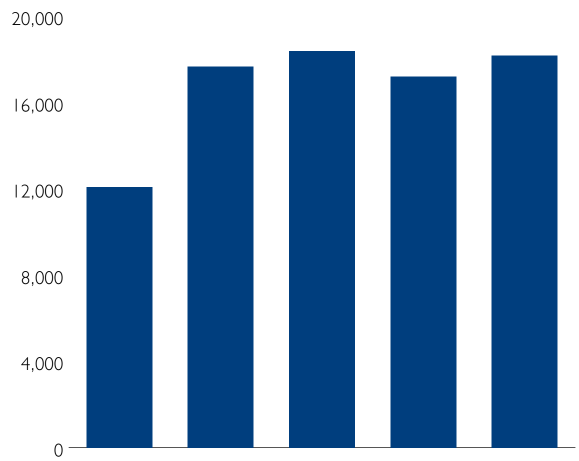
(1) Restated to include accrued interest.

CONSOLIDATED FINANCIAL POSITION AND STATEMENT OF CASH FLOWS

Total assets of $18.2 billion increased by $1.0 billion from a year ago, largely due to the $1.1 billion increase in our loans portfolio, combined to a $0.2 billion increase in the subordinate financing and venture capital investment portfolios, offset by the $0.3 billion decrease in asset-backed securities (ABS).

Total Assets—BDC

as at March 31 ($ in millions)



	2009	2010	2011	2012	**2013**
	Canadian GAAP		IFRS		
	12,091	17,680	18,400	17,220	**18,184**

The ABS portfolio stood at $0.4 billion as at March 31, 2013, compared to $0.8 billion at March 31, 2012. This portfolio consists mainly of AAA-rated term securities purchased under the CSCF program and of implied AAA-rated securities purchased under the F-PIL program. The decline of the portfolio is due to repayments of ABS.

At $15.9 billion, the loan portfolio represented BDC's largest asset ($16.4 billion in gross portfolio net of $0.5 billion allowance for credit losses). The loan portfolio has grown by 7.7% since March 31, 2012, mostly due to an increase in disbursements and a decrease in total allowance for credit losses.

As for BDC's investment portfolios, the BDC Subordinate Financing portfolio stood at $557.8 million, representing growth of 22.0% since March 31, 2012. The BDC Venture Capital portfolio was $456.7 million at March 31, 2013, compared to $359.0 million at March 31, 2012. Disbursements accounted for most of the increase in both portfolios.

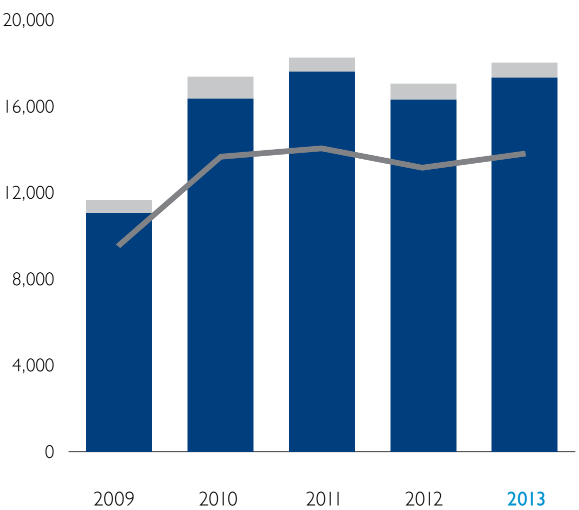
Derivative assets of $82.2 million and derivative liabilities of $16.2 million reflect the fair value of derivative financial instruments as at March 31, 2013. Net derivative fair value decreased by $4.5 million compared to the value at March 31, 2012, as a result of maturities and redemptions of structured debt.

Post-employment benefit liability amounted to $202.7 million at March 31, 2013, representing a decrease of $17.5 million compared to March 31, 2012, post-employment benefit liability of $220.2 million. This decrease was the result of a higher-than-expected return on plan assets and increased funding contributions. For further information, refer to Note 18—*Post-Employment Benefits* to the Consolidated Financial Statements.

BDC holds cash and cash equivalents in accordance with its Treasury Risk Policy. The Bank's liquidities, which ensure funds are available to meet BDC's cash outflows, totalled $701.7 million at March 31, 2013, compared to $740.7 million at March 31, 2012.

Borrowings

as at March 31 ($ in millions)



	2009	2010	2011	2012	2013
Liquid assets	604	1,014	653	741	702
Portfolios[(1)]	11,049	16,358	17,601	16,319	17,324
Borrowings	9,646	13,736	14,125	13,224	13,868

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

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

For the year ended March 31, 2013, cash flow provided by investing activities amounted to $100.6 million. Financing activities provided $539.1 million in cash flow, as long-term notes were repaid for $1,072.6 million and short-term notes were issued for $1,515.4 million. Operating activities used $678.7 million in cash flow.

At March 31, 2013, BDC funded its portfolios and liquidities with borrowings of $13.9 billion and total equity of $3.9 billion. Borrowings comprised $12.7 billion in short-term notes and $1.1 billion in long-term notes.

As at March 31, 2013, total equity consisted of $3.9 billion attributable to BDC's shareholder and $82.8 million attributable to non-controlling interests.

BDC's return on common equity reached 12.2% in fiscal 2013, above the 10-year moving average cost of capital of 2.4% for the Government of Canada's three-year bonds.

Total Equity

as at March 31 ($ in millions)

	2013	2012	2011[(1)]	2010	2009
		IFRS		Canadian GAAP	
Equity					
Share capital	2,088.4	2,088.4	2,514.4	2,744.4	1,288.4
Contributed surplus	27.8	27.8	27.8	27.8	27.8
Retained earnings	1,736.6	1,378.6	1,046.4	869.8	878.1
Accumulated other comprehensive income (loss)	8.6	15.2	24.6	1.0	(4.7)
Equity attributable to BDC's shareholder	3,861.4	3,510.0	3,613.2	3,643.0	2,189.6
Non-controlling interests	82.8	115.3	146.6	n/a	n/a
Total equity	3,944.2	3,625.3	3,759.8	3,643.0	2,189.6
ROE[(2)]	12.2%	13.7%	10.8%	0.0%	4.7%

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

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

DIVIDENDS

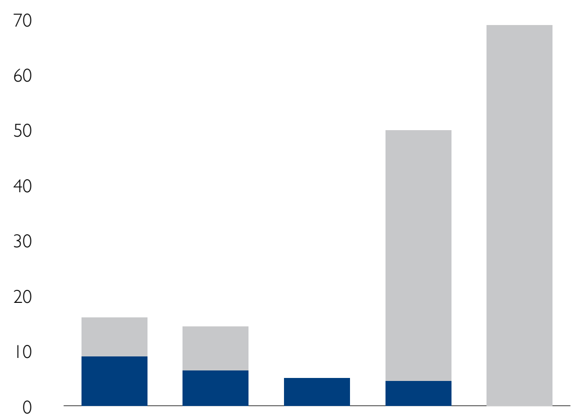
BDC pays dividends to its sole shareholder, the Government of Canada. A total dividend of $68.6 million was paid in fiscal 2013.

Based on fiscal 2013 performance, BDC will make an additional payment of $59.6 million in dividends on common shares, which will be declared and paid after March 31, 2013.

Under IFRS, BDC's preferred dividends are considered 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. Since BDC repurchased all of its outstanding preferred shares on March 30, 2012, there were no dividends on preferred shares paid in fiscal 2013.

Dividends

for the years ended March 31 ($ in millions)

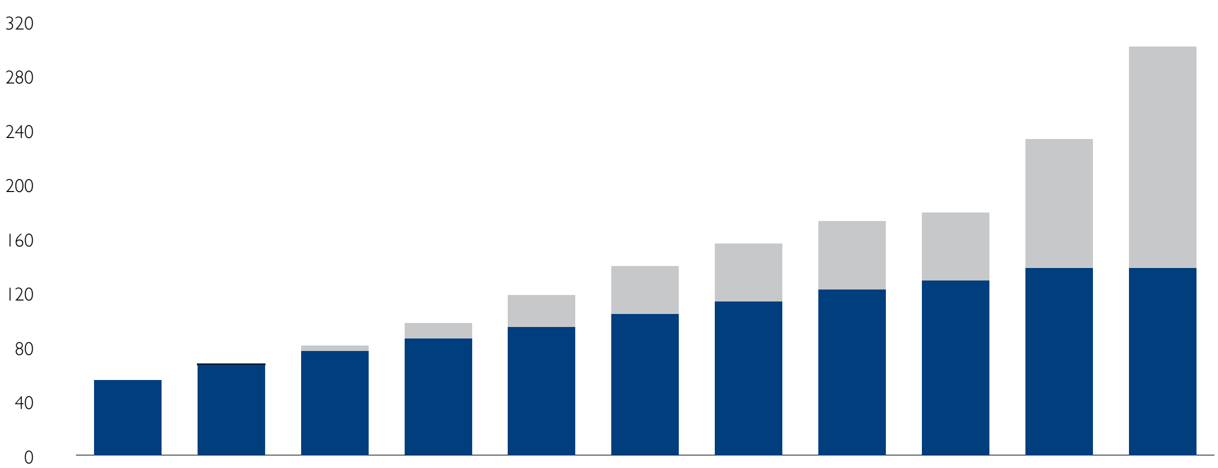


	2009	2010	2011	2012	2013
	Canadian GAAP		IFRS		
Preferred dividends declared	8.9	6.4	5.0	4.5	–
Common dividends declared[(1)]	7.0	7.9	–	45.1	68.6
Total dividends declared	15.9	14.3	5.0	49.6	68.6

(1) Based on previous year's performance.

Cumulative Dividends Paid

as at March 31 ($ in millions)



	1998–2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Preferred dividends paid	55.7	67.1	77.3	86.4	95.1	104.5	114.0	122.9	129.3	138.8	138.8
Common dividends paid	–	0.4	3.8	11.5	23.6	35.7	42.7	50.6	50.6	95.7	164.3
Total dividends paid	55.7	67.5	81.1	97.9	118.7	140.2	156.7	173.5	179.9	234.5	303.1

CAPITAL MANAGEMENT

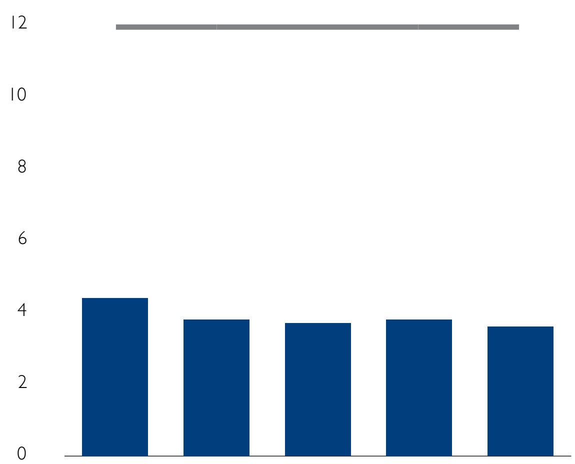
STATUTORY LIMITATIONS

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, 2013, was 3.6:1, compared with 3.8:1 at March 31, 2012.

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, 2013, these amounts totalled $2.116 billion, which is the same as was reported at March 31, 2012.

Debt-to-Equity Ratio

as at March 31



	2009	2010	2011	2012	2013
	Canadian GAAP		IFRS		
Actual	4.4	3.8	3.7	3.8	3.6
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 F-PIL 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* to the Consolidated Financial Statements.

While BDC is not required to meet the requirements of the Basel 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* to the Consolidated Financial Statements. Several factors, particularly the discount rate used to value future liabilities, influence the calculation of those obligations. For accounting measurement purposes, the discount rate used at each measurement date is based on market interest rates for long-term, high-quality debt instruments.

BDC's employer contributions to the registered pension plan totalled $87.6 million in fiscal 2013, compared to $61.6 million in fiscal 2012. 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, 2013, the funded status of the registered pension plan was in a surplus position on a going-concern basis and in a deficit position on a solvency basis. 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 2014

While external factors, including the situations in the U.S. and Europe, are creating short-term uncertainty, BDC expects Canada's economic fundamentals to remain relatively stable. Business investment is strong in Canada, as firms proceed with projects they put on hold during the recession and take advantage of historically low interest rates and a strong Canadian dollar.

BDC's net income is expected to reach $348 million in fiscal 2014, of which $347 million is attributable to BDC's shareholder. The decrease in net income is mainly due to the expected increase in impairment losses on loans and the increase in pension costs. BDC is forecasting dividend payments of $59 million in 2014.

BDC FINANCING

BDC is working to address market needs while focusing on its complementary role. It is encouraging SMEs to improve their competitiveness by taking advantage of excellent investment conditions to improve their levels of productivity and innovation through financing for working capital, equipment and ICT.

BDC expects net financing acceptances to remain stable at $4.2 billion in fiscal 2014, in part due to BDC's focus on small loans. With the level of authorizations and disbursements remaining stable and scheduled payments and prepayments increasing, the portfolio is expected to grow by 6.7% from March 31, 2013, to $17.5 billion in fiscal 2014.

BDC Financing is expected to generate net income of $342 million in fiscal 2014, as impairment losses return to more typical levels. BDC projects the impairment losses on loans will amount to $139 million or 0.8% of the average outstanding financing portfolio. Net interest and fee income is expected to increase to $840 million in fiscal 2014. Operating and administrative expenses are expected to increase to $357 million in fiscal 2014. Contributing to this increase are the costs related to BDC's Agility and Efficiency project, which seeks to streamline internal operations and improve client services. In addition, pension costs are expected to increase as the amended version of International Accounting Standards (IAS) 19, *Employee Benefits*, will become effective. Expressed as a percentage of the average portfolio, operating and administrative expenses are expected to remain stable.

BDC SUBORDINATE FINANCING

BDC Subordinate Financing will continue to address the needs of high-growth firms through its specialized subordinate financing product. The volume of acceptances is expected to reach $195 million in fiscal 2014, from $190 million in fiscal 2013. The portfolio at fair value is expected to grow from $558 million in fiscal 2013 to $617 million in fiscal 2014.

Net income is projected to be $40 million, including net income attributable to non-controlling interests of $4 million. Operating and administrative expenses are expected to increase in fiscal 2014 due to the additional resources required to support the significant growth of the portfolio.

BDC VENTURE CAPITAL

Through its strategy of direct and indirect investing and its role supporting the venture capital ecosystem, BDC Venture Capital is working to improve the health of the venture capital market, where the potential for profitability will attract private sector investors.

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 Healthcare Venture Fund. These three internal funds are focusing on building leading Canadian technology businesses. We have also created a Strategic Investments and Initiatives (SII) team dedicated to developing new and innovative initiatives to reinforce key areas in the venture capital investment community and ecosystem. Although BDC is optimistic about the direction of its new strategy, net results will reflect the sustained poor performance of the Canadian venture capital industry, which has persisted for over a decade.

In Budget 2013, the Government of Canada announced $100 million for investments in strategic partnerships with business accelerators and co-investments in graduate firms. To fulfill this government priority, BDC has been tasked with creating and implementing a program, which it has called the Venture Capital Strategic Investment Plan (VCSIP). Through VCSIP, BDC will deploy $100 million of its own capital, in addition to that already allocated to its SII activities, over the next five years.

BDC Venture Capital estimates that, in fiscal 2014, it will authorize $155 million, which includes $59 million in direct investments, $60 in indirect investments and $36 million in SII (including $20 million in VCSIP). The fair value of the venture capital portfolio is expected to reach $471 million by March 31, 2014.

In fiscal 2014, BDC Venture Capital forecasts a net loss of $20 million, including a net loss of $3 million attributable to non-controlling interests. Operating and administrative expenses are projected to be $23 million.

BDC CONSULTING

In fiscal 2013, BDC undertook a review of the BDC Consulting group that resulted in the decision to refine its approach to providing value-added advisory services to entrepreneurs, particularly small businesses. BDC plans to increase its investment in affordable advisory services, both in terms of people and solutions, to ensure a greater impact on clients, regardless of location.

Consulting revenues are expected to remain uncertain as BDC lays the foundation for its refined approach. This includes identifying the consulting solutions and methodologies that will have the most positive impact on clients and ensure BDC's complementary approach to the market. During this time, BDC will invest in business methodologies and content, as well as technology to improve internal efficiencies. Investments to refine the BDC Consulting model will increase both operating expenses and net losses. BDC expects net losses to be $18 million in fiscal 2014.

BDC SECURITIZATION

The Canadian Secured Credit Facility (CSCF) program is now over. No new authorizations are being made and the portfolio is decreasing as repayments are being made as expected. The portfolio is forecast to reach maturity in fiscal 2014. Unused capital that the Government of Canada provided for this program was returned on March 30, 2012.

BDC will continue to operate the Funding Platform for Independent Lenders (F-PIL) program, aimed at providing vehicle, machinery and equipment financing to smaller financing companies. BDC expects acceptances to reach $545 million in fiscal 2014.

The BDC Securitization total portfolio is expected to close at a fair value of $625 million as at March 31, 2014. Total net income for fiscal 2014 is projected to be $10 million.

VENTURE CAPITAL ACTION PLAN (VCAP)

BDC's role in supporting credit markets during the recent global financial crisis is an excellent example of how BDC can respond quickly and ably to government priorities. With Canadian credit markets now stabilized, the Government of Canada has turned again to BDC for help in strengthening the entrepreneurial ecosystem.

In Budget 2012, the government indicated that it would invest $400 million to increase private sector venture capital financing for high-potential, innovative Canadian businesses. In January 2013, the Prime Minister announced the Venture Capital Action Plan (VCAP), a comprehensive strategy for deploying the new capital over the next seven to 10 years. The government has requested that BDC's resources and expertise be used to support the Department of Finance in this initiative.

COST CONTAINMENT

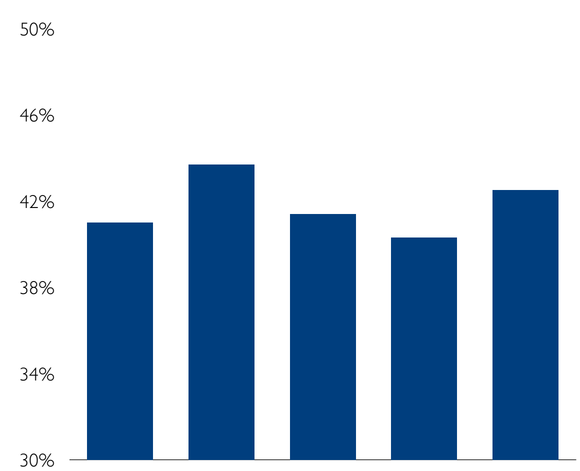
As can be seen in the graph below, operational efficiency is a longstanding, ongoing objective at BDC.

In Budget 2010, the government announced cost containment measures to improve efficiency and reduce the rate of growth in operating expenditures in 2010-2011 and the following two years. Budget 2011 initiated the Strategic Review to achieve annual savings in government operations.

As a Crown corporation that does not receive government appropriations, BDC is not formally subject to the Strategic Review. Nevertheless, it is committed to the spirit and intent of the exercise to increase operating efficiency. We met most of our cost containment targets, i.e., we reduced discretionary spending on items such as travel, meals, accommodation, consulting and advertising. But our efficiency ratio increased because we invested in corporate projects and incurred higher compensation and pension costs.

BDC Financing Efficiency Ratio(1)(2)

for the years ended March 31



2009	2010	2011	2012	2013
Canadian GAAP		IFRS		
41.0%	43.7%	41.4%	40.3%	42.5%

(1) A lower ratio indicates improved efficiency.

(2) See the glossary on page 150 for a detailed definition.

5. Accounting and Control Matters

SIGNIFICANT ACCOUNTING POLICIES

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.

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, 2013. As a result, they have not been applied in preparing our Fiscal 2013 Consolidated Financial Statements.

Information on new standards, amendments and interpretations that are expected to affect BDC is provided in Note 4 to the Consolidated Financial Statements. Revisions made to these standards could potentially have a significant impact on BDC's financial statements in the coming years.

JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

BDC's significant accounting judgements, estimates and assumptions are described in Note 5 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, impairment of available-for-sale assets, qualifying hedge relationships, post-employment benefits and consolidation.

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, 2013, certifying officers evaluated the design and effectiveness of internal control over financial reporting. Based on the results of the evaluation, they concluded that internal control over financial reporting is adequately designed and operates effectively to provide reasonable assurance about the reliability of financial reporting and of financial statements prepared in accordance with IFRS.

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

As of March 31, 2013, 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	70
Independent Auditors' Report	71
Consolidated Statement of Financial Position	72
Consolidated Statement of Income	73
Consolidated Statement of Comprehensive Income	74
Consolidated Statement of Changes in Equity	75
Consolidated Statement of Cash Flows	76
Notes to the Consolidated Financial Statements	77

Management's Responsibility for Financial Information

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

In discharging its responsibility for the integrity, fairness and quality of the Consolidated Financial Statements and for the accounting systems from which they are derived, management maintains a system of internal control designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. BDC has a certification regime to evaluate the design and effectiveness of its internal control over financial reporting and its disclosure controls and procedures. This certification regime is based on the Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Refer to the *Management's Discussion and Analysis* section of the annual report for additional information (p. 67).

The system of internal control 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 12, 2013

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 statement of financial position as at 31 March 2013, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Business Development Bank of Canada as at 31 March 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

Further, in our opinion, the transactions of Business Development Bank of Canada and its wholly owned subsidiary that have come to our notice during our audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Business Development Bank of Canada Act*, the charter and by-laws of the Business Development Bank of Canada and its wholly owned subsidiary and the 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

12 June 2013
Montréal, Canada

Consolidated Statement of Financial Position

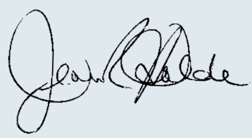
As at March 31 (in thousands of Canadian dollars)

	Notes	2013	2012
Assets			
Cash and cash equivalents	7	**701,678**	740,667
Derivative assets	8	**82,159**	87,681
Loans and investments			
Asset-backed securities	9	**437,453**	763,200
Loans	10	**15,871,635**	14,739,271
Subordinate financing investments	11	**557,840**	457,369
Venture capital investments	12	**456,708**	358,951
Total loans and investments		**17,323,636**	16,318,791
Property and equipment	13	**25,671**	25,171
Intangible assets	14	**35,314**	32,094
Other assets	15	**15,447**	15,478
Total assets		**18,183,905**	17,219,882
Liabilities and equity			
Liabilities			
Accounts payable and accrued liabilities	16	**106,440**	89,229
Derivative liabilities	8	**16,212**	17,244
Borrowings	17		
Short-term notes		**12,731,629**	11,214,813
Long-term notes		**1,136,267**	2,008,943
Total borrowings		**13,867,896**	13,223,756
Post-employment benefit liability	18	**202,713**	220,169
Other liabilities	19	**46,437**	44,223
Total liabilities		**14,239,698**	13,594,621
Equity			
Share capital	20	**2,088,400**	2,088,400
Contributed surplus		**27,778**	27,778
Retained earnings		**1,736,688**	1,378,617
Accumulated other comprehensive income		**8,568**	15,185
Equity attributable to BDC's shareholder		**3,861,434**	3,509,980
Non-controlling interests		**82,773**	115,281
Total equity		**3,944,207**	3,625,261
Total liabilities and equity		**18,183,905**	17,219,882

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

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

Brian Hayward
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)

	2013	2012
Interest income	**967,791**	973,812
Interest expense	**124,302**	121,843
Net interest income	**843,489**	851,969
Net realized gains (losses) on investments	**(46,685)**	6,396
Consulting revenue	**24,042**	22,384
Fee and other income	**38,838**	34,935
Net realized gains (losses) on other financial instruments	**4,140**	(2,239)
Net revenue	**863,824**	913,445
Impairment reversals (losses) on loans	**(19,076)**	38,235
Net change in unrealized appreciation (depreciation) of investments	**41,940**	(31,368)
Net unrealized foreign exchange gains (losses) on investments	**2,056**	4,805
Net unrealized gains (losses) on other financial instruments	**(2,415)**	326
Income before operating and administrative expenses	**886,329**	925,443
Salaries and benefits	**273,817**	256,859
Premises and equipment	**38,050**	36,334
Other expenses	**106,151**	98,803
Operating and administrative expenses	**418,018**	391,996
Net income	**468,311**	533,447
Net income attributable to		
BDC's shareholder	**464,817**	520,335
Non-controlling interests	**3,494**	13,112
Net income	**468,311**	533,447

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)

	2013	2012
Net income	**468,311**	533,447
Other comprehensive income (loss)		
Net change in unrealized gains (losses) on available-for-sale assets	**(4,434)**	(19,819)
Net unrealized gains (losses) on cash flow hedges	**(695)**	10,647
Reclassification to net income of losses (gains) on cash flow hedges	**(1,488)**	(236)
Net change in unrealized gains (losses) on cash flow hedges	**(2,183)**	10,411
Actuarial gains (losses) on post-employment benefits	**(38,122)**	(143,078)
Other comprehensive income (loss)	**(44,739)**	(152,486)
Total comprehensive income	**423,572**	380,961
Total comprehensive income attributable to:		
BDC's shareholder	**420,078**	367,849
Non-controlling interests	**3,494**	13,112
Total comprehensive income	**423,572**	380,961

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)

	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss) Available-for-sale assets	Accumulated other comprehensive income (loss) Cash flow hedges	Accumulated other comprehensive income (loss) Total	Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
Balance as at March 31, 2012	2,088,400	27,778	1,378,617	6,351	8,834	15,185	3,509,980	115,281	3,625,261
Total comprehensive income									
Net income			464,817				464,817	3,494	468,311
Other comprehensive income (loss)									
Net change in unrealized gains (losses) on available-for-sale assets				(4,434)		(4,434)	(4,434)		(4,434)
Net change in unrealized gains (losses) on cash flow hedges					(2,183)	(2,183)	(2,183)		(2,183)
Actuarial gains (losses) on post-employment benefits			(38,122)				(38,122)		(38,122)
Other comprehensive income (loss)	–	–	(38,122)	(4,434)	(2,183)	(6,617)	(44,739)	–	(44,739)
Total comprehensive income	–	–	426,695	(4,434)	(2,183)	(6,617)	420,078	3,494	423,572
Dividends on common shares			(68,624)				(68,624)		(68,624)
Distributions to non-controlling interests								(39,517)	(39,517)
Capital injections from non-controlling interests								3,515	3,515
Transactions with owner, recorded directly in Equity	–	–	(68,624)	–	–	–	(68,624)	(36,002)	(104,626)
Balance as at March 31, 2013	2,088,400	27,778	1,736,688	1,917	6,651	8,568	3,861,434	82,773	3,944,207

	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss) Available-for-sale assets	Accumulated other comprehensive income (loss) Cash flow hedges	Accumulated other comprehensive income (loss) Total	Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
Balance as at March 31, 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

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)

	2013	2012
Operating activities		
Net income	468,311	533,447
Adjustments to determine net cash flows		
Interest income	(967,791)	(973,812)
Interest expense	124,302	121,843
Net realized losses (gains) on investments	46,685	(6,396)
Impairment losses (reversals) on loans	19,076	(38,235)
Net change in unrealized depreciation (appreciation) on investments	(41,940)	31,368
Net unrealized foreign exchange losses (gains) on investments	(2,056)	(4,805)
Net unrealized losses (gains) on other financial instruments	2,415	(326)
Post-employment benefits funding in excess of amounts expensed	(55,578)	(34,268)
Depreciation of property and equipment, and amortization of intangible assets	10,694	10,330
Derecognition of intangible assets	8,284	–
Other	(6,373)	(3,039)
Interest expense paid	(122,841)	(119,460)
Interest income received	960,248	964,934
Disbursements for loans	(3,717,375)	(3,322,984)
Repayments of loans	2,575,803	2,364,160
Changes in operating assets and liabilities		
Net change in accounts payable and accrued liabilities	17,211	2,270
Net change in other assets and other liabilities	2,245	11,237
Net cash flows provided (used) by operating activities	(678,680)	(463,736)
Investing activities		
Disbursements for asset-backed securities	(193,355)	(95,473)
Repayments and proceeds on sale of asset-backed securities	514,573	2,382,603
Disbursements for subordinate financing investments	(195,062)	(140,864)
Repayments of subordinate financing investments	85,832	73,961
Disbursements for venture capital investments	(115,591)	(93,699)
Proceeds on sale of venture capital investments	26,871	126,815
Acquisition of property and equipment	(7,016)	(12,736)
Acquisition of intangible assets	(15,682)	(14,565)
Net cash flows provided (used) by investing activities	100,570	2,226,042
Financing activities		
Net change in short-term notes	1,515,432	1,494,843
Issue of long-term notes	200,929	278,387
Repayment of long-term notes	(1,072,614)	(2,693,012)
Distributions to non-controlling interests	(39,517)	(50,469)
Capital injections from non-controlling interests	3,515	5,993
Repurchase of common shares	–	(426,000)
Repurchase of preferred shares	–	(230,000)
Dividends paid on common shares	(68,624)	(45,071)
Dividends paid on preferred shares	–	(9,541)
Net cash flows provided (used) by financing activities	539,121	(1,674,870)
Net increase (decrease) in cash and cash equivalents	(38,989)	87,436
Cash and cash equivalents at beginning of year	740,667	653,231
Cash and cash equivalents at end of year	701,678	740,667

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

Notes to the Consolidated Financial Statements

For the year ended March 31, 2013
(in thousands of Canadian dollars)

1.

ACT OF INCORPORATION, OBJECTIVES AND OPERATIONS OF THE CORPORATION

The Business Development Bank of Canada is a Crown corporation that was established by an Act of Parliament on December 20, 1974, as the Federal Business Development Bank and continued under its current name by an Act of Parliament that was enacted on July 13, 1995. The Business Development Bank of Canada is incorporated in Canada and wholly owned by the Government of Canada. The Corporation's head office is located at 5 Place Ville Marie, Suite 400, Montreal, Quebec, Canada.

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

BDC does not receive appropriations from the Government of Canada. To finance its objectives, BDC borrows funds from Her Majesty the Queen in Right of Canada acting through the Minister of Finance. Prior to April 21, 2008, BDC issued debt instruments, which were secured by the Government of Canada. The *Business Development Bank of Canada Act* (BDC Act) also allows the use of hybrid capital instruments to provide the capital required for its operations. The Crown would not be liable for payment of amounts owing under such capital instruments, none of which were outstanding as at March 31, 2013, and March 31, 2012.

BDC is for all purposes an agent of Her Majesty the Queen in Right of Canada. BDC is also named in Part I of Schedule III to the *Financial Administration Act* (FAA) and is accountable for its affairs to Parliament through the Minister of 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 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

STATEMENT OF COMPLIANCE

BDC has prepared its Consolidated Financial Statements in accordance with International Financial Reporting Standards (IFRS). These Consolidated Financial Statements were approved for issue by the board of directors on June 12, 2013.

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, if any.

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, 2013, and March 31, 2012. 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 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, 2013, and March 31, 2012.

March 31, 2013

		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	Financial liabilities	Total
Financial assets								
Cash and cash equivalents	7					701,678		701,678
Derivative assets	8	76,757			5,402			82,159
Asset-backed securities	9		3,725	433,728				437,453
Loans	10					15,871,635		15,871,635
Subordinate financing investments	11		557,840					557,840
Venture capital investments	12		456,708					456,708
Other assets(2)	15					9,714		9,714
Total financial assets		76,757	1,018,273	433,728	5,402	16,583,027	–	18,117,187
Financial liabilities								
Accounts payable and accrued liabilities	16						106,440	106,440
Derivative liabilities	8	16,102			110			16,212
Short-term notes	17						12,731,629	12,731,629
Long-term notes	17		630,249				506,018	1,136,267
Other liabilities(2)	19						35,175	35,175
Total financial liabilities		16,102	630,249	–	110	–	13,379,262	14,025,723

(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, 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	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
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.

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.

<u>Financial instruments classified as held-for-trading</u>

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.

<u>Financial instruments designated as fair value through profit or loss</u>

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

FINANCIAL INSTRUMENTS (continued)

CLASSIFICATION OF FINANCIAL INSTRUMENTS (continued)

Fair value through profit or loss (continued)

Financial instruments designated as fair value through profit or loss (continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

FINANCIAL INSTRUMENTS (continued)

CLASSIFICATION OF FINANCIAL INSTRUMENTS (continued)

Financial liabilities measured at amortized cost

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

MAJOR TYPES OF FINANCIAL INSTRUMENTS

Cash equivalents

Cash equivalents include short-term bank notes 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 notes issued by way of prospectus or private placement.

Investment-grade senior ABS are classified as available-for-sale assets and subordinated 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

FINANCIAL INSTRUMENTS (continued)

MAJOR TYPES OF FINANCIAL INSTRUMENTS (continued)

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 reversals 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

FINANCIAL INSTRUMENTS (continued)

MAJOR TYPES OF FINANCIAL INSTRUMENTS (continued)

Derivatives

Derivative financial instruments are financial contracts that derive their value from underlying changes in interest rates, foreign exchange rates, stock market indices, 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 composed 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, 2013, and March 31, 2012, BDC had no embedded derivatives that needed to be separated from a host contract.

INTEREST INCOME, INTEREST EXPENSE AND FEE INCOME

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

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

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

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

PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS (continued)

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 premises and equipment expense in the Consolidated Statement of Income.

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

These assets are also reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Irrespective of whether there is any indication of impairment, an impairment test is also performed 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.

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 and provincial 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. Unrealized 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 are reclassified to net income.

Retained earnings include all current and prior periods' retained earnings or losses, net of dividends paid.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2013. As a result, they have not been applied in preparing these Consolidated Financial Statements.

Information on new standards, amendments to standards and interpretations that are expected to affect BDC is provided below.

DATE OF APPLICATION FOR BDC: APRIL 1, 2013

IAS 1, *PRESENTATION OF FINANCIAL STATEMENTS*
In June 2011, the International Accounting Standards Board (IASB) amended International Accounting Standards (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.

IAS 1 is a presentation standard whose objective is to provide information to allow users to better understand financial statements. The amendments to this standard will have no impact on BDC's results or financial position. They must be applied retrospectively.

IFRS 10, *CONSOLIDATED FINANCIAL STATEMENTS*
In May 2011, the IASB released IFRS 10, *Consolidated Financial Statements*, which replaces Standing Interpretations Committee (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 factor that determines 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.

BDC does not expect the adoption of this new standard, which must be applied retrospectively, to have a significant impact on BDC's results or financial position.

4. FUTURE ACCOUNTING CHANGES (continued)

DATE OF APPLICATION FOR BDC: APRIL 1, 2013 (continued)

IFRS 12, *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 is a new standard on disclosure that will have no impact on BDC's results or financial position. It must be applied retrospectively.

IFRS 13, *FAIR VALUE MEASUREMENT*
In May 2011, the IASB issued IFRS 13, *Fair Value Measurement*. The new standard provides a common definition of fair value and sets out a framework on how to measure fair value using the assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk.

With respect to fair value measurements, BDC does not expect the adoption of this new standard, which is applied prospectively, to have a significant impact.

IAS 19, *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.

BDC has determined that the implementation of this amendment will not have a significant impact on BDC's results or financial position. The amendment must be applied retrospectively.

DATE OF APPLICATION FOR BDC: APRIL 1, 2015

IFRS 9, FINANCIAL INSTRUMENTS
In November 2009 and October 2010, the IASB released IFRS 9, *Financial Instruments*, which is the first phase of a three-phase project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. The first phase covers recognition and derecognition, as well as classification and measurement, of financial assets and liabilities. The new standard specifies that financial assets are measured at either amortized cost or fair value on the basis of how the entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. The classification and measurement of financial liabilities, and derecognition of financial instruments, remain generally unchanged, with most of the requirements in IAS 39 carried forward in IFRS 9.

The other two phases, which are currently under development, address impairment of financial assets and hedge accounting.

BDC is currently assessing the impact of the adoption of IFRS 9. The application of all phases of this standard is expected to be retrospective.

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.

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.

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

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 retirement age, 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, 2013		March 31, 2012	
	Fair value	**Carrying value**	Fair value	Carrying value
Loans and receivables				
Loans	**15,928,340**	**15,871,635**	14,822,351	14,739,271
Financial liabilities				
Long-term notes	**506,623**	**506,018**	1,365,024	1,364,208

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 CLASSIFIED AS FINANCIAL LIABILITIES

The fair value of unstructured long-term notes 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 observability of the inputs used to measure the fair value of assets and liabilities and is defined below:

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

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

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

There have been no transfers between levels 1 and 2 in the reporting periods. Transfers between levels 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, 2013
	Fair value measurements using			Total
	Level 1	Level 2	Level 3	fair value
Assets				
Derivative assets		82,159		82,159
Asset-backed securities		437,453		437,453
Subordinate financing investments	1,809		556,031	557,840
Venture capital investments	32,661		424,047	456,708
	34,470	519,612	980,078	1,534,160
Liabilities				
Derivative liabilities		16,212		16,212
Long-term notes / designated as fair value through profit or loss		630,249		630,249
	–	646,461	–	646,461

				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

(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 $9.9 million in the current period and an equivalent change in retained earnings ($7.4 million in 2012).

			March 31, 2013
	Subordinate financing investments	Venture capital investments	Total
Fair value at April 1, 2012	455,847	337,282	793,129
Net realized gains (losses) on investments	(12,114)	(21,703)	(33,817)
Net change in unrealized appreciation (depreciation) of investments	2,623	30,578	33,201
Net unrealized foreign exchange gains (losses) on investments	–	2,385	2,385
Disbursements for investments	195,062	115,341	310,403
Repayments of investments and other	(85,387)	(17,322)	(102,709)
Transfers from level 3 to level 1	–	(22,514)	(22,514)
Fair value at March 31, 2013	556,031	424,047	980,078

			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

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.

	2013	2012
Net realized gains (losses) on investments	(36,164)	(39,339)
Net change in unrealized appreciation (depreciation) of investments	31,343	(16,335)
Net unrealized foreign exchange gains (losses) on investments	1,963	3,369
Total gains (losses) related to level 3 assets still held at the end of the reporting period	(2,858)	(52,305)

(in thousands of Canadian dollars)

7.

CASH AND CASH EQUIVALENTS

As at March 31, 2013, and March 31, 2012, 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, 2013	March 31, 2012
Cash	**9,654**	23,113
Short-term bank notes and commercial paper	**657,306**	645,065
Reverse repurchase agreements	**34,718**	72,489
Cash and cash equivalents	**701,678**	740,667

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;

> *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; and

> *futures swaps*, where the return of the swap is linked to the performance of a portfolio of futures contracts and bonds.

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 2013 and 2012.

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 swaps. 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, 2013
	Gross assets	**Gross liabilities**	**Net amount**
Hedging			
Interest rate swap contracts	5,402	110	5,292
Total hedging	5,402	110	5,292
Held-for-trading			
Interest rate swap contracts	68,464	10,191	58,273
Equity-linked swap contracts	4,780	1,452	3,328
Cross-currency interest rate swap contracts	1,791	2,366	(575)
Foreign exchange forward contracts	1,722	2,093	(371)
Total held-for-trading	76,757	16,102	60,655
Total	82,159	16,212	65,947

			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

(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, 2013**	March 31, 2012
	Within 1 year	1 to 3 years	3 to 5 years	Over 5 years	**Notional amount**	Notional amount
Hedging						
Interest rate swap contracts						
$CDN receivable-fixed	165,000	263,000	–	–	**428,000**	668,000
% receivable-fixed	*1.16*	*2.20*				
Total hedging	165,000	263,000	–	–	**428,000**	668,000
Held-for-trading						
Interest rate swap contracts						
$CDN payable-fixed	–	50,000	60,000	–	**110,000**	110,000
% payable-fixed		*4.31*	*4.17*			
$CDN receivable-fixed	22,698	35,377	–	292,601	**350,676**	353,404
% receivable-fixed	*3.98*	*4.31*		*4.62*		
Equity-linked swap contracts	55,000	122,650	–	–	**177,650**	182,650
	77,698	208,027	60,000	292,601	**638,326**	646,054
Cross-currency interest rate swap contracts	–	7,067	10,875	22,291	**40,233**	46,219
	77,698	215,094	70,875	314,892	**678,559**	692,273
Foreign exchange forward contracts	229,042	–	–	–	**229,042**	288,122
Total held-for-trading	306,740	215,094	70,875	314,892	**907,601**	980,395
Total	471,740	478,094	70,875	314,892	**1,335,601**	1,648,395

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. As at March 31, 2013, asset-backed securities included $203,100 with maturities of one to five years ($676,791 as at March 31, 2012) and $234,353 with maturities over five years ($86,409 as at March 31, 2012). The asset-backed securities have a clean-up option that allows them 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, 2013, and 2012. Refer to Note 22—*Risk Management*, for additional information on credit risk associated with the asset-backed securities portfolio.

	March 31, 2013	March 31, 2012
Available-for-sale		
Principal amount	**431,853**	754,548
Unamortized loss on initial recognition	**(41)**	(200)
Cumulative fair value appreciation (depreciation)	**1,916**	6,350
Carrying value	**433,728**	760,698
Yield	**2.64%**	2.96%
Fair value through profit or loss		
Principal amount	**3,680**	2,512
Cumulative fair value appreciation (depreciation)	**45**	(10)
Carrying value	**3,725**	2,502
Yield	**9.20%**	9.31%
Asset-backed securities	**437,453**	763,200

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.

2013	**Within 1 year**	**1 to 5 years**	**Over 5 years**	**Total gross amount**	**Collective allowance**	**Individual allowance**	**Total allowance**	**Total net amount**
Performing	**739,934**	**3,555,375**	**11,622,890**	**15,918,199**	**(350,000)**	**–**	**(350,000)**	**15,568,199**
Impaired	**36,434**	**69,683**	**385,657**	**491,774**	**–**	**(188,338)**	**(188,338)**	**303,436**
Loans as at March 31, 2013	**776,368**	**3,625,058**	**12,008,547**	**16,409,973**	**(350,000)**	**(188,338)**	**(538,338)**	**15,871,635**

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

(in thousands of Canadian dollars)

10. LOANS (continued)

IMPAIRED LOANS

	March 31, 2013	March 31, 2012
Impaired at beginning of year	**550,783**	586,187
Downgraded	**305,287**	389,598
Upgraded	**(72,602)**	(94,834)
Write-offs	**(90,558)**	(134,609)
Liquidation and other	**(201,136)**	(195,559)
Balance at end of year	**491,774**	550,783

ALLOWANCE FOR CREDIT LOSSES

	March 31, 2013	March 31, 2012
Balance at beginning of year	**610,167**	774,676
Write-offs	**(90,558)**	(134,609)
Effect of discounting	**(12,876)**	(13,482)
Recoveries and other	**12,529**	21,817
	519,262	648,402
Impairment losses (reversals) on loans	**19,076**	(38,235)
Balance at end of year	**538,338**	610,167

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, 2013, $27.4 million ($35.7 million at March 31, 2012) of the impaired loans was secured by assets that BDC had the power to sell in order to satisfy borrower commitments. BDC's policy is to have these assets sold when other avenues of resolution have been exhausted.

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

Client credit risk exposure		**March 31, 2013**		March 31, 2012
Low	**2,620,487**	**16%**	2,814,128	19%
Medium	**8,432,004**	**53%**	7,354,356	50%
High	**4,865,708**	**31%**	4,630,171	31%
Performing loans outstanding	**15,918,199**	**100%**	14,798,655	100%

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

Secured risk exposure		**March 31, 2013**		March 31, 2012
Secured financing(1)	**13,029,798**	**82%**	12,079,328	82%
Partially secured financing(2)	**1,524,246**	**10%**	1,472,103	10%
Leverage financing(3)	**1,364,155**	**8%**	1,247,224	8%
Performing loans outstanding	**15,918,199**	**100%**	14,798,655	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.

Loans past due but not impaired	Within 1 month	2 to 3 months	Over 3 months	Total
As at March 31, 2013	**153,378**	**30,156**	**40,780**	**224,314**
As at March 31, 2012	127,838	28,704	56,403	212,945

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, 2013, and March 31, 2012.

Geographic distribution		March 31, 2013		March 31, 2012
Newfoundland and Labrador	**664,217**	**4.0%**	606,044	3.9%
Prince Edward Island	**48,014**	**0.3%**	44,778	0.3%
Nova Scotia	**380,785**	**2.3%**	404,124	2.6%
New Brunswick	**470,993**	**2.9%**	486,004	3.2%
Quebec	**5,584,253**	**34.0%**	5,142,378	33.5%
Ontario	**4,511,112**	**27.6%**	4,350,568	28.3%
Manitoba	**449,771**	**2.7%**	387,297	2.5%
Saskatchewan	**429,878**	**2.6%**	376,466	2.5%
Alberta	**1,984,704**	**12.1%**	1,691,419	11.0%
British Columbia	**1,760,439**	**10.7%**	1,751,039	11.5%
Yukon	**98,955**	**0.6%**	78,866	0.5%
Northwest Territories and Nunavut	**26,852**	**0.2%**	30,455	0.2%
Total loans outstanding	**16,409,973**	**100.0%**	15,349,438	100.0%

Industry sector		March 31, 2013		March 31, 2012
Manufacturing	**4,042,442**	**24.6%**	4,058,223	26.4%
Wholesale and retail trade	**3,513,350**	**21.4%**	3,423,312	22.3%
Commercial properties	**2,211,238**	**13.6%**	1,751,996	11.4%
Tourism	**2,035,027**	**12.4%**	1,898,697	12.4%
Construction	**1,397,565**	**8.5%**	1,252,383	8.2%
Transportation and storage	**998,243**	**6.1%**	962,785	6.3%
Business services	**762,816**	**4.6%**	697,112	4.5%
Other	**1,449,292**	**8.8%**	1,304,930	8.5%
Total loans outstanding	**16,409,973**	**100.0%**	15,349,438	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, 2013	**88,197**	**377,020**	**100,817**	**566,034**	**557,840**
As at March 31, 2012	77,091	329,875	61,555	468,521	457,369

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, 2013, was 2.2% of total subordinate financing investments at cost (1.5% at March 31, 2012). Subordinate financing's portfolio is composed primarily of debentures.

		March 31, 2013		March 31, 2012
Geographic distribution	**Fair value**	**Cost**	Fair value	Cost
Newfoundland and Labrador	**12,818**	**14,283**	16,502	14,777
Nova Scotia	**13,175**	**13,257**	10,772	10,846
New Brunswick	**10,238**	**10,021**	8,688	9,533
Quebec	**253,416**	**265,001**	213,914	227,810
Ontario	**177,129**	**176,260**	129,839	128,273
Manitoba	**9,601**	**8,198**	8,578	8,005
Saskatchewan	**3,888**	**3,899**	555	546
Alberta	**51,792**	**48,868**	41,107	41,342
British Columbia	**22,521**	**22,729**	23,912	23,887
Yukon	**3,262**	**3,518**	3,502	3,502
Subordinate financing investments	**557,840**	**566,034**	457,369	468,521

		March 31, 2013		March 31, 2012
Industry sector	**Fair value**	**Cost**	Fair value	Cost
Manufacturing	**199,833**	**201,329**	171,567	172,538
Business services	**119,468**	**128,518**	92,202	101,061
Wholesale and retail trade	**98,297**	**96,070**	77,746	74,037
Construction	**34,400**	**33,321**	29,176	29,038
Mining, oil and gas extraction	**25,084**	**23,141**	20,465	21,657
Information industries	**19,758**	**18,831**	16,059	15,625
Transportation and storage	**12,267**	**13,405**	13,395	13,487
Educational services	**10,230**	**10,488**	9,313	10,628
Real Estate and rental and leasing	**7,934**	**7,924**	2,581	2,388
Tourism	**6,538**	**5,685**	4,998	4,446
Other	**24,031**	**27,322**	19,867	23,616
Subordinate financing investments	**557,840**	**566,034**	457,369	468,521

(in thousands of Canadian dollars)

12.

VENTURE CAPITAL INVESTMENTS

BDC maintains a high-risk portfolio of venture capital investments that is focused on early-stage and fast-growing technology companies having promising positions in their respective marketplaces and strong growth potential. Venture capital investments, which are held for a longer term, are non-current assets. The concentrations by industry sector and investment type of venture capital investments are listed below. The largest single investment within these sectors at March 31, 2013, was 7.15% of total venture capital investments at cost (6.3% at March 31, 2012).

		March 31, 2013		March 31, 2012
Industry sector	**Fair value**	**Cost**	Fair value	Cost
Information technology	**113,289**	**101,279**	71,844	89,426
Biotechnology and pharmacology	**80,995**	**94,701**	55,257	90,354
Electronics	**53,490**	**66,992**	52,578	59,876
Medical and health	**40,257**	**51,230**	33,434	50,019
Communications	**29,509**	**46,092**	31,684	41,199
Industrial	**6,049**	**15,715**	8,870	17,765
Other	**6,336**	**6,044**	5,414	5,173
Total direct investments	**329,925**	**382,053**	259,081	353,812
Funds	**126,783**	**149,050**	99,870	120,539
Venture capital investments	**456,708**	**531,103**	358,951	474,351

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

		March 31, 2013		March 31, 2012
Investment type	**Fair value**	**Cost**	Fair value	Cost
Common shares	**61,266**	**99,668**	49,112	81,223
Preferred shares	**224,238**	**234,816**	166,063	222,426
Debentures	**44,421**	**47,569**	43,906	50,163
Total direct investments	**329,925**	**382,053**	259,081	353,812
Funds	**126,783**	**149,050**	99,870	120,539
Venture capital investments	**456,708**	**531,103**	358,951	474,351

(in thousands of Canadian dollars)

13.
PROPERTY AND EQUIPMENT

	Computer and telecommunications equipment	Furniture, fixtures and equipment	Leasehold improvements	Total
				2013
Cost				
Balance as at March 31, 2012	**24,108**	**21,261**	**41,335**	**86,704**
Additions	**3,216**	**1,816**	**1,984**	**7,016**
Balance as at March 31, 2013	**27,324**	**23,077**	**43,319**	**93,720**
Accumulated depreciation				
Balance as at March 31, 2012	**15,181**	**14,038**	**32,314**	**61,533**
Depreciation	**3,751**	**949**	**1,816**	**6,516**
Balance as at March 31, 2013	**18,932**	**14,987**	**34,130**	**68,049**
Property and equipment as at March 31, 2013	**8,392**	**8,090**	**9,189**	**25,671**

	Computer and telecommunications equipment	Furniture, fixtures and equipment	Leasehold improvements	Total
				2012
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

No property and equipment were impaired as at March 31, 2013, and 2012. In addition, as at March 31, 2013, and 2012, BDC had no significant contractual commitments to acquire property and equipment.

(in thousands of Canadian dollars)

14.
INTANGIBLE ASSETS

	Acquired systems and software applications	Projects in progress	2013 Total
Cost			
Balance as at March 31, 2012	59,184	16,275	75,459
Additions, separately acquired	–	15,682	15,682
Derecognition	–	(8,284)	(8,284)
Available for use	1,264	(1,264)	–
Balance as at March 31, 2013	60,448	22,409	82,857
Accumulated amortization			
Balance as at March 31, 2012	43,365	–	43,365
Amortization	4,178	–	4,178
Balance as at March 31, 2013	47,543	–	47,543
Intangible assets as at March 31, 2013	12,905	22,409	35,314

	Acquired systems and software applications	Projects in progress	2012 Total
Cost			
Balance as at March 31, 2011	56,279	4,615	60,894
Additions, separately acquired	–	14,565	14,565
Derecognition	–	–	–
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

During the year ended March 31, 2013, assets of $8.3 million (nil at March 31, 2012) were derecognized as the result of a change in the implementation of a software application that was part of a major multi-year program to modernize BDC's financing business technology platform.

(in thousands of Canadian dollars)

15.
OTHER ASSETS

	March 31, 2013	March 31, 2012
Financial instruments		
Interest receivable on derivatives	**2,551**	2,420
Accounts receivable from consulting clients	**1,837**	2,167
Other	**5,326**	6,416
	9,714	11,003
Prepaids	**5,733**	4,475
Other assets	**15,447**	15,478

16.
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 31, 2013	March 31, 2012
Current		
Salaries and benefits payable	**48,920**	39,323
Accounts payable	**4,433**	1,714
Other	**21,880**	19,732
	75,233	60,769
Long-term accrued liabilities	**31,207**	28,460
Accounts payable and accrued liabilities	**106,440**	89,229

17.
BORROWINGS

The table below presents the outstanding short-term notes.

				March 31, 2013		March 31, 2012
Maturity date	Effective rate	Currency	**Principal amount**	**Carrying value**	Principal amount (1)	Carrying value
Short-term notes						
2013	0.84% - 1.15%	CAD	–	–	11,210,562	11,214,713
	0.00%	USD	–	–	100	100
2014	0.92% - 1.16%	CAD	**12,726,083**	**12,731,629**	–	–
Total short-term notes				**12,731,629**		**11,214,813**

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

As at March 31, 2013, short-term notes recorded at amortized cost included $35,587 of funding for asset-backed securities ($27,802 at March 31, 2012).

(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. As at March 31, 2013, no long-term notes were redeemable prior to maturity ($3,493 as at March 31, 2012).

					March 31, 2013		March 31, 2012
Maturity date	**2013 Effective rate (1)**	2012 Effective rate (1)	Currency	**Principal amount (2)**	**Carrying value**	Principal amount (2)	Carrying value
Long-term notes / financial liabilities							
2013		0.84% - 0.87%	CAD	–	–	625,000	625,336
2014	**0.93% - 2.10%**	0.86% - 2.10%	CAD	**424,291**	**424,515**	733,109	733,349
2015	**0.96% - 1.13%**		CAD	**31,364**	**31,412**	–	–
2016		2.05%	CAD	–	–	5,518	5,523
2018	**1.49% - 1.51%**		CAD	**50,000**	**50,091**	–	–
					506,018		1,364,208
Long-term notes / designated as fair value through profit or loss							
2013		0.93%	CAD	–	–	5,000	7,024
2014	**0.92% - 0.95%**	0.90% - 0.93%	CAD	**94,698**	**99,675**	95,928	100,654
2015	**0.94%**	0.92%	JPY	**500,000**	**5,875**	500,000	6,441
	0.92% - 0.95%	0.90% - 0.93%	CAD	**123,294**	**122,528**	124,084	121,574
2016	**0.92%**	0.90%	CAD	**17,733**	**19,146**	18,441	20,156
2018	**0.99%**	0.97%	JPY	**1,000,000**	**12,129**	1,000,000	13,090
2020	**0.98%**	0.96%	JPY	**1,300,000**	**14,189**	1,300,000	15,732
2021	**0.95% - 0.97%**	0.93% - 0.95%	JPY	**660,000**	**7,148**	960,000	11,163
2022	**0.87% - 4.31%**	0.85% - 4.31%	CAD	**292,601**	**349,559**	292,601	345,408
2023		0.93%	JPY	–	–	300,000	3,493
					630,249		644,735
Total long-term notes					**1,136,267**		2,008,943

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

The total carrying value of the long-term notes designated as fair value through profit or loss as at March 31, 2013, was $61,222 higher than the total principal amount due at maturity given respective exchange rates (as at March 31, 2012 was $56,400 higher).

(in thousands of Canadian dollars)

17. BORROWINGS (continued)

As at March 31, 2013, long-term notes recorded at amortized cost included $155,767 of funding for asset-backed securities ($438,729 at March 31, 2012).

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

	March 31, 2013	March 31, 2012
Interest-bearing notes	**916,446**	1,774,270
Notes linked to equity indices	**68,537**	74,049
Notes linked to currency rates	**18,004**	23,025
Other structured notes	**133,280**	137,599
Total long-term notes	**1,136,267**	2,008,943

BDC also 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 2014 for the registered pension plan amounts to $77.0 million. The supplemental pension plans are partly funded and contributions for fiscal 2014 amount to $5.0 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	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
Defined benefit obligation								
Balance at beginning of year	**855,315**	704,475	**80,914**	69,315	**120,296**	105,673	**1,056,525**	879,463
Current service cost	**32,899**	24,640	**1,670**	1,343	**4,693**	3,313	**39,262**	29,296
Contributions by plan participants	**10,081**	10,188	**–**	–	**–**	–	**10,081**	10,188
Interest cost	**41,759**	41,675	**3,847**	3,990	**5,829**	6,073	**51,435**	51,738
Past service costs	**–**	2,756	**–**	280	**–**	–	**–**	3,036
Benefits paid	**(38,337)**	(33,202)	**(3,204)**	(2,954)	**(3,693)**	(6,758)	**(45,234)**	(42,914)
Actuarial losses (gains)	**57,696**	104,783	**9,070**	8,940	**7,183**	11,995	**73,949**	125,718
Balance at end of year	**959,413**	855,315	**92,297**	80,914	**134,308**	120,296	**1,186,018**	1,056,525
Fair value of plan assets								
Balance at beginning of year	**791,773**	720,784	**44,583**	47,720	**–**	–	**836,356**	768,504
Contributions by plan participants	**10,081**	10,188	**–**	–	**–**	–	**10,081**	10,188
Contributions by the employer	**87,578**	61,573	**4,331**	–	**3,693**	6,758	**95,602**	68,331
Expected return on plan assets	**49,286**	48,104	**1,387**	1,503	**–**	–	**50,673**	49,607
Benefits paid	**(38,337)**	(33,202)	**(3,204)**	(2,954)	**(3,693)**	(6,758)	**(45,234)**	(42,914)
Actuarial gains (losses)	**34,513**	(15,674)	**1,314**	(1,686)	**–**	–	**35,827**	(17,360)
Balance at end of year	**934,894**	791,773	**48,411**	44,583	**–**	–	**983,305**	836,356
Post-employment benefit liability	**(24,519)**	(63,542)	**(43,886)**	(36,331)	**(134,308)**	(120,296)	**(202,713)**	(220,169)

	Registered pension plan		Supplemental pension plans		Other plans		Total	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
Expense recognized in net income								
Current service cost	**32,899**	24,640	**1,670**	1,343	**4,693**	3,313	**39,262**	29,296
Interest cost	**41,759**	41,675	**3,847**	3,990	**5,829**	6,073	**51,435**	51,738
Expected return on plan assets	**(49,286)**	(48,104)	**(1,387)**	(1,503)	**–**	–	**(50,673)**	(49,607)
Past service costs (credits)	**–**	2,756	**–**	280	**–**	(400)	**–**	2,636
Expense recognized in net income	**25,372**	20,967	**4,130**	4,110	**10,522**	8,986	**40,024**	34,063
Actuarial gains (losses) in OCI								
Actuarial gains (losses) on defined benefit obligation	**(57,696)**	(104,783)	**(9,070)**	(8,940)	**(7,183)**	(11,995)	**(73,949)**	(125,718)
Actuarial gains (losses) on plan assets	**34,513**	(15,674)	**1,314**	(1,686)	**–**	–	**35,827**	(17,360)
Actuarial gains (losses) in OCI	**(23,183)**	(120,457)	**(7,756)**	(10,626)	**(7,183)**	(11,995)	**(38,122)**	(143,078)

(in thousands of Canadian dollars)

18. POST-EMPLOYMENT BENEFITS (continued)

	Registered pension plan		Supplemental pension plans		Other plans		Total	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
Cumulative gains (losses) recognized in OCI								
Prior years	**(91,839)**	28,618	**(11,521)**	(895)	**(5,005)**	6,990	**(108,365)**	34,713
Current year	**(23,183)**	(120,457)	**(7,756)**	(10,626)	**(7,183)**	(11,995)	**(38,122)**	(143,078)
Cumulative gains (losses) recognized in OCI	**(115,022)**	(91,839)	**(19,277)**	(11,521)	**(12,188)**	(5,005)	**(146,487)**	(108,365)

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, 2013, the actual return on plan assets was $83.8 million for the registered pension plan and $2.7 million for the supplemental pension plans ($32.4 million and ($0.2) million for the year ended on March 31, 2012, respectively).

Investment type	March 31, 2013	March 31, 2012
Cash and short-term investments	**20,257**	23,661
Bonds	**353,859**	322,594
Equity investments	**583,009**	466,512
Other assets less liabilities	**26,180**	23,589
Fair value of plan assets	**983,305**	836,356

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	
	2013	2012	**2013**	2012	**2013**	2012
Significant actuarial assumptions used to determine the defined benefit obligations						
Discount rate at end of year	**4.40%**	4.75%	**4.40%**	4.75%	**4.40%**	4.75%
Inflation rate at end of year	**2.25%**	2.25%	**2.25%**	2.25%	**2.25%**	2.25%
Significant actuarial assumptions used to determine the post-employment expense						
Discount rate at beginning of year	**4.75%**	5.75%	**4.75%**	5.75%	**4.75%**	5.75%
Inflation rate at beginning of year	**2.25%**	2.50%	**2.25%**	2.50%	**2.25%**	2.50%
Overall expected rate of return on assets	**6.00%**	6.50%	**3.00%**	3.25%	**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:
> 6.5% in 2013 reducing by 0.125% each year to 4% in 2033
(7% in 2012 reducing by 0.27% each year to 3% in 2027)

Other medical costs:
> 3.9% per year
(4.1% in 2012 reducing by 0.13% each year to 2.8% in 2022)

Dental costs:
> 4% per year
(3% per year in fiscal 2012)

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.

		2013	2012
Assumed overall health care cost trend rates			
Impact of:	1% increase	**1,673**	1,457
	1% decrease	**(1,320)**	(1,150)
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	**16,223**	13,677
	1% decrease	**(13,125)**	(11,156)
On other post-employment benefit obligation			

HISTORICAL INFORMATION

	March 31, 2013	March 31, 2012	March 31, 2011	April 1, 2010
Defined benefit obligation	**1,186,018**	1,056,525	879,463	829,973
Fair value of plan assets	**983,305**	836,356	768,504	645,114
Surplus (deficit) at end of year	**(202,713)**	(220,169)	(110,959)	(184,859)
Unrecognized past service costs (credits)	**–**	–	(400)	(1,996)
Post-employment benefit asset (liability)	**(202,713)**	(220,169)	(111,359)	(186,855)
Experience adjustments arising on plan assets	**35,827**	(17,360)	35,976	–
Experience adjustments arising on plan liabilities	**(3,334)**	(7,548)	(9,566)	–

(in thousands of Canadian dollars)

19.
OTHER LIABILITIES

	March 31, 2013	March 31, 2012
Financial instruments		
Deposits from clients	**28,392**	22,000
Other[1]	**6,783**	6,752
	35,175	28,752
Deferred income	**5,136**	8,371
Other[1]	**6,126**	7,100
Total other liabilities	**46,437**	44,223

(1) All other liabilities are non-current.

20.
SHARE CAPITAL AND PREFERRED SHARES

An unlimited number of common shares, having a par value of $100 each is authorized. As at March 31, 2013, and March 31, 2012, there were 20,884,000 common shares outstanding.

On the date of the approval of fiscal 2013 Consolidated Financial Statements, a dividend in respect of common shares of $59.6 million was declared, based on fiscal 2013 performance ($68.6 million in 2012).

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. The dividends paid during fiscal 2012 in respect of preferred shares classified as a liabilility are included in interest expense in the Consolidated Statement of Income for that period.

RECONCILIATION OF THE NUMBER OF SHARES ISSUED AND FULLY PAID

	Preferred shares		Common shares		Total	
	2013	2012	**2013**	2012	**2013**	2012
As at beginning of year	–	2,300,000	**20,884,000**	25,144,000	**20,884,000**	27,444,000
Shares repurchased	–	(2,300,000)	–	(4,260,000)	–	(6,560,000)
As at end of year	–	–	**20,884,000**	20,884,000	**20,884,000**	20,884,000

(in thousands of Canadian dollars)

21.
CAPITAL MANAGEMENT

STATUTORY LIMITATIONS

As per the BDC Act, the debt-to-equity ratio of BDC may not exceed 12:1. This ratio is defined as the aggregate of borrowings recognized in the Consolidated Statement of Financial Position and contingent liabilities that exist in the form of financial guarantees issued by BDC over Equity attributable to BDC's shareholder, which excludes accumulated other comprehensive income. BDC's ratio at March 31, 2013 was 3.6:1 (3.8:1 as at March 31, 2012).

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, 2013, these amounts totalled $2.116 billion ($2.116 billion as at March 31, 2012).

During 2013 and 2012, 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 allowance for credit losses 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 Funding Platform for Independant Lenders, 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 but excludes accumulated other comprehensive income on cash flow hedges. The following table presents the minimum capital required as at March 31, 2013, and 2012. During fiscal 2013 and 2012, BDC complied with its capital adequacy guidelines.

	March 31, 2013			March 31, 2012		
	Carrying value	**Capital ratio**	**Minimum capital required**	Carrying value	Capital ratio	Minimum capital required
Asset-backed securities						
Canadian secured credit facility	**203,100**	**20 : 1**	**10,155**	676,791	20 : 1	33,840
Funding Platform for Independent Lenders	**234,353**	**10 : 1**	**23,435**	86,409	10 : 1	8,641
Total asset-backed securities	**437,453**		**33,590**	763,200		42,481
Loans						
Term loans	**14,670,266**	**10 : 1**	**1,467,027**	13,656,537	10 : 1	1,365,654
Quasi-equity	**1,201,369**	**4 : 1**	**300,342**	1,082,734	4 : 1	270,684
Total loans	**15,871,635**		**1,767,369**	14,739,271		1,636,338
Subordinate financing(1)	**483,401**	**4 : 1**	**120,850**	350,780	4 : 1	87,695
Venture capital(1)	**448,374**	**1 : 1**	**448,374**	350,259	1 : 1	350,259
Loan guarantees(2)	**1,553**	**3 : 1**	**518**	7,300	3 : 1	2,433
Letters of credit(2)	**23,894**	**10 : 1**	**2,389**	23,576	10 : 1	2,358
Total	**17,266,310**		**2,373,090**	16,234,386		2,121,564
Actual capital			**3,854,783**			3,501,146
Capital adequacy status			**1,481,693**			1,379,582

(1) Net of non-controlling interest of $74,439 for subordinate financing and $8,334 for venture capital ($106,589 and $8,692 as at March 31, 2012, 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.41).

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.

Asset-backed securities

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

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

Subsequently, BDC receives portfolio reports that describe the performance of the 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, 2013 and 2012, 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 and by the 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;
- portfolio concentrations 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 review process to ensure appropriate classification of individual credit facilities;
- 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, subordinate financing investments and venture capital 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, 2013, and March 31, 2012, 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 to BBB+	Total
Gross positive replacement cost	**39,077**	**42,694**	**388**	**82,159**
Impact of master netting agreements	**(518)**	**(10,357)**	**(388)**	**(11,263)**
Replacement cost (after master netting agreements) – March 31, 2013	**38,559**	**32,337**	**–**	**70,896**
Replacement cost (after master netting agreements) – March 31, 2012	49,282	24,038	–	73,320
Number of counterparties				
March 31, 2013	**3**	**5**	**1**	**9**
March 31, 2012	5	5	1	11

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 defined as the risk that the fair value or future cash flows of a financial instrument 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, 2013, the impact was 2% or $20 million on net income and equity (4% or $30 million as at March 31, 2012).

(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.

<u>Canadian dollar transactions</u>

	Floating-rate	Within 3 months (2)	4 to 12 months	1 to 5 years	Over 5 years	Non-rate-sensitive(3)	Allowance and fair value	Total
Assets								
Cash and cash equivalents	4,696	692,024	–	–	–	–	–	**696,720**
Effective yield (%)		*1.10*						
Derivative assets	–	78,646	–	–	–	–	–	**78,646**
Asset-backed securities	–	–	–	203,100	234,353	–	–	**437,453**
Effective yield (%)				*2.91*	*2.50*			
Loans	12,365,187	286,784	351,436	2,108,788	735,397	491,774	(538,338)	**15,801,028**
Effective yield (%)	*5.36*	*5.71*	*5.90*	*5.37*	*5.66*			
Subordinate financing investments	33,792	24,913	42,908	300,825	66,437	97,159	(8,194)	**557,840**
Effective yield(1) (%)	*11.94*	*12.02*	*11.06*	*11.60*	*11.40*			
Venture capital investments	–	–	–	–	–	279,731	–	**279,731**
Other	–	–	–	–	–	76,432	–	**76,432**
	12,403,675	**1,082,367**	**394,344**	**2,612,713**	**1,036,187**	**945,096**	**(546,532)**	**17,927,850**
Liabilities and equity								
Derivative liabilities	–	1,562	–	10,191	–	–	–	**11,753**
Short-term notes	–	12,731,629	–	–	–	–	–	**12,731,629**
Effective yield (%)		*0.95*						
Long-term notes	–	314,495	133,195	119,198	349,559	180,479	–	**1,096,926**
Effective yield (%)		*0.99*	*1.06*	*1.21*	*2.23*			
Other	–	–	–	–	–	354,265	–	**354,265**
Total equity	–	–	–	–	–	3,944,207	–	**3,944,207**
	–	**13,047,686**	**133,195**	**129,389**	**349,559**	**4,478,951**	**–**	**18,138,780**
Total gap position before derivatives								
March 31, 2013	**12,403,675**	**(11,965,319)**	**261,149**	**2,483,324**	**686,628**	**(3,533,855)**	**(546,532)**	**(210,930)**
March 31, 2012	11,911,239	(10,958,002)	407,953	2,025,708	291,113	(3,225,906)	(621,319)	(169,214)
Total derivative position	**–**	**(816,326)**	**207,698**	**138,377**	**292,601**	**177,650**	**–**	**–**
Total gap position March 31, 2013	**12,403,675**	**(12,781,645)**	**468,847**	**2,621,701**	**979,229**	**(3,356,205)**	**(546,532)**	**(210,930)**
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)

(1) Excludes non-interest return.

(2) This grouping include 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.

(3) Assets and liabilities and equities that are non-rate sensitive have no specific maturity.

(in thousands of Canadian dollars)

22. RISK MANAGEMENT (continued)

MARKET RISK (continued)

Interest rate risks (continued)

Foreign currency transactions, expressed in Canadian dollars

	Floating-rate	Within 3 months(2)	4 to 12 months	1 to 5 years	Over 5 years	Non-rate-sensitive(3)	Allowance and fair value	Total
Assets								
Cash and cash equivalents	4,958	–	–	–	–	–	–	**4,958**
Effective yield (%)								
Derivative assets	–	1,791	–	–	–	1,722	–	**3,513**
Loans	70,607	–	–	–	–	–	–	**70,607**
Effective yield (%)	*3.65*							
Subordinate financing investments	–	–	–	–	–	–	–	**–**
Effective yield(1) (%)								
Venture capital investments	–	–	–	–	–	176,977	–	**176,977**
Other	–	–	–	–	–	–	–	**–**
	75,565	**1,791**	**–**	**–**	**–**	**178,699**	**–**	**256,055**
Liabilities and equity								
Derivative liabilities	–	2,366	–	–	–	2,093	–	**4,459**
Short-term notes	–	–	–	–	–	–	–	**–**
Effective yield (%)								
Long-term notes	–	–	–	18,004	21,337	–	–	**39,341**
Effective yield (%)				*0.97*	*0.97*			
Other	–	–	–	–	–	1,325	–	**1,325**
Total equity	–	–	–	–	–	–	–	**–**
	–	**2,366**	**–**	**18,004**	**21,337**	**3,418**	**–**	**45,125**
Total gap position before derivatives								
March 31, 2013	**75,565**	**(575)**	**–**	**(18,004)**	**(21,337)**	**175,281**	**–**	**210,930**
March 31, 2012	98,242	4,102	–	(19,531)	(30,388)	116,789	–	169,214
Total derivative position	**–**	**(39,679)**	**–**	**17,980**	**21,699**	**–**	**–**	**–**
Total gap position March 31, 2013	**75,565**	**(40,254)**	**–**	**(24)**	**362**	**175,281**	**–**	**210,930**
Total gap position March 31, 2012	98,242	(45,817)	–	–	–	116,789	–	169,214

(1) Excludes non-interest return.
(2) This grouping include 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.
(3) Assets and liabilities and equities that are non-rate sensitive have no specific maturity.

Total transactions, expressed in Canadian dollars

	Floating rate	Within 3 months	4 to 12 months	1 to 5 years	Over 5 years	Non-rate-sensitive	Allowance and fair value	Total
Total gap position for Canadian dollar transactions	**12,403,675**	**(12,781,645)**	**468,847**	**2,621,701**	**979,229**	**(3,356,205)**	**(546,532)**	**(210,930)**
Total gap position for foreign currency transactions	**75,565**	**(40,254)**	**–**	**(24)**	**362**	**175,281**	**–**	**210,930**
Total gap position March 31, 2013	**12,479,240**	**(12,821,899)**	**468,847**	**2,621,677**	**979,591**	**(3,180,924)**	**(546,532)**	**–**
Total gap position March 31, 2012	12,009,481	(12,118,695)	467,953	2,610,422	576,521	(2,924,363)	(621,319)	–

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.

(in thousands of Canadian dollars)

22. RISK MANAGEMENT (continued)

LIQUIDITY RISK (continued)

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

	Within 1 year	1 to 5 years	Over 5 years	No fixed maturity	Total
Accounts payable and accrued liabilities	**75,233**	**31,207**	**–**	**–**	**106,440**
Derivative liabilities[1]	**4,657**	**11,080**	**–**	**–**	**15,737**
Short-term notes[2]	**12,765,270**	**–**	**–**	**–**	**12,765,270**
Long-term notes[2]	**668,339**	**603,308**	**583,589**	**–**	**1,855,236**
Financial liabilities	**–**	**–**	**–**	**35,175**	**35,175**
Commitments					
Loans	**1,851,128**	**–**	**–**	**–**	**1,851,128**
Subordinate financing investments	**39,507**	**–**	**–**	**–**	**39,507**
Venture capital investments	**–**	**–**	**–**	**290,779**	**290,779**
Asset-backed securities	**472,000**	**–**	**–**	**–**	**472,000**
Letters of credit and loan guarantees	**–**	**–**	**–**	**25,447**	**25,447**
Total as at March 31, 2013	**15,876,134**	**645,595**	**583,589**	**351,401**	**17,456,719**

	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
Financial liabilities	–	–	–	28,752	28,752
Commitments					
Loans	1,573,478	–	–	–	1,573,478
Subordinate financing investments	54,612	–	–	–	54,612
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.

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.

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

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

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

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

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

The cash and cash equivalents received from derivative counterparties to cover credit risk exposure as per the Credit Support Annex of the International Swap and Derivatives Association agreements are not included in the liquidity level and limits. As of March 31, 2013, the carrying amount of these collaterals is $17,350 ($12,850 at March 31, 2012).

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, 2013	**433**	**650**	**1,485**
As at March 31, 2012	419	633	1,404

Maturity and concentration limits	Limits	March 31, 2013	March 31, 2012
Cash and cash equivalents maturing within 100 days	Min 75%	**100%**	100%
Cash and cash equivalents in Canadian provinces	Max 50%	**0%**	0%

The Treasury Risk Management Unit identifies, measures and monitors these liquidity limits daily. It reports any deviations from these liquidity limits to the board of directors. The Treasury Risk Management Unit determines whether 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	
	2013	2012	**2013**	2012	**2013**	2012
Interest income[1]	**55,241**	47,726	**912,550**	926,086	**967,791**	973,812
Interest expense	**9,020**	11,586	**115,282**	110,257	**124,302**	121,843
Fee and other income	**25,548**	19,250	**13,290**	15,685	**38,838**	34,935

(1) Interest income includes $33,040 for impaired loans in 2013 ($34,593 in 2012).

2013

	FVTPL						
	Held-for-trading	Designated as FVTPL	Available-for-sale	Cash flow hedges	Loans and receivables	Financial liabilities	Total
Total gains (losses)							
Net realized gains (losses) on investments	–	**(46,685)**	–	–	–	–	**(46,685)**
Net realized gains (losses) on other financial instruments	**2,743**	–	–	**1,488**	–	**(91)**	**4,140**
Net change in unrealized appreciation (depreciation) of investments	–	**41,940**	–	–	–	–	**41,940**
Net unrealized foreign exchange gains (losses) on investments	–	**2,056**	–	–	–	–	**2,056**
Net unrealized gains (losses) on other financial instruments	**2,762**	**(4,822)**	–	**(355)**	–	–	**(2,415)**
	5,505	**(7,511)**	–	**1,133**	–	**(91)**	**(964)**

2012

	FVTPL						
	Held-for-trading	Designated as FVTPL	Available-for-sale	Cash flow hedges	Loans and receivables	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)

(in thousands of Canadian dollars)

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

OTHER ADDITIONAL INFORMATION

	2013	2012
Amortization/depreciation of		
Loss on initial recognition of asset-backed securities included in interest income	**(159)**	(3,884)
Property and equipment included in operating and administrative expenses	**6,516**	6,089
Intangible assets included in operating and administrative expenses	**4,178**	4,241
Derecognition of intangible assets included in other expenses	**8,284**	–
Salaries and benefits		
Salaries and other benefits	**233,793**	222,796
Post-employment benefits (Note 18)	**40,024**	34,063
	273,817	256,859

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, partially secured and unsecured loans with a focus on small and medium-sized enterprises across Canada.

> **Subordinate Financing** provides flexible debt with or without convertible features and equity-type financing.

> **Venture Capital** provides investments to cover every stage of a technology-based company's development cycle, from seed funding to expansion. BDC also makes indirect investments via venture capital investment funds.

> **Consulting** provides customized consulting services related to business activities.

> **Securitization** purchases investments in asset-backed securities through the Funding Platform for Independent Lenders (F-PIL, formerly known as Multi-Seller Platform for Small Originators) and manages the Canadian Secured Credit Facility investment portfolio. 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, 2013
	BDC	Financing	Subordinate Financing	Venture Capital	Consulting	Securitization
Interest income	**967,791**	895,860	54,948	–	–	16,983
Interest expense	**124,302**	112,109	7,912	–	–	4,281
Net interest income (expense)	**843,489**	**783,751**	**47,036**	**–**	**–**	**12,702**
Net realized gains (losses) on investments	**(46,685)**	–	(12,114)	(34,571)	–	–
Consulting revenue	**24,042**	–	–	–	24,042	–
Fee and other income	**38,838**	12,965	19,746	5,802	–	325
Net realized gains (losses) on other financial instruments	**4,140**	1,488	–	2,743	–	(91)
Net revenue (loss)	**863,824**	**798,204**	**54,668**	**(26,026)**	**24,042**	**12,936**
Impairment reversals (losses) on loans	**(19,076)**	(19,076)	–	–	–	–
Net change in unrealized appreciation (depreciation) of investments	**41,940**	–	2,937	38,948	–	55
Net unrealized foreign exchange gains (losses) on investments	**2,056**	–	–	2,056	–	–
Net unrealized gains (losses) on other financial instruments	**(2,415)**	1,233	–	(3,648)	–	–
Income (loss) before operating and administrative expenses	**886,329**	**780,361**	**57,605**	**11,330**	**24,042**	**12,991**
Salaries and benefits	**273,817**	219,913	19,518	13,238	19,910	1,238
Premises and equipment	**38,050**	33,884	900	1,814	1,363	89
Other expenses	**106,151**	85,047	2,036	4,395	14,411	262
Operating and administrative expenses	**418,018**	**338,844**	**22,454**	**19,447**	**35,684**	**1,589**
Net income (loss)	**468,311**	**441,517**	**35,151**	**(8,117)**	**(11,642)**	**11,402**
Net income (loss) attributable to:						
BDC's shareholder	**464,817**	441,517	29,286	(5,746)	(11,642)	11,402
Non-controlling interests	**3,494**	–	5,865	(2,371)	–	–
Net income (loss)	**468,311**	**441,517**	**35,151**	**(8,117)**	**(11,642)**	**11,402**
Business segment portfolio as at March 31	**17,323,636**	**15,871,635**	**557,840**	**456,708**	**–**	**437,453**

(in thousands of Canadian dollars)

24. SEGMENTED INFORMATION (continued)

						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 reversals (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	**256,859**	203,633	19,887	13,350	18,674	1,315
Premises and equipment	**36,334**	33,041	761	1,328	1,083	121
Other expenses	**98,803**	77,836	2,436	4,576	13,647	308
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

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. Those guarantees represent BDC's obligation to make payments to third parties if clients are unable to meet their contractual commitments. Collateral requirements for letters of credit and loan guarantees are consistent with BDC collateral requirements for loans. The fee income earned is calculated on a straight-line basis over the life of the instrument and recognized in fee and other income in the Consolidated Statement of Income. The maximum amount payable under the guarantees totalled $25.4 million as at March 31, 2013 ($30.9 million at March 31, 2012) and the existing terms expire within 20 months (within 27 months as at March 31, 2012). 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, 2013, there was no liability recognized ($150.0 thousand as at March 31, 2012) 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, 2013, and 2012.

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

LOANS AND INVESTMENTS

LOANS

Undisbursed amounts of authorized loans was $1,851,128 at March 31, 2013 ($329,286 fixed rate; $1,521,842 floating rate) and are expected to be disbursed within the next 12 months. The weighted average effective interest rate was 5.01% on loan commitments (4.96% at March 31, 2012). The following tables present undisbursed amounts of authorized loans by location and industry.

Commitments, by geographic distribution	March 31, 2013	March 31, 2012
Newfoundland and Labrador	**73,891**	69,251
Prince Edward Island	**636**	2,001
Nova Scotia	**70,179**	53,712
New Brunswick	**21,059**	31,576
Quebec	**570,122**	523,288
Ontario	**478,959**	397,498
Manitoba	**37,610**	30,346
Saskatchewan	**83,533**	28,825
Alberta	**361,516**	282,557
British Columbia	**143,813**	148,029
Yukon	**8,592**	4,532
Northwest Territories and Nunavut	**1,218**	1,863
Total	**1,851,128**	1,573,478

Commitments, by industry sector	March 31, 2013	March 31, 2012
Manufacturing	**424,501**	395,601
Wholesale and retail trade	**271,055**	250,016
Tourism	**253,476**	234,360
Commercial properties	**211,738**	148,641
Construction	**186,028**	169,909
Transportation and storage	**138,526**	92,293
Business services	**84,171**	75,148
Other	**281,633**	207,510
Total	**1,851,128**	1,573,478

SUBORDINATE FINANCING

Undisbursed amounts of authorized subordinate financing investments were $39,507 at March 31, 2013 ($34,034 fixed rate; $5,473 floating rate) and are expected to be disbursed within the next 12 months. The weighted average effective interest rate was 10.30% on subordinate financing commitments (10.77% at March 31, 2012), excluding non-interest return. The following tables present undisbursed amounts of authorized subordinate financing investments, by location and industry.

Commitments, by geographic distribution	March 31, 2013	March 31, 2012
Newfoundland and Labrador	**500**	250
Nova Scotia	**–**	1,750
New Brunswick	**1,000**	–
Quebec	**9,595**	15,800
Ontario	**15,459**	34,615
Alberta	**8,703**	975
British Columbia	**4,250**	1,222
Total	**39,507**	54,612

(in thousands of Canadian dollars)

26. COMMITMENTS (continued)

LOANS AND INVESTMENTS (continued)

SUBORDINATE FINANCING (continued)

Commitments, by industry sector	March 31, 2013	March 31, 2012
Manufacturing	**22,035**	25,425
Business services	**7,733**	8,500
Wholesale and retail trade	**3,986**	9,547
Mining, oil and gas extraction	**3,703**	–
Information industries	**1,400**	5,550
Transportation and storage	**300**	300
Construction	**250**	2,000
Tourism	**100**	950
Other	**–**	2,340
Total	**39,507**	54,612

VENTURE CAPITAL INVESTMENTS

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

Commitments, by industry sector	March 31, 2013	March 31, 2012
Biotechnology and pharmacology	**12,728**	9,359
Information technology	**4,175**	–
Electronics	**2,916**	765
Medical and health	**2,674**	6,372
Communications	**308**	3,415
Industrial	**300**	1,000
Other	**381**	–
	23,482	20,911
Funds	**267,297**	240,192
Total	**290,779**	261,103

ASSET-BACKED SECURITIES

The undisbursed amounts of authorized asset-backed securities were $472,000 at March 31, 2013 ($354,000 at March 31, 2012).

INTANGIBLE ASSETS

As at March 31, 2013, contractual commitments to acquire systems and software were $20,203 (nil as at March 31, 2012).

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, 2013	March 31, 2012
Within one year	**27,013**	25,706
1 to 5 years	**96,260**	95,484
After 5 years	**39,596**	55,896
Total	**162,869**	177,086

During the year, lease payments recognized as an expense amounted to $24.8 million ($23.5 million in 2012). This amount consists of minimum lease payments. No significant sublease payments or contingent rent payments were made or received.

(in thousands of Canadian dollars)

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 Crown Borrowing Program Framework.

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

	Short-term notes		Long-term notes		Total	
	2013	2012	**2013**	2012	**2013**	2012
Balance at beginning of year	**11,201,950**	9,714,545	**1,364,208**	3,513,901	**12,566,158**	13,228,446
Net change in short-term notes	**1,510,785**	1,486,868	**–**	–	**1,510,785**	1,486,868
Net changes in accrued interest	**1,526**	537	**(218)**	(980)	**1,308**	(443)
Issuance of long-term notes	**–**	–	**200,929**	278,387	**200,929**	278,387
Repayment of long-term notes	**–**	–	**(1,058,901)**	(2,427,100)	**(1,058,901)**	(2,427,100)
Balance at end of year	**12,714,261**	11,201,950	**506,018**	1,364,208	**13,220,279**	12,566,158

During the year, BDC recorded $120 million in interest expense related to these borrowings ($111 million in 2012). 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 2013 ($0.1 million net realized loss in 2012).

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.

	2013	2012
Salaries and short-term employee benefits	**4,014**	3,895
Post-employment benefits	**1,073**	972
Other long-term benefits	**1,040**	1,072
Total	**6,127**	5,939

28.

COMPARATIVE FIGURES

BDC has reclassified expense items presented in the Other expenses line item as at March 31, 2012, to the Salaries and benefits line item in the Consolidated Statement of Income in order to present all employee benefit related expenses on the same line item.

BDC has also refined its cash flow methodology which has resulted in a reclassification of non-cash items previously presented in the Interest income received line item to the Other line item as at March 31, 2012.

Neither of these reclassifications were material.

Corporate Governance

Committees 133

Board and Board Committee Meetings and Attendance 136

Board of Directors 137

CORPORATE GOVERNANCE: ENTREPRENEURS AND TRUST

BDC's economic responsibility is to dedicate itself exclusively—and effectively—to entrepreneurs. Its social responsibility is to do this in a manner that builds public trust. Because the board of directors oversees BDC's efforts to fulfill both, robust corporate governance is critically important.

WHAT IS ROBUST GOVERNANCE?

Robust governance involves:

> a clear mandate;

> a transparent structure that makes roles, decision-making and accountability clear; and

> a team of dedicated, experienced, hard-working people.

This past year, BDC needed to replace its chairperson of the board, who had to leave due to ill health. BDC worked closely with its shareholder to define criteria that would help it select the best candidate for this crucial position. In the interim period leading the appointment of a new chairperson, the board appointed Thomas Spencer as acting chairperson.

In addition, the mandates of two board members expired. Again, BDC worked with the Minister to recommend potential board members who have the profile and skills to maintain the diversity and talent required to steward BDC. Toward the end of the year, BDC welcomed Shahir Guindi and Michael Calyniuk to its board of directors.

Succession planning was top of mind for the board. Through its Human Resources Committee, the board oversaw the replacement of a retiring executive. It also worked on making sure that long-term incentive plans were aligned with the evolution of the subordinate financing business model and with the new venture capital strategic approach. Furthermore, the board approved the review of the employee code of conduct, ethics and values, and the incorporation of the values and ethics code for the public sector.

Lastly, the board oversaw key strategic initiatives, such as the review of the consulting business model and the transformation of business processes, which is aimed at streamlining and expediting loan origination to improve the client experience and client satisfaction.

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. BDC must support its shareholder by offering complementary services to stimulate economic activity and greater productivity. And, in doing so, it 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 review the provisions and operation of the BDC Act, in consultation with the Minister of Finance. This process is currently underway.

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;
- 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, all board members 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 codes of conduct regularly to improve BDC's internal governance. The employee code of conduct, ethics and values 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 worked with the shareholder to initiate the search for a new chairperson, as John A. MacNaughton resigned due to ill health. In addition, as some members' mandates expired and new members joined the board, committee memberships were reassessed so that a greater number of committees could benefit from our varied expertise and experience.

Committees

THE AUDIT COMMITTEE

CHAIRPERSON
Brian Hayward

NUMBER OF MEETINGS
6

MEMBERS
Eric Boyko
Michael Calyniuk
Jean Martel
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 financial statements before BDC discloses them to the public;

> review financial disclosures;

> review the adequacy and effectiveness of internal control, 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 chief audit executive, 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

CHAIRPERSON
Thomas R. Spencer

NUMBER OF MEETINGS
19

MEMBERS
Eric Boyko
Michael Calyniuk
Shahir Guindi
Jean-René Halde
Brian Hayward

This committee's main duties are to:

> identify and manage BDC's principal risks;

> regularly review the enterprise risk management policy and other policies concerning key risks, such as credit, market, strategic, reputational, operational and other principal risks;

> review reports and indicators related to enterprise risk management, portfolio risk management, capital adequacy and treasury operations risks;

> approve new business activities, except those related to venture capital;

> periodically review the business continuity plan;

> 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 venture capital products.

THE GOVERNANCE AND NOMINATING COMMITTEE

CHAIRPERSON
Jean Martel

NUMBER OF MEETINGS
7

MEMBERS
Brian Hayward
Prashant Pathak
Rick Perkins
Thomas R. Spencer

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 president and 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

CHAIRPERSON
Rick Perkins

NUMBER OF MEETINGS
8

MEMBERS
Sue Fawcett
Jean Martel
Prashant Pathak

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 material 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

CHAIRPERSON
Rosemary Zigrossi

NUMBER OF MEETINGS
4

MEMBERS
Sue Fawcett
Shahir Guindi
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.

VENTURE CAPITAL INVESTMENT COMMITTEE

CHAIRPERSON
Prashant Pathak

NUMBER OF MEETINGS
16

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		BCRC		VCIC		Governance		Human Resources		Pension Funds Investment		Attendance	Meetings	
Directors	Attendance	Total	Attendance	Total	Attendance	Total	Attendance	Total	Attendance	Total	Attendance	Total	Attendance	Total	Total	Total	Percentage
Eric Boyko(1)	8	9	0	0	18	19	15	16	0	0	0	0	0	0	41	44	93%
Stan Bracken-Horrocks(2)	7	8	6	6	15	17	0	0	5	6	0	0	0	0	33	37	89%
Michael Calyniuk(3)	1	1	0	0	1	1	0	0	0	0	0	0	0	0	2	2	100%
Sue Fawcett	9	9	0	0	0	0	16	16	0	0	8	8	4	4	37	37	100%
Shahir Guindi(4)	3	3	0	0	3	3	0	0	0	0	0	0	0	0	6	6	100%
Brian Hayward(5)	6	9	4	6	15	19	0	0	0	1	0	0	0	0	25	35	71%
John A. MacNaughton(6)	4	6	0	0	0	0	0	0	0	0	0	0	0	0	4	6	67%
Jean Martel	6	9	4	6	0	0	0	0	5	7	5	8	0	0	20	30	67%
Prashant Pathak(7)	8	9	0	0	0	0	15	16	1	1	1	1	4	4	29	31	94%
Rick Perkins(8)	9	9	0	0	10	14	0	0	1	1	3	3	3	4	26	31	84%
Sarah Raiss(9)	6	8	6	6	0	0	0	0	6	6	7	7	0	0	25	27	93%
Thomas R. Spencer(10)	9	9	6	6	15	19	0	0	7	7	0	0	0	0	37	41	90%
Rosemary Zigrossi(11)	8	9	0	0	0	0	11	16	6	6	7	7	4	4	29	35	83%
Jean-René Halde(12)	8	9	0	0	10	19	13	16	0	0	0	0	0	0	31	44	70%

(1) Eric Boyko was appointed to the Audit Committee on February 6, 2013.

(2) Stan Bracken-Horrocks' mandate as a Director ended on February 7, 2013.

(3) Michael Calyniuk was appointed to the Board on February 7, 2013 and was appointed to the Audit Committee and the BCRC on March 20, 2013.

(4) Shahir Guindi was appointed to the Board on December 13, 2012 and was appointed to the BCRC and the Pension Funds Investment Committee on February 6, 2013.

(5) Brian Hayward was appointed Chairperson of the Audit Committee on December 12, 2012 and was appointed to the Governance/Nomination Committee on February 6, 2013.

(6) As Chairman of the Board, John A. MacNaughton was ex officio member of all the committees (where he was not formally a member). Mr. MacNaughton resigned as Chairperson and Director on December 27, 2012.

(7) Prashant Pathak was appointed to the Human Resources Committee and the Governance/Nominating Committee on February 6, 2013.

(8) Rick Perkins was appointed Chairperson of the Human Resources Committee and ceased to be a member of the BCRC on December 12, 2012. On February 6, 2013, Mr. Perkins was appointed to the Governance/Nominating Committee.

(9) Sarah Raiss ceased to be a member of the Governance/Nominating Committee on February 6, 2013 and resigned as a Director on March 1, 2013.

(10) Thomas R. Spencer was named Acting Chairperson on January 23, 2013. As Acting Chairperson, Mr. Spencer is ex officio member of all the committees (where he is not formally a member).

(11) Rosemary Zigrossi ceased to be a member of the Human Resources Committee and the Governance/Nominating Committee on February 6, 2013.

(12) As President and CEO, Mr. Halde may attend all committee meetings (where he is not formally a member).

Board of Directors

(March 31, 2013)

CURRENT MEMBERS

THOMAS R. SPENCER
Acting Chairperson
of the Board
BDC
Toronto, Ontario

Thomas R. Spencer joined the BDC Board of Directors in 2008 and was appointed Acting Chairperson of the Board on January 23, 2013.

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, 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.

Chairperson of the Board Credit and Risk Committee, member of the Audit Committee and member of the Governance/Nominating Committee.

As Acting Chairperson of the Board, Mr. Spencer 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 reappointed in 2010 for a term of 5 years.

Mr. Halde brought more than 30 years of management and entrepreneurial experience to BDC. He held CEO positions at leading companies, including Metro-Richelieu Inc., Culinar Inc. and Livingston Group Inc.

He presently serves as Chairman of the Conference Board of Canada and Director of the Montreal General Hospital Foundation. He is also a member of the World Presidents' Organization (WPO), a global organization of more than 4,600 business leaders.

Mr. Halde 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 and CEO
Stingray Digital Inc.
Montreal, Quebec

Eric Boyko joined the BDC Board of Directors in 2007 and was reappointed 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 Audit Committee, member of the Board Credit and Risk Committee and member of the Venture Capital Investment Committee.

MICHAEL CALYNIUK
President
MEC Dynamics Inc.
Vancouver, British Columbia

Michael Calyniuk joined the BDC Board of Directors in February 2013.

Mr. Calyniuk has broad audit and consulting experience in finance, accounting, business processes and technology and directed a large portion of his efforts working with Canadian small and medium-sized enterprises.

He is a Strategic Advisor and Director of a number of companies.

Mr. Calyniuk is a retired Partner of PricewaterhouseCoopers LLP, having held various senior local and global management roles during his career with the firm, including Global Chief Information Officer.

He currently serves as Independent Director, Chair of the Audit Committee and member of the Governance and Nomination Committee of Mundoro Capital Inc. He is also the B.C. Chapter Chair of the Institute of Corporate Directors (ICD) and Chairman of the Board of the Maple Leaf Junior Golf Tour.

Mr. Calyniuk has previously served as Chairman of the Board of the B.C. Advanced Systems Institute and as Co-Chair of the B.C. Innovation Council.

A Chartered Accountant, Mr. Calyniuk was named Fellow by the B.C. Institute of Chartered Accountants (FCA) in 2009. He holds a Bachelor of Commerce, with an Information Systems Major from the University of British Columbia and is a graduate of the Institute of Corporate Director's Program (ICD).

Member of the Audit Committee and member of the Board Credit and Risk 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.

SHAHIR GUINDI
Managing Partner
Osler, Hoskin & Harcourt LLP
Montreal, Quebec

Shahir Guindi joined the BDC Board of Directors in December 2012.

Mr. Guindi is a Montreal lawyer with an extensive background in mergers and acquisitions, corporate finance and private equity and venture capital investments and fund formation, including in the technology and life science sectors. He has significant experience in cross-border and international transactions for both Canadian and international clients.

He is currently the Managing Partner of the Montreal office of Osler, Hoskin & Harcourt LLP and Co-Chair of Réseau Capital, Quebec's venture capital and private equity industry association. He also sits on the board of several companies and not for profit organizations, such as the St. Peter and St. Paul Coptic Orthodox Church.

Mr. Guindi is a recipient of Lexpert® Rising Stars: Leading Lawyers Under 40 award. He has received significant industry recognition, including top rankings in six categories of the *Canadian Legal Lexpert® Directory* (including M&A, Corporate Finance, Private Equity and Corporate Mid-Market), and Lawyer of the Year honours in Information Technology Law and Technology Law from *The Best Lawyers in Canada® 2013*. He was also named Montréal Technology Lawyer of the Year by *The Best Lawyers in Canada® 2012*.

Mr. Guindi was admitted to the Barreau du Quebec and the New York State Bar Association in 1990 and is a member of the Canadian Bar Association.

A graduate of McGill University, Mr. Guindi has degrees in Civil Law (B.C.L.) and Common Law (LL.B.).

Member of the Board Credit and Risk Committee and member of the Pension Funds Investment Committee.

BRIAN HAYWARD
President
Aldare Resources
Winnipeg, Manitoba

Brian Hayward joined the BDC Board of Directors in 2008 and was reappointed in 2011.

Mr. Hayward has over 16 years of experience as 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's degree in Agricultural Economics from McGill University. He also holds the Chartered Director (C.Dir.) designation from the Directors College of McMaster University's DeGroote School of Business.

Chairperson of the Audit Committee, member of the Board Credit and Risk Committee and member of the Governance/ Nominating Committee.

JEAN MARTEL
Lawyer
Lavery L.L.P.
Montreal, Quebec

Jean Martel joined the BDC Board of Directors in 2006 and was reappointed 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 Québec Bar Investment Funds. Mr. Martel also serves on the Board of Directors of Oceanic Iron Ore Corp.

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 the Université Laval, he was admitted to the Quebec Bar in 1976.

Chairperson of the Governance/Nominating Committee, member of the Audit Committee and member of the Human Resources Committee.

PRASHANT PATHAK
President and
Chief Executive Officer
Ekagrata Inc.
Toronto, Ontario

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 President and CEO of Ekagrata Inc., a private investment company. He is also 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 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 is a former member of the Board of the North York General Hospital and 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 degree in Electrical Engineering and a diploma in fuzzy logic from the Indian Institute of Technology (IIT).

Chairperson of the Venture Capital Investment Committee, member of the Governance/Nominating Committee and member of the Human Resources Committee.

RICK PERKINS
Corporate Director
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, IT and public affairs positions in both the public and private sectors.

Most recently, he spent a decade in senior executive roles with the Nova Scotia Liquor Corporation, leading business development and marketing.

Mr. Perkins was also a co-founder of Genoa Management Inc., a Toronto-based capital markets counsel firm, specialized 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.

Chairperson of the Human Resources Committee, member of the Governance/Nominating Committee and member of the Pension Funds Investment 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 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.

A past Governor of Trent University, Ms. Zigrossi currently serves on their Investment and Pension Committee. She is a former member of the Board of the Canadian Venture Capital Association and she has served as member of the board and Chairman of a number of start-up companies.

Ms. Zigrossi is a Chartered Accountant (CA), 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.

Chairperson of the Pension Funds Investment Committee, and member of the Venture Capital Investment Committee.

MEMORIAM

JOHN A. MACNAUGHTON

John A. MacNaughton (1945–2013) served as member of the board of directors of BDC from 2007 until 2012, all six years as chairman. These were years of challenges, growth and change, and BDC benefited from his able stewardship.

He served with distinction: dedication, rigour and a wisdom born of a decades of experience and success in the private, public and not-for-profit sectors.

He was much admired, and is greatly missed.

Senior Management Team

(Membership as announced in late fiscal 2013, and effective April 1, 2013)

JEAN-RENÉ HALDE
President and Chief Executive Officer

Jean-René Halde joined BDC as President and CEO in 2005 and was reappointed in 2010 for a term of 5 years.

Mr. Halde brought more than 30 years of management and entrepreneurial experience to BDC. He held CEO positions at leading companies, including Metro-Richelieu Inc., Culinar Inc. and Livingston Group Inc.

He presently serves as Chairman of the Conference Board of Canada and Director of the Montreal General Hospital Foundation. He is also a member of the World Presidents' Organization (WPO), a global organization of more than 4,600 business leaders.

Mr. Halde 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

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. During this one-year interim, he was responsible for financing, consulting, corporate financing, global expansion services for entrepreneurs, and operations support across the bank, in addition to his CFO responsibilities.

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.

PIERRE DUBREUIL
Executive Vice President,
Financing and Consulting

Pierre Dubreuil was appointed Executive Vice President, Financing and Consulting in 2012.

In this role, he is responsible for financing, consulting and operations support across the bank.

Mr. Dubreuil has over 30 years of commercial and general banking experience.

Before joining BDC, he was Senior Vice-President, International at the National Bank. During his 18 year tenure, he held executive positions in key functions such as syndication, credit, commercial lending, marketing and business solutions.

Beginning his career with the Federal Business Development Bank, he also worked at Export Development Canada and as Vice-President, Business Development at the Industrial Bank of Japan in Toronto.

Mr. Dubreuil holds a Bachelor of Business Administration from Laval University and has completed various leadership and management programs.

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 CA $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 and of the Advisory Council of the International Centre for Health Innovation at the Ivey Business School at Western Ontario University. He was also on the Board of Osteoporosis Canada from 2009 to 2012.

Mr. Kirkconnell holds an MBA from Richard Ivey School of Business at Western University 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 to develop and implement the Bank's information technology strategy and services. This includes corporate project portfolio management, information security and compliance, information technology 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 merger of Canadian Airlines and the implementation of Six Sigma.

Ms. Belzile began her career working for a major information technology consulting firm where she had the opportunity to learn about various industries.

She is a board member of the Montreal Women's Y Foundation.

Ms. Belzile holds a Bachelor's degree in Computer Science from the University of New Brunswick and a Master's degree in 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, client experience, economic analysis, internal and corporate 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. He is also Chairman of The Montreal Group, an international association of Development Banks.

Mr. Bergeron holds law degrees from Laval University and Dalhousie University, and an MA in international relations from Laval University.

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 twenty-five 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 sector.

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 degree in Industrial Relations and a CCP designation (Certified Compensation Professional) 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 5-year annual 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.

During his 10 years with BDC, Mr. Nycz has led several internal business reviews, one of which saw him assume the interim role of Executive Vice President, Venture Capital, where he oversaw the development and implementation of a new strategic approach.

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.

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 thirty-five year career in the financial sector, Ms. Paradis has acquired extensive experience in legal, administration and compliance matters, 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[1]	2013	2012	2011	2010	2009
BDC Financing					
Committed to clients[2]					
as at March 31					
Amount	**18,341,604**	16,956,675	15,913,193	14,783,510	12,176,290
Number of clients	**28,056**	27,582	27,989	28,331	27,617
Acceptances					
Amount	**4,110,703**	3,623,075	3,244,713	4,343,068	2,831,534
Number	**9,195**	6,926	9,795	8,014	7,749
BDC Subordinate Financing					
(includes both BDC and Caisse portion)					
Committed to clients[2]					
as at March 31					
Amount	**583,816**	498,670	414,394	380,680	349,905
Number of clients	**400**	385	352	348	354
Acceptances					
Amount	**189,757**	163,775	106,451	97,705	92,688
Number	**113**	137	97	68	92
BDC Venture Capital					
Committed to clients[2]					
as at March 31					
Amount	**821,882**	735,454	726,431	734,932	804,665
Number of clients	**149**	103	104	118	159
Authorizations					
Amount	**145,267**	126,751	99,377	84,591	137,385
Number	**87**	45	45	43	55
BDC Consulting					
Number of mandates	**2,180**	2,236	2,300	2,504	2,720
BDC Securitization					
Committed to clients[2] as at March 31	**907,048**	1,110,024	3,193,441	3,575,327	–
Amount authorized	**265,000**	290,000	150,000	3,653,740	–
BDC					
Total committed to clients[2]	**20,654,350**	19,300,823	20,247,459	19,474,449	13,330,860

(1) Data prior to fiscal 2011 are reported using Canadian GAAP.
(2) Amount committed to clients represents portfolio outstanding and amount undisbursed, at cost.

(in thousands of Canadian dollars)

Financial Information	**2013**	2012	2011	2010	2009
		IFRS		Canadian GAAP	
Net Income and Comprehensive Income – by Business Segments[1]					
for the years ended March 31					
Financing	**441,517**	504,736	305,603	76,232	194,028
Subordinate Financing	**35,151**	36,212	20,400	10,214	6,760
Venture Capital	**(8,117)**	(42,640)	(20,765)	(74,137)	(106,291)
Consulting	**(11,642)**	(11,020)	(8,883)	(4,645)	(2,930)
Securitization	**11,402**	46,159	70,166	(1,605)	(1,000)
Net income	**468,311**	533,447	366,521	6,059	90,567
Net income attributable to:					
BDC's shareholder	**464,817**	520,335	360,292	6,059	90,567
Non-controlling interests	**3,494**	13,112	6,229	n/a	n/a
Net income	**468,311**	533,447	366,521	6,059	90,567
Other comprehensive income (loss)[2]	**(44,739)**	(152,486)	58,317	5,710	(2,249)
Total comprehensive income	**423,572**	380,961	424,838	11,769	88,318
Total comprehensive income attributable to:					
BDC's shareholder	**420,078**	367,849	418,609	11,769	88,318
Non-controlling interests	**3,494**	13,112	6,229	n/a	n/a
Total comprehensive income	**423,572**	380,961	424,838	11,769	88,318
Financial Position Information					
as at March 31					
Asset-backed securities[3]	**437,453**	763,200	3,068,949	3,277,291	n/a
Loans, net of allowance for credit losses	**15,871,635**	14,739,271	13,731,011	12,525,521	10,452,173
Subordinate financing investments	**557,840**	457,369	387,091	193,203	155,070
Venture capital investments	**456,708**	358,951	413,782	362,270	441,631
Total assets	**18,183,905**	17,219,882	18,399,578	17,679,927	12,090,911
Total liabilities	**14,239,698**	13,594,621	14,639,731	14,036,911	9,901,347
Total equity attributable to:					
BDC's shareholder	**3,861,434**	3,509,980	3,613,202	3,643,016	2,189,564
Non-controlling interests	**82,773**	115,281	146,645	n/a	n/a
Total equity	**3,944,207**	3,625,261	3,759,847	3,643,016	2,189,564

(1) For detailed information on fiscal 2013 and fiscal 2012 segmented information under IFRS, please also refer to Note 24—*Segmented information* to the Consolidated Financial Statements.
(2) For detailed information on fiscal 2013 and fiscal 2012 Other comprehensive income, please refer to the Consolidated Statement of Comprehensive Income (p.74).
(3) The fiscal 2010 amount has been restated to include accrued interest.

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.

CG3 inc. | Communications | Graphisme

Iu130-2013E
1209-5400

Ce document est aussi disponible en français.

bdc.ca

Annual Report 2013

BDC
Entrepreneurs first

Canada