BDC

Entrepreneurs first

Annual Report 2014

BDC is the only bank dedicated exclusively to entrepreneurs.

To learn more, visit BDC.ca.

What We Are

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

> We promote entrepreneurship, with a special focus on small and medium-sized enterprises.

What We Do

We offer services that support Canadians who are creating, managing and growing small and medium-sized businesses:

> Financing

> Subordinate Financing

> Consulting

> Venture Capital

> Securitization

We offer these services to entrepreneurs in every part of Canada and every sector of the economy.

Why We Do It

When entrepreneurs succeed, Canadians benefit. The choices they make and the risks they take are incredibly important to the Canadian economy. They help decide how ideas become products and services, how jobs get created, and how Canada stays prosperous. From traditional companies to high-tech start-ups, every one of them is helping create value in Canada's economy.

MESSAGE FROM THE CHAIR OF THE BOARD OF DIRECTORS

Dear Minister,

I was honoured to have been appointed chair of the Board of Directors of BDC in January 2014.

While only several months into this role, I am pleased to report that BDC is a stable, effective and efficient organization that is fulfilling its parliamentary mandate to support Canadian entrepreneurs. I can also confidently assure you that together, we board members have the expertise and experience needed to steward and oversee BDC. (For more information on our governance framework, please see pages 111–124.)

BDC had a successful year. I would encourage you to review the strategic performance measures on pages 12–17. These are inspired by BDC's exclusive dedication to entrepreneurs, and seek to demonstrate how BDC turns its organizational purpose into relevant, effective and efficient support.

Stability, effectiveness and efficiency also permit BDC to deliver on particular priorities of importance to the Government of Canada, such as increasing the number of Canadian firms that innovate by ensuring that young start-ups have access to the venture capital they need to grow. They also permit BDC to promote other entrepreneurial activities that are in the broad national interest, such as exporting and globalizing. For these, BDC uses its own expertise and means, plus collaboration with other partners, notably other financial institutions, Export Development Canada and Government of Canada trade commissioners.

I believe BDC is uniquely positioned to be a powerful lever to help drive Canada's economy. Its more than 30,000 direct relationships with Canadian small and medium-sized businesses give it unrivalled access to and insights into the minds of the people who are responsible for much of the prosperity created in the Canadian marketplace. Its financial strength and efficiency make it a reliable partner in helping deliver government priorities. And BDC has proven itself up to the task of helping tackle new challenges. In sum, I believe that with even more strategic creativity, BDC's usefulness as a tool of public policy will grow.

I would like to thank Tom Spencer, who served very ably as interim chair in the months preceding my arrival. Many thanks to Tom and Jean Martel, both of whom left the board after several years of dedicated service. I am thankful for their contributions and to all of my board colleagues; their dedication, expertise and work ethic are a solid base upon which to build even greater success in the future.

Heartfelt thanks as well to everyone at BDC, from the senior management team to the employees who knock on entrepreneurs' doors from St. John's to Whitehorse to Victoria. They are the heart and soul of this organization, a development bank with a purpose, of which Parliament and Canada can be proud.

Should you or your parliamentary or Cabinet colleagues want more information on these or other topics, I would be pleased to meet to discuss them.

Sincerely,

Samuel L. Duboc

MESSAGE FROM THE PRESIDENT AND CEO

I am very happy to present BDC's annual financial report for the fiscal year that ended March 31, 2014.

In recent years, we have observed that the public's interest in the information we put on www.bdc.ca has eclipsed use of our paper reports. We want to reach as many Canadians as possible, so we will do this year's annual reporting in two ways: 1) this paper financial report to Parliament; and 2) the same report on bdc.ca—accompanied by additional, non-financial information about what we do for entrepreneurs.

For its readers, this report should confirm that BDC is fulfilling its mandate to support entrepreneurship, with a special focus on the needs of small and medium-sized enterprises. Also, it should show that BDC does this with services that entrepreneurs judge to be relevant, effective and efficient enough that they will pay for them.

We had a good year. We are now supporting more than 30,000 entrepreneurs in every part of Canada and every sector of the economy.

We provided more small loans and more loans to new businesses than ever before. This is essential to the grassroots and future health of Canada's small and medium-sized business community.

We helped entrepreneurs who want to grow their firms and paid particular attention to high-growth firms because—when these firms succeed—they make an outsized contribution to job creation, gross domestic product and the value of exports.

We helped entrepreneurs finance investments in information and communications technologies. It is crucial for them to do this if they want to make their firms more innovative and productive, and better able to compete in the Internet-driven, automated world.

We continued to support entrepreneurs who are developing tech-based companies, whose success will permit Canada to derive economic benefit from investments in research and development. Our investments and initiatives in venture capital are having a positive effect in a tough market, through both our direct and indirect approaches.

You'll find our performance indicators for these and other objectives on pages 12–17 of the Management's Discussion and Analysis section. I strongly encourage you to read these.

We also see certain awards as valid third-party endorsements and indicators of success. This past year, we were awarded the Canadian Venture Capital and Private Equity Association (CVCA) Deal of the Year, the fourth time in six years we've won it. We also won the 2014 RBC Champions of Immigrant Success Award for our co-creation of the Entrepreneur Connections program.

Finally, we were very pleased to become the only financial institution in Canada to be certified as a Beneficial Corporation (B Corp). This certification is part of a growing international movement to use the power of business for broader societal good. It is based on an assessment that grades organizations' purposes—in our case, supporting entrepreneurs—transparency and accountability to stakeholders.

We also supported entrepreneurs in other, indirect but powerful ways, which included producing substantive reports of relevance to them—*Mapping Your Future Growth: Five Game-Changing Consumer Trends* and *Advisory Boards: An Untapped Resource For Businesses*—as well as free online books. We also use awards to celebrate them: BDC Small Business Week awards, the Young Entrepreneur Award, and—launched in 2014—awards for mentorship, innovation, entrepreneurial resilience and championing of entrepreneurs. (For these reports and information on these events, I encourage you to visit bdc.ca.)

As you will see in this report, BDC's financial position is solid. Our ongoing profitability is testimony to effective balance: being efficient and effectively managing risk. Our commercial viability will produce a $54.6 million dividend to our sole shareholder, the Government of Canada. Solid financial footing is critical because it ensures BDC is able to fulfill its parliamentary mandate without requiring support from taxpayers.

In sum, I believe Canadians can have confidence in the relevance and effectiveness of the support that BDC provides Canadian entrepreneurs.

Jean-René Halde

Total entrepreneurs served

30,000

Employees dedicated to entrepreneurs

2,000

Locations across Canada

100

What we've committed to clients

$22 billion

Small loans

8,010

Loans to new businesses

1,519

Venture capital funds we invest in

39

Awards

- Canadian Start-up Award for Venture Capital Firm of the Year
- Canada's Top 100 Employers (2014)
- Canada's Top Diversity Employers (2014)
- 2014 RBC Champions of Immigrant Success Award

Certification

- The only certified Beneficial Corporation (B Corp) bank in Canada[1]

(1) BDC is now the only financial institution in Canada to be certified as a Beneficial Corporation. This certification is part of a growing international movement to use the power of business for broader societal good. It is based on an assessment that grades organizations' purposes—in our case, supporting entrepreneurs—transparency and accountability to stakeholders.

Management's Discussion and Analysis

In fiscal 2014, Canada's economic environment was characterized by:

> modest economic growth

> modest business investment and

> stimulative business credit conditions.

1. The Canadian Economic Environment

Overall, the Canadian economy enjoyed modest expansion in 2013. Real GDP grew by 2.0%.

Consumption remained the key driver of this growth. Household spending grew by a small degree: 2.2%, up from 1.9% in 2012. This is because household disposable income improved and the overall household debt level stabilized. The market saw a net gain of employment (100,000); at year's end, the unemployment rate was at its lowest level since the recession: 7.2%.

The main contributors to GDP growth were the mining, oil and gas extraction, and agriculture sectors. Finance and insurance, education, health, accommodation and food services, and retail and wholesale trade also improved. However, this overall improvement was tempered by a slight decrease in manufacturing (-1.2%).

Business investment was also modest. Non-residential business investment grew by 2.4%.

Investment in non-residential buildings grew by 4.1%, while investment in machinery and equipment stayed stable compared to 2012. Increases in investment in the agriculture and construction sectors were offset by lower spending in mining, oil and gas.

Manufacturers reported little change in capital spending during the year compared to 2012. The overall productivity of the business sector improved. Investment in new housing moderated in 2013. This was expected, considering signs of over-construction in some residential markets. Business confidence held firm and was supported by a rise in the demand for Canadian goods enabled by improvements in the U.S. economy.

In 2013, business credit conditions were favourable. The cost of borrowing remained at historically low levels. Business credit available from financial institutions continued to expand at a steady pace. By the end of the year, business credit from chartered banks had grown by 8.6%.

In sum, 2013 was characterized by economic growth, modest business investment and stimulative business credit conditions.

2. Performance Measures

In our corporate plan, we present performance measures with which we measure our organizational effectiveness and efficiency.

We track and present our performance against these corporate plan objectives.

Entrepreneurship

Increase entrepreneurial intensity in Canada

For Canada's economy to thrive, it needs the constant creation of new firms that bring new, innovative ideas to market. However, early-stage companies often have difficulty finding financing. BDC support is key, be it venture capital or term financing. We're pleased with our performance in terms of small loans.

- 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)

Partnerships

Work with partners to increase collective impact

Entrepreneurs are surrounded by various support entities, from organizations that act as their advocates and meeting places to other financial institutions that also serve them. For BDC to be effective while acting as a complementary lender, we must work closely in partnership with these key stakeholders.

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

TARGET 2014	ACTUAL 2014	COMMENTS
6,500	**8,010**	A continued focus on small loans is helping to ensure the needs of small businesses are being met.
1,400	**1,519**	Financing new businesses is one way in which BDC contributes to a healthy entrepreneurial ecosystem.
65%	**60%**	New firms face many competitive pressures; many succumb. BDC strives to help them survive so they can contribute to prosperity.
100	**116**	A focus on the client experience is resulting in a faster, easier, more pleasant experience for entrepreneurs.

TARGET 2014	ACTUAL 2014	COMMENTS
2,000	**2,252**	BDC continues to extend its reach to entrepreneurs across Canada through partnerships, including those with private sector financial institutions.

Innovation

Support the creation and adoption of innovation

The ability to innovate is a key differentiator for Canadian small and medium-sized enterprises (SMEs); hence, the importance of BDC support. One concrete way of innovating is by using information and communications technologies (ICT). We launched a variety of supports and services to promote the use of ICT, and are very pleased to see so many entrepreneurs using them.

Number of ICT "interventions," which include online web and ICT assessments; consulting mandates; financing and subordinate financing authorizations; downloads of eBooks and other informational materials from BDC.ca; and attendance at BDC-hosted ICT events

Venture Capital return of capital[(1)]

Productivity

Facilitate firm-level efficiency improvements

Given the challenges firms face in terms of productivity performance, BDC strives to encourage Canadian SMEs to aquire new machinery and equipment. While the objective was unmet, we will continue to encourage SMEs in this vein, via both financing and consulting.

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

TARGET 2014	ACTUAL 2014	COMMENTS
35,000	**60,530**	BDC's ICT strategy and emphasis on digital technology adoption continue to resonate with entrepreneurs who want to learn about and apply ICT to their business.
1.00	**1.01**	The investments and initiatives of BDC Venture Capital are having a positive impact in a challenging market.

TARGET 2014	ACTUAL 2014	COMMENTS
2,000	**1,684**	More work needs to be done to raise entrepreneurs' awareness of the productivity improvement benefits of new machinery and equipment.

(1) Return on each dollar disbursed (includes both direct and funds investments).

Growth

Enable clients to achieve their full potential

Fast-growing companies are critically important to future economic vitality; when they succeed to become medium-sized, they make a disproportionate contribution to job creation, gross domestic product and the value of Canada's exports; hence, it is very important to support them.

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)

BDC Efficiency

Be more efficient

Operational efficiency is an ongoing priority at BDC. We carefully manage our operating expenses, constantly seek ways to be more efficient and are pleased that our financing efficiency ratio continues to improve.

BDC Financing reported efficiency ratio

TARGET 2014	ACTUAL 2014	COMMENTS
30%	**30%**	High-growth firms contribute significantly to economic growth and BDC Subordinate Financing is well suited to supporting them.

TARGET 2014	ACTUAL 2014	COMMENTS
42.5%	**40.0%**	BDC continues to find efficiencies that result in fewer expenses being incurred to earn each dollar of revenue. The lower the ratio, the better.

Our support for entrepreneurs is *financially sustainable*.

3. Analysis of Financial Results

LINES OF BUSINESS

BDC reports on six business lines: Financing, Subordinate Financing, Venture Capital, Consulting, Securitization and Venture Capital Action Plan (VCAP).

THE OPERATIONAL CONTEXT IN WHICH TO EXAMINE BDC'S FINANCIAL RESULTS

The global economy recorded modest growth in fiscal 2014, but the climate improved during the year, particularly in advanced economies. Europe gradually emerged from the longest recession in its history. While the debt problems of member countries are far from being solved, the will of the European authorities to consolidate public finances and stabilize financial markets helped to restore confidence.

The economic situation improved significantly in the U.S. The housing sector continued to recover. Consumers significantly improved their balance sheets: their debt ratio decreased and their net wealth rose in proportion to their income. Consequently, the pace of growth in consumption increased. Business investment gradually accelerated during the year, as business confidence firmed. Reduced government spending, however, slowed growth. Actually, without this fiscal drag, U.S. economic growth would have been quite strong last year.

Emerging market economies continued to drive global economic growth in fiscal 2014, but their pace of growth remained lower than that observed during the first decade of the 2000s. The slower growth in emerging markets has several causes, including the slowing of growth in advanced economies and structural problems arising from industrialization (such as higher wages, rising inflation, labour shortages and low productivity). Moreover, some emerging countries have been severely affected by the tapering of the monetary stimulus by the U.S. Federal Reserve. They now face higher interest rates that hamper their economic growth.

The global economic situation obviously greatly influenced the performance of the Canadian economy during fiscal 2014. Even if growth is less vigorous than before in emerging countries, it is still high enough to support the demand for commodities produced in Canada. As a result, the mining, oil and gas extraction sector continued to grow and to stimulate economic activity in many other industries. In addition, Canada benefitted from improved confidence generated by the recovery of the European economy and the strengthening of the U.S. economy. That said, business investment and non-commodity exports were not as strong as hoped, given the low cost of credit and the depreciation of the Canadian dollar against the U.S. dollar. Competition faced by businesses is fierce. To benefit from global growth, Canadian firms need to improve their productivity and increase their efforts to penetrate emerging countries, which are attractive markets for their exports.

ACTIVITIES

BDC plays an important role in helping Canadian small and medium-sized enterprises (SMEs) to become more competitive, innovate, increase their efficiency and explore new markets, at home and abroad. As a complementary long-term lender and investor that takes higher risks and offers greater flexibility, BDC works to ensure that SMEs have the opportunity to grow and succeed.

BDC Financing plays a key role in fulfilling this mandate. Clients of BDC Financing accepted a total of $4.1 billion in loans during the year, similar to the total loans accepted in fiscal 2013. BDC Subordinate Financing continued to support the growth plans of Canadian entrepreneurs through its diverse product offering, with clients accepting a total of $186.6 million in financing this year, compared to $189.8 million last year. In venture capital, where BDC is working to rebuild and re-energize the asset class, BDC Venture Capital authorized $154.8 million in investments. As part of its role in implementing the Venture Capital Action Plan, BDC authorized $210.0 million in investments. BDC Consulting played a key role in assisting Canadian entrepreneurs to manage their operations effectively and started 2,505 consulting mandates this year. BDC also remains active in the securitization market to help ensure availability of financing for SMEs, and as at March 31, 2014, total asset-backed securities (ABS) stood at $336.5 million with total disbursements of $200.4 million for the year. All ABS issued under the Canadian Secured Credit Facility (CSCF) program were fully repaid in October 2013.

BDC continued to focus on small loans, while also supporting the growth of medium-sized firms and participating in larger financial transactions through syndication. During fiscal 2014, 6,517 clients accepted loans of $250,000 or less for a total of $501.7 million, compared to 4,905 clients and $375.1 million last year.

FINANCIAL RESULTS OVERVIEW

For the analysis of financial results, please also refer to Note 26—*Segmented Information* to the Consolidated Financial Statements.

CONSOLIDATED NET INCOME

BDC reported consolidated net income of $432.6 million this year, compared to $458.2 million in fiscal 2013. Net income attributable to BDC's shareholder amounted to $426.0 million this year and $454.7 million in fiscal 2013, while that attributable to non-controlling interests amounted to $6.6 million in fiscal 2014 and $3.5 million in fiscal 2013. Non-controlling interests relate only to BDC Subordinate Financing and BDC Venture Capital operations.

Consolidated net income was generated mostly by BDC Financing. Fiscal 2014's decrease in net income was mostly due to higher unrealized depreciation of investments, lower consulting revenues and lower net interest income as a result of the decrease in the ABS portfolio.

Net income from BDC Financing was $433.8 million, an increase of $0.7 million from last year. The increase in profitability was mainly due to higher net interest income and lower project costs related to increased capitalization of expenses mostly related to the Agility and Efficiency project, a major investment to modernize business delivery aimed at improving internal efficiencies and increasing client satisfaction. However, these were partially offset by lower impairment reversals on loans.

Net income from BDC Subordinate Financing was $23.3 million, $11.4 million lower than last year. The drop was due mainly to a lower net change in unrealized appreciation of investments.

BDC Venture Capital recorded a $12.0 million net loss for the year, compared to an $8.6 million net loss recorded last year. Last year's results were favourably impacted by the divestiture of two investee companies with excellent returns, whereas a lower net change in unrealized appreciation was recorded in fiscal 2014.

Consolidated Net Income—by Business Segment

for the years ended March 31 ($ in millions)

	2014	2013(1)	2012	2011	2010
		IFRS			Canadian GAAP
Financing	433.8	433.1	504.7	305.6	76.2
Subordinate Financing	23.3	34.7	36.2	20.4	10.2
Venture Capital	(12.0)	(8.6)	(42.7)	(20.8)	(74.1)
Consulting	(16.9)	(12.4)	(11.0)	(8.9)	(4.6)
Securitization	5.8	11.4	46.2	70.2	(1.6)
Venture Capital Action Plan	(1.4)	–	–	–	–
Net income	432.6	458.2	533.4	366.5	6.1
Net income attributable to:					
BDC's shareholder	426.0	454.7	520.3	360.3	6.1
Non-controlling interests	6.6	3.5	13.1	6.2	n/a
Net income	432.6	458.2	533.4	366.5	6.1

(1) Restated; refer to Note 4—*Application of New and Amended International Financial Reporting Standards*.

BDC Consulting reported a net loss of $16.9 million, compared to a net loss of $12.4 million last year. Since BDC undertook a transformation of its consulting group in fiscal 2013 to refine its approach to providing value-added and complementary services to entrepreneurs, revenues were expected to be lower and costs higher during the transition period. This is due to our efforts to ensure that consulting services are affordable and accessible to SMEs.

Net income from BDC Securitization was $5.8 million, $5.6 million lower than last year, due to lower net interest and fee income. The decrease represented the successful completion of the CSCF program and the full repayment of the related asset-backed securities. However, the F-PIL program (Funding Platform for Independent Lenders) continues to grow, with the principal amount increasing from $233.0 million to $333.9 million over the year, making a larger contribution to net income.

For its first year of operation, Venture Capital Action Plan recorded a loss of $1.4 million, mainly due to operating expenses, as resources were allocated to this new business line.

Net income attributable to non-controlling interests was $6.6 million in fiscal 2014 ($7.3 million in net income from BDC Subordinate Financing and $0.7 million in net loss from BDC Venture Capital), and $3.5 million in fiscal 2013 ($5.9 million in net income from BDC Subordinate Financing and $2.4 million in net loss from BDC Venture Capital).

Consolidated comprehensive income for fiscal 2014 was $482.2 million, compared to $433.3 million last year. Consolidated comprehensive income comprised $432.6 million in consolidated net income this year and $49.6 million in other comprehensive income (OCI). The increase in OCI for the year was mostly due to remeasurement gains on the net defined benefit asset or liability of $52.7 million, compared to a loss of $18.3 million in fiscal 2013. For the most part, these gains were caused by higher returns on pension plan assets and higher discount rates used to value the net defined benefit asset and liability. However, these were partially offset by the negative impact of the change in mortality tables.

For further details, refer to Note 20—*Net Defined Benefit Asset or Liability* to the Consolidated Financial Statements.

Consolidated Comprehensive Income

for the years ended March 31 ($ in millions)

	2014	2013(1)	2012	2011	2010
	IFRS				Canadian GAAP
Net income	432.6	458.2	533.4	366.5	6.1
Other comprehensive income (loss)					
Items that may be reclassified subsequently to net income					
Net change in unrealized gains (losses) on available-for-sale assets	0.3	(4.4)	(19.8)	19.8	6.4
Net change in unrealized gains (losses) on cash flow hedges	(3.4)	(2.2)	10.4	3.8	(0.7)
Total items that may be reclassified subsequently to net income	(3.1)	(6.6)	(9.4)	23.6	5.7
Items that will not be reclassified to net income					
Remeasurements of net defined benefit asset or liability	52.7	(18.3)	(143.1)	34.7	–
Other comprehensive income (loss)	49.6	(24.9)	(152.5)	58.3	5.7
Total comprehensive income	482.2	433.3	380.9	424.8	11.8
Total comprehensive income attributable to:					
BDC's shareholder	475.6	429.8	367.8	418.6	11.8
Non-controlling interests	6.6	3.5	13.1	6.2	n/a
Total comprehensive income	482.2	433.3	380.9	424.8	11.8

(1) Restated; refer to Note 4—*Application of New and Amended International Financial Reporting Standards*.

PERFORMANCE AGAINST OBJECTIVES

The consolidated net income of $432.6 million was $84.6 million more than the corporate plan objective. Most of the variance is attributable to BDC Financing, which recorded a net income of $433.8 million, $91.8 million higher than the corporate plan objective, primarily due to the lower-than-anticipated impairment losses on loans. A collective impairment reversal on loans of $10.0 million was recorded to reflect the improved financial condition of the portfolio.

BDC Subordinate Financing's net income of $23.3 million was $16.7 million lower than the corporate plan objective, mainly due to a higher-than-anticipated net change in unrealized depreciation of investments.

BDC Venture Capital's net loss of $12.0 million was $8.0 million better than the corporate plan objective, mainly because of a higher-than-anticipated net change in unrealized appreciation of investments.

BDC Consulting's net loss of $16.9 million was $1.1 million better than expected, mainly as a result of lower-than-anticipated operating and administrative expenses.

BDC Securitization's net income of $5.8 million was $4.2 million lower than expected, mostly due to lower net interest income.

Venture Capital Action Plan's net loss of $1.4 million was $4.6 million lower than expected, mostly due to the timing of the implementation of the program.

BDC FINANCING

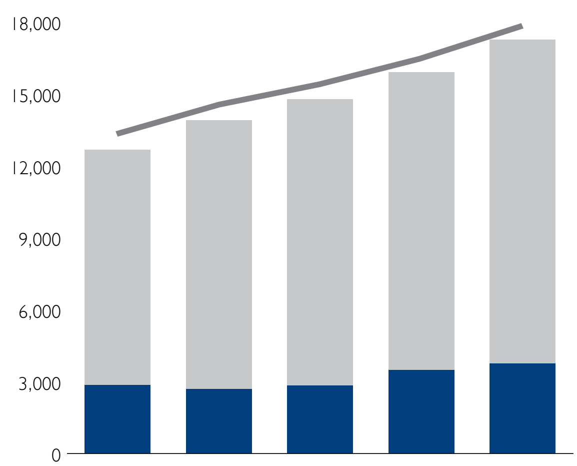
BDC Financing offers entrepreneurs secured and unsecured term loans and specialized services tailored to support them as they create and grow their firms; develop and expand their markets; invest in intangible assets, such as information technology; buy equipment to increase productivity; or transfer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

FINANCING PORTFOLIO

BDC Financing's loan portfolio, before allowance for credit losses, rose by 7.9% from $16.4 billion a year ago to $17.7 billion as at March 31, 2014, an increase of $1.3 billion. The closing portfolio comprised of $17.2 billion in performing loans and $0.5 billion in impaired loans. As at March 31, 2014, 78.2% of the performing portfolio was composed of floating-rate loans, slightly higher than the fiscal 2013 level of 78.1%.

Financing Performing Portfolio

as at March 31 ($ in millions)



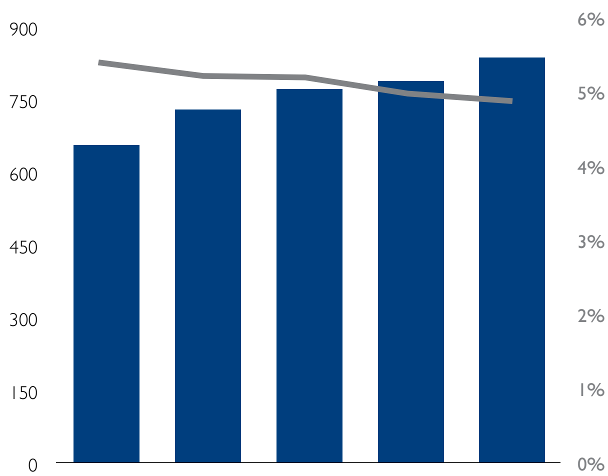
	2010	2011	2012	2013	2014
	Canadian GAAP	IFRS			
Fixed-rate performing portfolio	2,861	2,706	2,843	3,482	3,760
Floating-rate performing portfolio	9,829	11,214	11,955	12,436	13,513
Total performing portfolio	12,690	13,920	14,798	15,918	17,273
Total BDC Financing portfolio	13,311	14,506	15,349	16,410	17,749

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 $845.2 million in fiscal 2014, compared to $796.7 million in fiscal 2013. The increase of $48.5 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, mainly reflecting a lower interest rate environment.

Financing Net Interest and Fee Income

for the years ended March 31 ($ in millions)



	2010	2011	2012	2013	2014
	Canadian GAAP	IFRS			
Net interest and fee income	663.1	736.4	779.5	796.7	845.2
As a % of average loan portfolio	5.43%	5.25%	5.23%	5.01%	4.91%

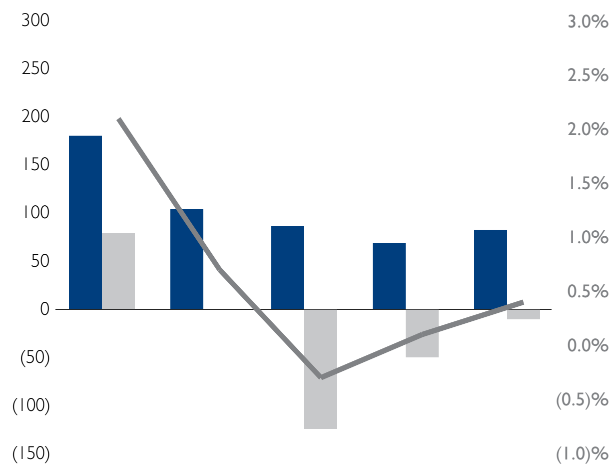
IMPAIRMENT LOSSES (REVERSALS) ON LOANS

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.

In fiscal 2014, BDC Financing recorded impairment losses on loans of $72.9 million.

Impairment Losses (Reversals) on Loans

for the years ended March 31 ($ in millions)



	2010	2011	2012	2013	2014
	Canadian GAAP	IFRS			
Individual	180.9	104.0	86.3	69.1	82.9
Collective	79.8	–	(124.5)	(50.0)	(10.0)
Impairment losses (reversals) on loans	260.7	104.0	(38.2)	19.1	72.9
As a % of average loan portfolio	2.1%	0.7%	(0.3%)	0.1%	0.4%

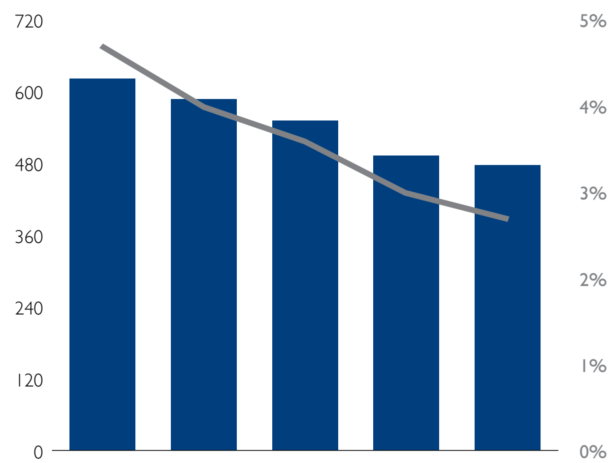
A significant factor influencing the individual allowance is the level of loans that were downgraded from performing to impaired status. When financial conditions deteriorate, more loans default. When they default, we classify them as impaired and record an amount equal to the net exposure as individual allowance. The rate of these downgrades slightly increased, from 2.1% of the performing opening portfolio in fiscal 2013 to 2.3% in fiscal 2014. Despite the increase in impairment losses, the level of losses remained low at 0.4% of the average loan portfolio. The loan portfolio continued to perform better than our expected loss rate at origination.

BDC closely manages the $475.9 million in impaired loans, which decreased by $15.9 million in fiscal 2014, and the watch list portfolio, which amounted to $709.0 million in fiscal 2014. The work performed to help entrepreneurs through difficult situations partly explains our low level of credit losses. Impaired loans represented 2.7% of the total portfolio on March 31, 2014, down from 3.0% on March 31, 2013.

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)



	2010	2011	2012	2013	2014
	Canadian GAAP	IFRS			
Impaired portfolio	620.5	586.2	550.8	491.8	475.9
Impaired portfolio as a % of total loan portfolio	4.7%	4.0%	3.6%	3.0%	2.7%

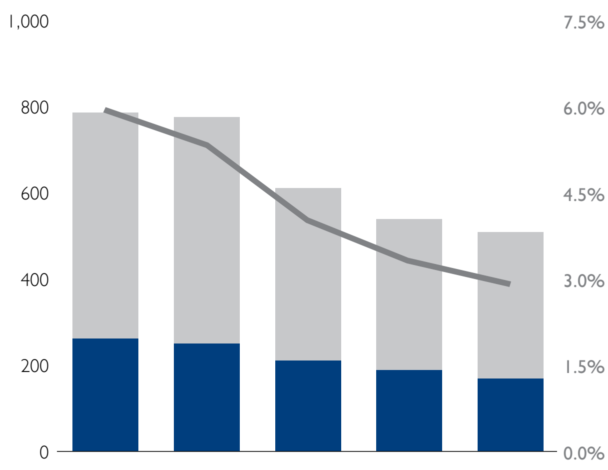
Since peaking in fiscal 2010, both the individual and collective allowances have declined. The significant drop in the collective allowance follows the considerable downward trend in loans downgraded to impaired status observed in our portfolio during fiscal 2012 and 2013, and the continued positive performance of our clients in fiscal 2014.

On March 31, 2014, the total allowance was $508.3 million or 2.9% of total loans outstanding, compared to $538.3 million or 3.3% of total loans outstanding in fiscal 2013. 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 24—*Risk Management* to the Consolidated Financial Statements.

Allowance for Credit Losses
as at March 31 ($ in millions)



	2010	2011	2012	2013	2014
	Canadian GAAP	IFRS			
Individual allowance	260.9	250.2	210.2	188.3	168.3
Collective allowance	524.5	524.5	400.0	350.0	340.0
Total allowance	785.4	774.7	610.2	538.3	508.3
Total allowance as a % of loan portfolio	5.9%	5.3%	4.0%	3.3%	2.9%

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 2014, BDC Financing recorded net gains on other financial instruments of $0.4 million, which included net realized gains of $1.2 million and net unrealized losses of $0.8 million. This compared with net gains on other financial instruments of $2.7 million in fiscal 2013, comprising net realized gains of $1.5 million and net unrealized gains of $1.2 million.

OPERATING AND ADMINISTRATIVE EXPENSES

Operating and administrative expenses were $338.9 million in fiscal 2014, $8.3 million lower than the $347.2 million recorded last year, mainly as a result of lower expenses due to capitalization of project costs related to the Agility and Efficiency project (A&E), an investment to modernize business delivery and to increase efficiency, offset by higher pension costs. BDC is striving to continuously improve its efficiency and A&E supports this objective.

PERFORMANCE AGAINST OBJECTIVES

BDC Financing's closing portfolio, net of allowance for credit losses, stood at $17.2 billion, which is 2.2% higher than the corporate plan objective.

BDC Financing's net income was $91.8 million higher than planned. This positive result was mainly due to lower-than-anticipated impairment losses on loans. The resilience of our clients and the positive economic environment were major factors contributing to the decrease in our impaired loans and allowance for credit losses.

Net interest, fee and other income was $5.2 million higher than the $840.0 million anticipated, due mainly to higher average loans outstanding. Total operating and administrative expenses were $18.1 million lower than the corporate plan objective, driven by our ongoing focus on efficiency management activities, and lower pension and project costs.

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.

During fiscal 2014, AlterInvest Fund LP began liquidating its investments. Those investments that were not reimbursed were transferred into AlterInvest II Fund LP at fair value. Since the partners of both AlterInvest Fund LP and AlterInvest II Fund LP are the same, there was no change in ownership interest as a result of these transactions.

SUBORDINATE FINANCING PORTFOLIO

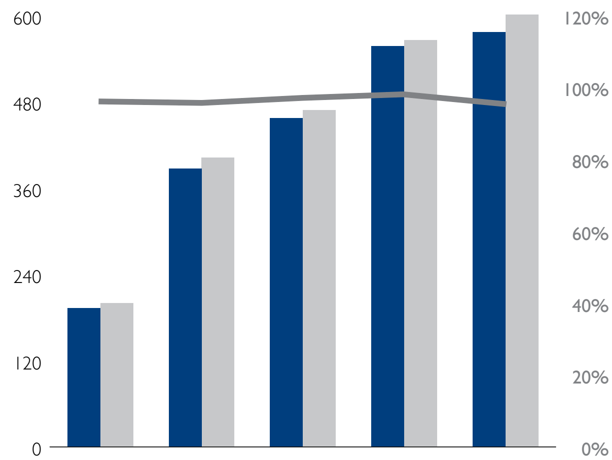
BDC Subordinate Financing's portfolio increased by 3.4%, from $557.8 million in fiscal 2013 to $576.7 million in fiscal 2014, mostly due to total disbursements of $156.9 million in fiscal 2014.

The fair value of the portfolio as a percentage of cost stood at 95.9%, an indication that the portfolio remained healthy.

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)



	2010	2011	2012	2013	2014
	Canadian GAAP	IFRS			
Fair value	193.2	387.1	457.4	557.8	576.7
Cost	200.0	402.5	468.5	566.0	601.4
Fair value as % of cost	96.6%	96.2%	97.6%	98.6%	95.9%

INCOME FROM SUBORDINATE FINANCING

BDC Subordinate Financing's net income of $23.3 million for the year was $11.4 million lower than in fiscal 2013. The drop was due mainly to a lower net change in unrealized appreciation of investments. Net income included $7.3 million attributable to non-controlling interests in fiscal 2014, and $5.9 million last year. Net interest income of $49.7 million was 5.7% higher than the $47.0 million recorded last year, due to the growth of the portfolio. Net realized losses on investments of $5.9 million were $6.2 million lower than last year. In addition, fee and other income was up $2.5 million from last year.

In fiscal 2014, BDC Subordinate Financing recorded a net change in unrealized depreciation of investments of $16.6 million, a $19.5 million higher depreciation than the $2.9 million net change in unrealized appreciation recorded last year. The net change in unrealized depreciation of investments included:

> a $16.7 million net fair value depreciation of the portfolio ($3.1 million depreciation in 2013); and

> a reversal of net fair value depreciation due to realized income totalling $0.1 million ($6.0 million in 2013).

Operating and administrative expenses increased by $3.2 million from last year, mainly due to increased staff levels to support entrepreneurs.

PERFORMANCE AGAINST OBJECTIVES

Net income from BDC Subordinate Financing of $23.3 million in fiscal 2014 was lower than the corporate plan objective of $40.3 million, as BDC continues to take on more risks in order to support entrepreneurs. This difference was mainly due to a higher-than-anticipated net change in unrealized depreciation of investments.

BDC VENTURE CAPITAL

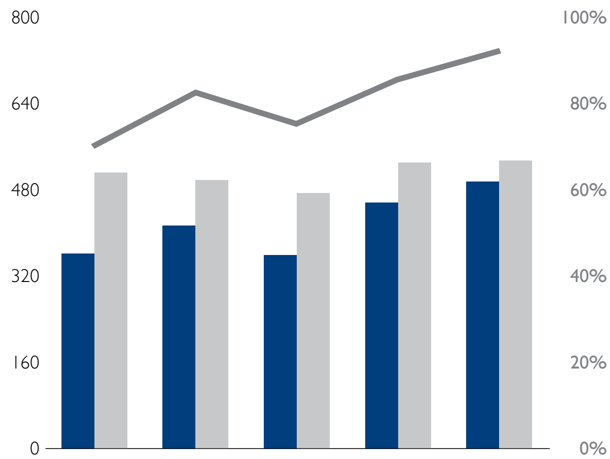
BDC Venture Capital is a major investor in Canada, active at every stage of a firm's development cycle, from seed through expansion. As the environment for venture capital remains challenging, BDC Venture Capital's objective is to help return the venture capital industry to health, where potential for profitability attracts private sector investors. To achieve this, it is investing in innovative, technology-driven Canadian companies directly; investing indirectly through external private sector venture funds; and undertaking strategic initiatives and making targeted investments.

In its direct investing activities, BDC 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.

To help rebuild and re-energize the venture capital (VC) ecosystem, we created the Strategic Investments and Partnerships (SIP) team. It is developing innovative initiatives to reinforce key areas of the VC ecosystem and is making investments in specialized funds that fill gaps, focusing on company creation platforms, niche funds and accelerators.

BDC Venture Capital Portfolio—Total Investments

as at March 31 ($ in millions)



	2010	2011	2012	2013	2014
	Canadian GAAP	IFRS			
Fair value	362.3	413.8	359.0	456.7	495.1
Portfolio (cost)	512.4	498.4	474.4	531.1	534.6
Fair value as % of cost	70.7%	83.0%	75.7%	86.0%	92.6%

VENTURE CAPITAL PORTFOLIO

The fair value of the portfolio increased from $456.7 million in fiscal 2013 to $495.1 million this year. The portfolio is composed of $315.7 million of direct investments and $179.4 million of investments in 39 funds. The increase in the portfolio fair value was mainly due to higher disbursements for investments and to gains on conversion of the U.S. dollar portfolio.

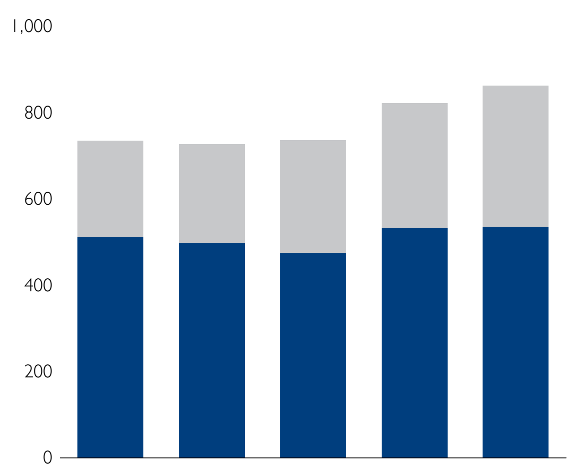
The fair value of the portfolio as a percentage of cost was 92.6% as at March 31, 2014, compared to 86.0% last year.

The total venture capital commitment to clients, which represents the portfolio outstanding at cost plus undisbursed commitments, amounted to $861.9 million as at March 31, 2014. This represents $370.3 million committed to direct investments and $491.6 million to private sector investment funds.

As planned, our commitments to private sector investment funds are 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)



	2010	2011	2012	2013	2014
	Canadian GAAP	IFRS			
Portfolio (cost)	512.4	498.4	474.4	531.1	534.6
Undisbursed commitment	222.6	228.1	261.1	290.8	327.3
Total commitment to venture capital clients	735.0	726.5	735.5	821.9	861.9

LOSS FROM VENTURE CAPITAL

The measure of success for BDC's work in the VC market is in its impact. For example, BDC's initiatives and investments in early- and seed-stage funding, including its role in the Venture Capital Strategic Investment Plan (VCSIP), have had a significant impact on the VC ecosystem but do not generate profits for BDC. VCSIP has already had an impact on direct investment activities by allowing it to expand its geographical scope and make direct investments in graduate firms of supported accelerators.

In fiscal 2014, BDC Venture Capital recorded a net loss of $12.0 million, compared to an $8.6 million net loss last year. The divestiture of two investee companies generated excellent returns in fiscal 2013. A lower net change in unrealized appreciation was recorded in fiscal 2014, partially offset by higher unrealized foreign exchange gains on the U.S. dollar portfolio.

Net realized losses on investments amounted to $19.0 million this year, compared to net realized losses of $34.6 million last year. Fiscal 2014 results included $42.2 million in net realized gains from sales and $61.2 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 $20.3 million (compared to unrealized appreciation of investments of $38.9 million last year), which included the following:

> $5.6 million in net fair value appreciation of the portfolio ($3.2 million in net fair value depreciation last year); and

> a reversal of net fair value depreciation on divested investments and write-offs totalling $14.7 million (reversal of net fair value depreciation and write-offs of $42.1 million last year).

Net unrealized foreign exchange gains of $14.6 million on investments were due to foreign exchange fluctuations on the U.S. dollar. BDC monitors currency fluctuations and uses foreign exchange contracts to partially hedge U.S. dollar investments. As a result, $9.5 million in net losses on foreign exchange contracts partially offset gains recognized due to U.S. dollar fluctuations.

Operating and administrative expenses were $22.6 million, compared to $19.9 million last year, mainly due to increased staff levels to support entrepreneurs.

BDC Venture Capital net loss attributable to non-controlling interests was $0.7 million for the year, $1.7 million lower than last year.

PERFORMANCE AGAINST OBJECTIVES

BDC Venture Capital's net loss of $12.0 million was lower than the $20.0 million net loss anticipated in the corporate plan. This was largely due to a higher-than-anticipated net change in unrealized appreciation on investments. Operating and administrative expenses were slightly lower than the corporate plan objective. Net loss attributable to non-controlling interests of $0.7 million was $2.3 million lower than anticipated.

BDC CONSULTING

BDC Consulting offers 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 $21.7 million were $2.3 million lower than the revenues of $24.0 million recorded last year. Although the total number of mandates increased by 15% in fiscal 2014 compared to fiscal 2013, the average mandate size decreased. We also discontinued some services as part of our efforts to strengthen the overall consulting service. Together, these explain the declining revenue. Operating and administrative expenses of $38.5 million were $2.0 million higher than those recorded in fiscal 2013.

The net loss for the year was $16.9 million, $4.5 million higher than the $12.4 million net loss recorded in fiscal 2013. Investments to refine the consulting model partly explain the increase in net losses.

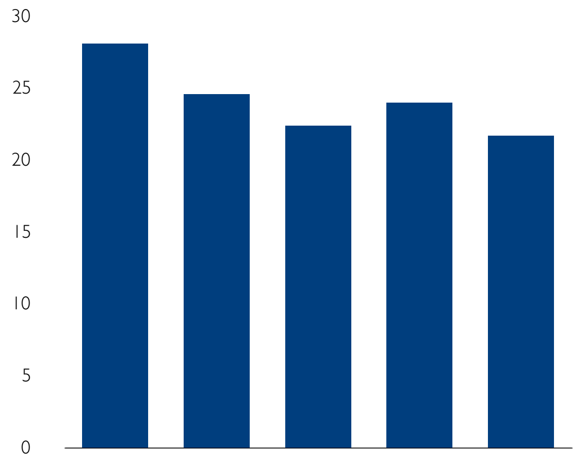
PERFORMANCE AGAINST OBJECTIVES

For fiscal 2014, the net loss of $16.9 million in BDC Consulting was slightly lower than the corporate plan estimate of $18 million.

Revenues were $21.7 million, which was $2.3 million lower than anticipated. On the other hand, operating and administrative expenses were in line with expectations.

Consulting Revenue

for the years ended March 31 ($ in millions)



	2010	2011	2012	2013	2014
	Canadian GAAP	IFRS			
	28.1	24.6	22.4	24.0	21.7

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 has been fully repaid.

The Funding Platform for Independent Lenders (F-PIL, formerly known as the Multi-Seller Platform for Small Originators, or MSPSO) is another program under BDC Securitization, which is aimed at helping entrepreneurs grow their businesses through indirect financing. The F-PIL targets small and medium-sized financing companies in different sectors, including vehicles, machinery and equipment. The program leverages existing private sector financing structures, and is an efficient and effective way to complement BDC's direct financing of these assets.

SECURITIZATION PORTFOLIO

As at March 31, 2014, total asset-backed securities stood at $336.5 million, compared to $437.5 million in fiscal 2013. The decrease in the portfolio was mainly due to the full repayment of the CSCF portfolio. Total disbursements for the year under the F-PIL program were $200.4 million.

INCOME FROM SECURITIZATION

BDC Securitization recorded net income of $5.8 million for the year, $5.6 million lower than last year, mainly due to lower net interest income as a result of the decline of the portfolio. The decrease represented the successful completion of the CSCF program and the full repayment of the related asset-backed securities.

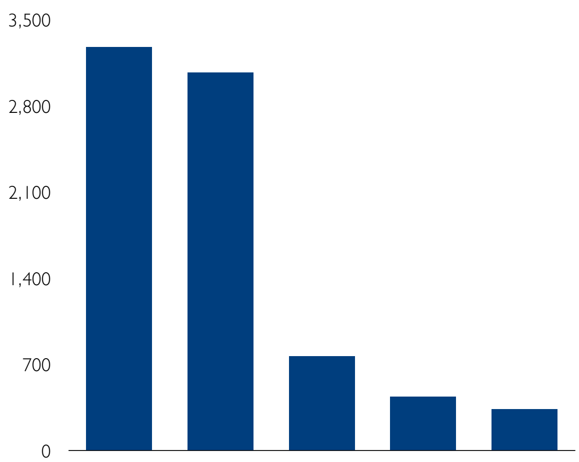
Operating and administrative expenses amounted to $1.7 million in fiscal 2014, similar to last year's level.

PERFORMANCE AGAINST OBJECTIVES

Net income of $5.8 million was $4.2 million lower than anticipated, mostly due to lower net interest income due to the lower average amount outstanding.

Asset-Backed Securities Portfolio

as at March 31 ($ in millions)



2010[1]	2011	2012	2013	2014
Canadian GAAP	IFRS			
3,277	3,069	763	437	336

(1) Restated to include accrued interest.

VENTURE CAPITAL ACTION PLAN

In Economic Action Plan 2012, the federal government indicated 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 new capital. The government has requested BDC's support and advice in the deployment of VCAP. In fiscal 2014, BDC began allocating resources to support the operations of this new business line.

VENTURE CAPITAL ACTION PLAN PORTFOLIO

In its first year after implementation, Venture Capital Action Plan authorized $210.0 million.

LOSS FROM VENTURE CAPITAL ACTION PLAN

In its first year of operations, BDC started allocating the resources required for the comprehensive, multi-year Venture Capital Action Plan. This produced a loss of $1.4 million, mostly due to operating and administrative expenses.

PERFORMANCE AGAINST OBJECTIVES

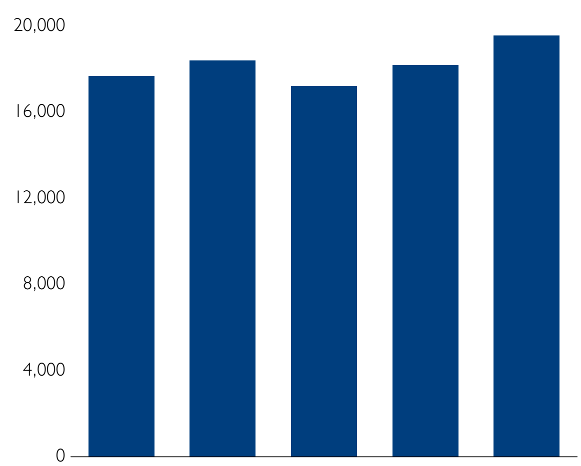
Net loss of $1.4 million was $4.6 million better than anticipated, mostly due to the timing in the implementation of the program.

CONSOLIDATED FINANCIAL POSITION AND STATEMENT OF CASH FLOWS

Total assets of $19.6 billion increased by $1.4 billion from a year ago, largely due to the $1.3 billion increase in our loans portfolio, combined with a $57.3 million increase in the subordinate financing and venture capital investment portfolios, offset by the $101.0 million decrease in asset-backed securities (ABS).

Total Assets—BDC

as at March 31 ($ in millions)



2010	2011	2012	2013	2014
Canadian GAAP	IFRS			
17,680	18,400	17,220	18,184	19,570

The ABS portfolio stood at $336.5 million as at March 31, 2014, compared to $437.5 million at March 31, 2013. The decrease in the portfolio is mainly due to the full repayment of the CSCF portfolio, partially offset by an increase in the F-PIL portfolio.

At $17.2 billion, the loan portfolio represented BDC's largest asset ($17.7 billion in gross portfolio net of $0.5 billion allowance for credit losses). The gross loan portfolio has grown by 7.9% since March 31, 2013, mostly due to an increase in net disbursements. BDC remained committed to actively supporting SMEs' needs and helping them improve competitiveness, while continuing to identify and address market gaps for financing across Canada.

As for BDC's investment portfolios, the BDC Subordinate Financing portfolio stood at $576.7 million, representing growth of 3.4% since March 31, 2013. The increase in the subordinate financing portfolio is mainly due to net disbursements, offset by unrealized depreciation on investments. The BDC Venture Capital portfolio was $495.1 million at March 31, 2014, compared to $456.7 million at March 31, 2013. Net disbursements and unrealized appreciation on investments accounted for most of the increase in the venture capital portfolio.

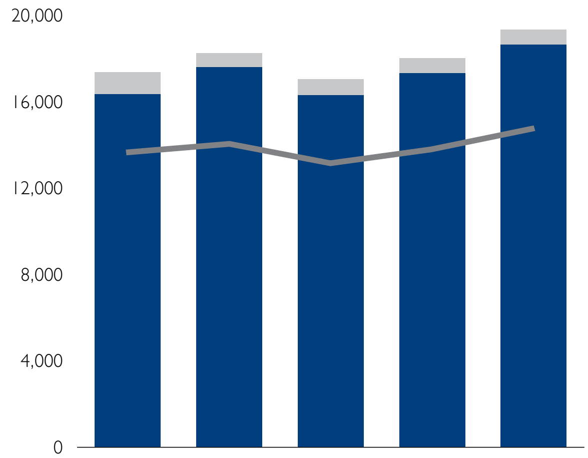
Derivative assets of $54.5 million and derivative liabilities of $10.7 million reflect the fair value of derivative financial instruments as at March 31, 2014. Net derivative fair value decreased by $22.2 million compared to the value at March 31, 2013, mainly as a result of an increase in interest rates.

As at March 31, 2014, BDC recorded a net defined benefit asset of $83.5 million related to the registered pension plan, and a net defined benefit liability of $188.2 million for the other plans, for a total net defined benefit liability of $104.7 million. This represents a decrease of $86.5 million compared to the net defined benefit liability as at March 31, 2013. This significant decrease in the total net defined benefit liability was the result of remeasurement gains recorded during the year. For further information, refer to Note 20—*Net Defined Benefit Asset or Liability* to the Consolidated Financial Statements.

BDC holds cash and cash equivalents in accordance with its treasury risk policy. The Bank's liquidities, which ensure funds are available to meet BDC's cash outflows, totalled $676.5 million at March 31, 2014, compared to $701.7 million at March 31, 2013.

Borrowings

as at March 31 ($ in millions)



	2010	2011	2012	2013	2014
	Canadian GAAP	IFRS			
Liquid assets	1,014	653	741	702	677
Portfolios[(1)]	16,358	17,601	16,319	17,324	18,654
Borrowings	13,736	14,125	13,224	13,868	14,832

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

For the year ended March 31, 2014, cash flow used by investing activities amounted to $2.6 million. Financing activities provided $934.9 million in cash flow, as long-term notes were repaid for $535.7 million and short-term notes were issued for $1,326.0 million. Operating activities used $957.4 million in cash flows.

At March 31, 2014, BDC funded its portfolios and liquidities with borrowings of $14.8 billion and total equity of $4.4 billion. Borrowings comprised $14.0 billion in short-term notes and $0.8 billion in long-term notes.

As at March 31, 2014, total equity consisted of $4.3 billion attributable to BDC's shareholder and $51.1 million attributable to non-controlling interests.

BDC's return on common equity (ROE) reached 10.2% in fiscal 2014, above the 10-year moving average cost of capital of 2.5% for the Government of Canada's three-year bonds.

Total Equity

as at March 31 ($ in millions)

	2014	2013(2)	2012	2011(1)	2010
	IFRS				Canadian GAAP
Equity					
Share capital	2,138.4	2,088.4	2,088.4	2,514.4	2,744.4
Contributed surplus	27.8	27.8	27.8	27.8	27.8
Retained earnings	2,167.3	1,748.1	1,378.6	1,046.4	869.8
Accumulated other comprehensive income	5.5	8.6	15.2	24.6	1.0
Equity attributable to BDC's shareholder	4,339.0	3,872.9	3,510.0	3,613.2	3,643.0
Non-controlling interests	51.1	82.8	115.3	146.6	n/a
Total equity	4,390.1	3,955.7	3,625.3	3,759.8	3,643.0
ROE(3)	10.2%	12.0%	13.7%	10.8%	0.0%

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

(2) Restated; refer to Note 4—*Application of New and Amended International Financial Reporting Standards*.

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

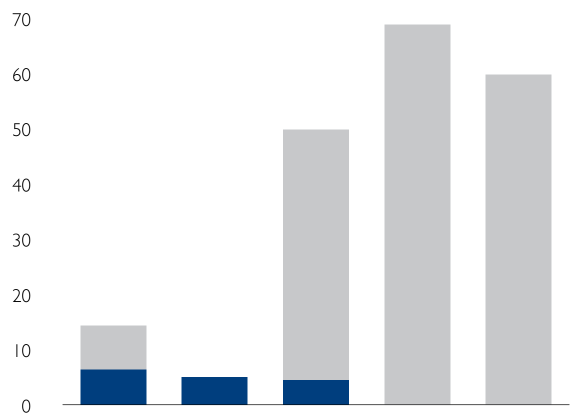
DIVIDENDS

BDC pays dividends to its sole shareholder, the Government of Canada. A total dividend of $59.6 million was paid in fiscal 2014.

Based on fiscal 2014 performance, BDC will make a payment of $54.6 million in dividends on common shares, which will be declared and paid after March 31, 2014.

Dividends

for the years ended March 31 ($ in millions)

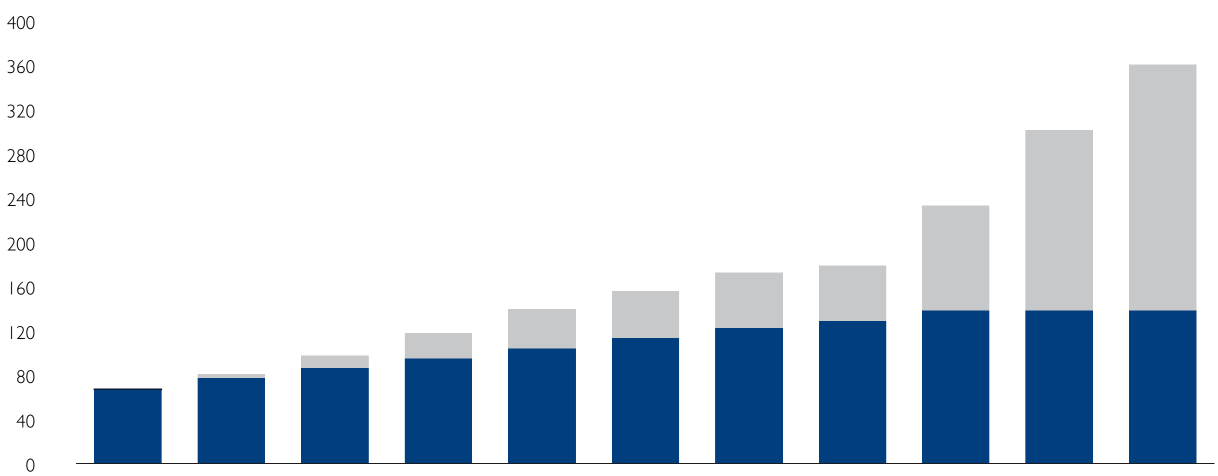


	2010	2011	2012	2013	2014
	Canadian GAAP	IFRS			
Preferred dividends declared	6.4	5.0	4.5	–	–
Common dividends declared(1)	7.9	–	45.1	68.6	59.6
Total dividends declared	14.3	5.0	49.6	68.6	59.6

(1) Based on the previous year's performance.

Cumulative Dividends Paid

as at March 31 ($ in millions)



	1998–2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Preferred dividends paid	67.1	77.3	86.4	95.1	104.5	114.0	122.9	129.3	138.8	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	223.9
Total dividends paid	67.5	81.1	97.9	118.7	140.2	156.7	173.5	179.9	234.5	303.1	362.7

CAPITAL MANAGEMENT

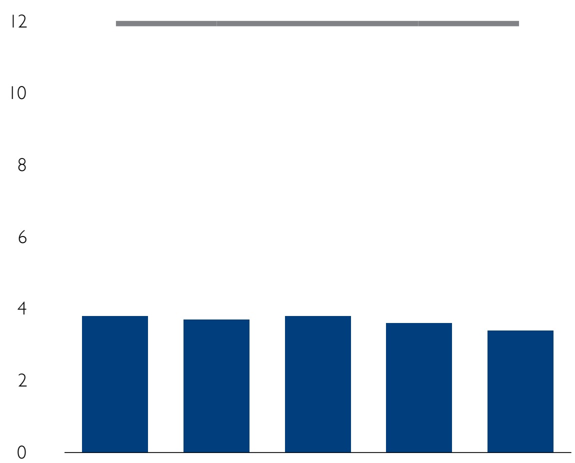
STATUTORY LIMITATIONS

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 excludes accumulated other comprehensive income. BDC's debt-to-equity ratio at March 31, 2014, was 3.4:1, compared to 3.6:1 at March 31, 2013.

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, 2014, these amounts totalled $2.166 billion, compared to $2.116 billion as at March 31, 2013.

Debt-to-Equity Ratio

as at March 31



	2010	2011	2012	2013(1)	2014
	Canadian GAAP	IFRS			
Actual	3.8	3.7	3.8	3.6	3.4
Statutory limit	12.0	12.0	12.0	12.0	12.0

(1) Restated; refer to Note 4—*Application of New and Amended International Financial Reporting Standards*.

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; 100% for venture capital investments; and 100% for VCAP investments. BDC has 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 23—*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 to internally assess the capital needed to sustain concurrent multiple risk events. It is calculated over a one-year time horizon at a given confidence level, based on the solvency standard set in our risk appetite statement. Economic capital is calculated for various types of risk—credit, market, operational and business—and models are based on advanced quantification methods, as advocated under the Basel Guidelines.

NET DEFINED BENEFIT ASSET OR LIABILITY

BDC's pension plan, supplemental plans and other employee future benefits are based on actuarial valuations and assumptions detailed in Note 20—*Net Defined Benefit Asset or Liability* to the Consolidated Financial Statements. Several factors, particularly the discount rate used to value future liabilities, influence the calculation of those obligations. For accounting measurement purposes, the discount rate used at each measurement date is based on market interest rates for long-term, high-quality debt instruments.

BDC's employer contributions to the registered pension plan totalled $79.6 million in fiscal 2014, compared to $87.6 million in fiscal 2013.

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, 2014, 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 2015

Following a strong rebound in the wake of the financial crisis, Canada's growth in recent years has been modest, waiting for the economic performance of its main trading partners to improve. As the U.S. economy finds its footing and emerging markets present fresh opportunities, Canada is poised for improved growth. With improved economic conditions, BDC is turning its attention to the pressing need for Canadian SMEs to become more competitive and will continue to play its important complementary role.

BDC's net income is expected to reach $317 million in fiscal 2015, of which $315 million will be attributable to BDC's shareholder. The decrease in net income is mainly due to the higher expected losses in Venture Capital, VCAP and Consulting, as BDC makes the investments required to fully play its role in catalyzing the entrepreneurial ecosystem and supporting the competitiveness of Canadian SMEs. BDC is forecasting dividend payments of $48 million in 2015.

BDC FINANCING

BDC Financing will continue to proactively identify and address market gaps in financing, a task that will include providing support to medium-sized firms and participating in larger transactions through syndication. BDC is also maintaining its focus on small loans, often for less than $250,000, which entrepreneurs use to buy equipment to increase productivity, apply innovation to their business through ICT, and grow and explore new markets.

BDC expects net financing acceptances to increase by 3.6% to $4.3 billion in fiscal 2015. Due to faster disbursement periods associated with small loans, and lower payments and prepayments, the gross portfolio is expected to grow by 6.8% to $18.9 billion in fiscal 2015.

BDC Financing is expected to generate net income of $374 million in fiscal 2015, as impairment losses return to more typical levels. BDC projects the impairment losses on loans will amount to $156 million or 0.9% of the average outstanding financing portfolio. Net interest income is expected to increase to $865 million in fiscal 2015. As a result of BDC's efforts to reduce costs and find efficiencies, including through its Agility and Efficiency (A&E) project, BDC Financing's operating expenses as a percentage of the average portfolio outstanding will decrease from 2.0% to 1.9%, even though smaller loans tend to be more costly to manage.

BDC SUBORDINATE FINANCING

BDC Subordinate Financing is playing an increasingly important role in supporting the growth plans of SMEs through flexible financing solutions and a diverse product offering.

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 $220 million in fiscal 2015, from $187 million in fiscal 2014. The fair value of the portfolio is expected to grow from $577 million in fiscal 2014 to $622 million in fiscal 2015. Even with the growth in the portfolio, operating expenses as a percentage of the average portfolio at fair value will decrease from 4.6% to 4.5% in fiscal 2015, as BDC continues to find operational efficiencies.

Net income from BDC Subordinate Financing is projected to be $22 million, including net income attributable to non-controlling interests of $3 million. After a few years of exceptionally low losses on investments, losses are expected to be at more representative levels for the risk being taken in BDC's subordinate financing portfolio.

BDC VENTURE CAPITAL

As one of the most active investors in the market, BDC Venture Capital is helping to demonstrate the viability of the Canadian VC industry, particularly with its direct investments and by creating the conditions for success through its Strategic Investments and Partnerships (SIP) team. BDC Venture Capital believes that the Venture Capital Action Plan (VCAP) and the Venture Capital Strategic Investment Plan (VCSIP), as announced by the government in Economic Action Plan 2013, will play a large part in helping to restore the VC market to health and profitability.

BDC Venture Capital estimates that, in fiscal 2015, it will authorize $160 million, including $60 million in direct investments, $65 million in indirect investments and $35 million in SIP (including $20 million in VCSIP). The fair value of the venture capital portfolio is expected to reach $559 million by March 31, 2015.

For fiscal 2015, BDC Venture Capital forecasts a net loss of $40 million, including a net loss of $1 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 its consulting group to refine its approach to providing value-added advisory services to entrepreneurs. As a result, in fiscal 2014, BDC Consulting began organizing its internal resources under three pillars that comprise solutions designed to help SMEs improve competitiveness by accelerating growth, improving productivity and building organizational capabilities.

BDC believes that entrepreneurs need to take advantage of professional, qualified advisory services to grow, innovate, create efficiencies and ultimately become more competitive. However, from its experience in the market, BDC recognizes that entrepreneurs often cannot find quality, affordable services tailored to their needs. To address this market gap, BDC is investing in advisory services that will maximize its impact on the competitiveness of Canadian entrepreneurs. In its role as a development bank, BDC will assume most costs associated with the provision of such services—particularly for SMEs outside of urban centres, where these are higher. This will ensure they are affordable and accessible to a variety of SMEs. As a result of the transition to the new approach, the net loss from BDC Consulting is expected to increase to $25 million for fiscal 2015.

BDC SECURITIZATION

The Canadian Secured Credit Facility (CSCF) program is now over and the portfolio has been fully repaid. While the CSCF helped to resolve some of the challenges experienced by the market, other deficiencies remained, especially for smaller players. To address this, BDC partnered with the private sector to create the Multi-Seller Platform for Small Originators, now known as the Funding Platform for Independent Lenders (F-PIL).

BDC will continue to operate the F-PIL, aimed at providing vehicle, machinery and equipment financing to smaller financing companies. In fiscal 2015, BDC anticipates continued growth in the F-PIL program through $205 million in acceptances.

The BDC Securitization total portfolio is expected to close at a fair value of $498 million as at March 31, 2015. Total net income for fiscal 2015 is projected to be $6 million.

VENTURE CAPITAL ACTION PLAN (VCAP)

Recognizing the importance of VC to Canada's economic prosperity, in Economic Action Plan 2012, the government announced $400 million to help increase private sector investment in early-stage risk capital and to support the creation of large-scale VC funds led by the private sector. In January 2013, the Prime Minister announced the VCAP, a comprehensive strategy for deploying the new capital. BDC was asked to carry out certain duties and functions to support the operations of this new business line.

For fiscal 2015, BDC anticipates that $175 million will be authorized and forecasts that it will incur losses of $20 million, as the VCAP program is in the early stages of implementation. BDC believes that the combined effect of VCAP, VCSIP and its own VC investing activities will have a significant positive impact on the VC market in Canada.

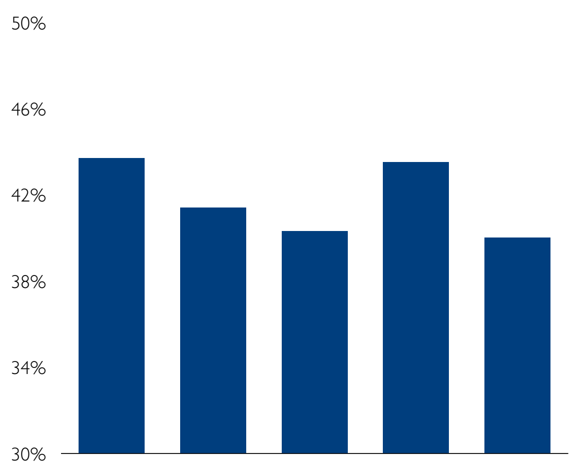
OPERATIONAL EFFICIENCY

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

Over the years, BDC has made a concerted effort to achieve efficiencies. It is continuing this tradition and observing the intent of the government's strategic review by carefully managing operating expenses, identifying and gaining efficiencies, and improving its efficiency ratio, i.e., the expenses incurred to earn each dollar of revenue. (The lower the ratio, the better.) As a result, the financing efficiency ratio has improved from 43.7% in fiscal 2010 to 40.0% in fiscal 2014.

BDC Financing Efficiency Ratio(1)

for the years ended March 31



	2010	2011	2012	2013(2)	2014
	Canadian GAAP	IFRS			
	43.7%	41.4%	40.3%	43.5%	40.0%

(1) A lower ratio indicates improved efficiency.

(2) Restated; refer to Note 4—*Application of New and Amended International Financial Reporting Standards*.

For the definition of efficiency ratio, refer to the Glossary on page 131.

We take risk to support clients.

We price for this risk.

And we manage it well.

4. Risk Management

BDC takes on risk while remaining financially sustainable. Our strong risk management practices enable 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, defining our risk appetite 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—for entrepreneurs to succeed.

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

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

ENTERPRISE RISK MANAGEMENT POLICY

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

BDC's Board of Directors reviews and approves the policy at least every two years.

RISK APPETITE STATEMENT

Our ERM framework includes a risk appetite statement that enables us to articulate and continuously monitor our risk profile against our defined risk appetite and related limits, taking actions as needed to maintain an appropriate balance of risk and return.

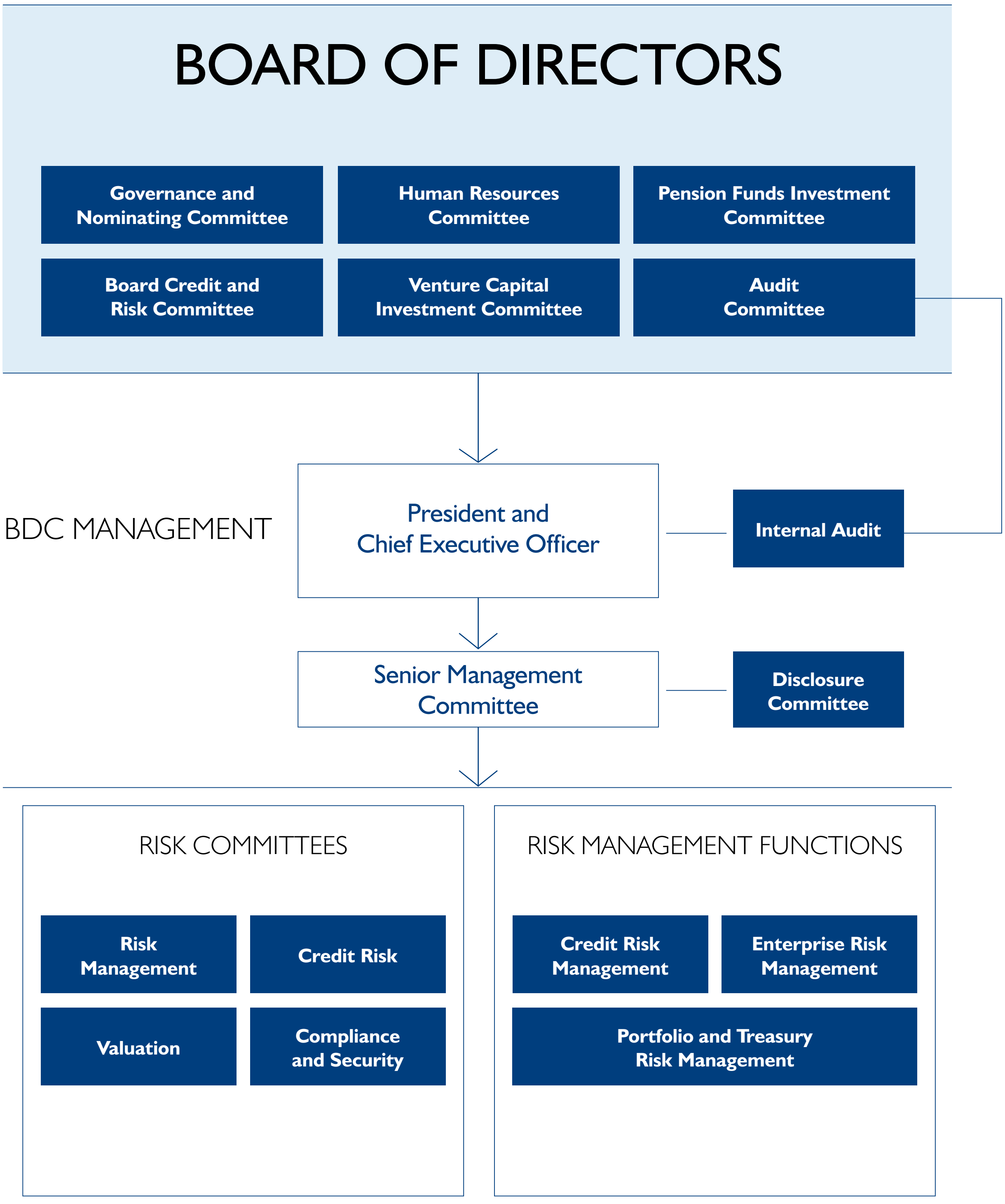
BDC's risk appetite statement articulates in written form, and communicates in qualitative statements and quantitative measures, the Board's vision for managing significant risks that BDC is willing to accept or avoid in the execution of its strategy.

BDC's Board of Directors reviews and approves the risk appetite statement annually.

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, in line with our risk appetite.
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. In the risk appetite statement and risk management-related policies, the board sets the acceptable levels of risk that BDC will tolerate.
6. BDC's policies and processes are consistent with ERM best practices.

THE BOARD OF DIRECTORS AND ITS GOVERNANCE



THE BOARD OF DIRECTORS

The board and its committees oversee governance and risk management.

In addition to approving the risk appetite statement, the board also approves risk policies and strategies; ensures BDC's risk management is effective; reviews portfolio and treasury risks; reviews capital adequacy and stress-testing analysis; 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, starting on page 111.

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

The **Venture Capital Investment Committee** advises the board on how effectively BDC is managing its venture capital and Venture Capital Action Plan investment activities. It also approves transactions above a certain threshold.

The **Audit Committee** advises the board on BDC's oversight and objective 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, through the Disclosure Committee, oversees BDC's disclosure obligations and practices.

The **Risk Management Committee** includes senior key leaders from multiple business units. Its mandate focuses on oversight. As such, the committee ensures that BDC has an adequate and effective 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:

- reviews financial performance, capital adequacy and BDC's risk appetite statement;
- ensures that treasury activities and related asset liability management comply with BDC policy; and
- oversees the investments of BDC's pension funds.

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

The **Credit Risk and Investment Committee** includes 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 Committee** oversees 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 risk management committees.

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

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.

The ERM policy outlines the way BDC manages risk by identifying and assessing significant risks, and managing them on an enterprise-wide basis, while our risk appetite statement ensures a consistent understanding of our risk tolerance and limits.

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

> quality reviews 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 30,000 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.

Capital adequacy

BDC ensures that it operates with an appropriate level of capital in accordance with the nature and level of risks taken. Our internal capital adequacy process evaluates capital adequacy on both a regulatory and an economic capital basis, and is used to establish capital thresholds in line with our risk appetite.

BDC allocates capital among lines of business based on needs and assessed risks in order to support new and existing corporate activities.

BDC also conducts stress-testing analysis on BDC's capital to assess the impact of different adverse scenarios to ensure BDC has sufficient capital to withstand unfavourable economic conditions.

Please refer to Note 23—*Capital Management* to the Consolidated Financial Statements for additional information on BDC capital management and adequacy.

FINANCIAL RISK

BDC is exposed to the following financial risks: credit risk, market risk and liquidity risk. This section should be read in conjunction with Note 24—*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 overall credit risk. We base our decisions on our experience with similar clients, and we use policies, corporate directives, guidelines, business rules and risk assessment tools to help us make these decisions.

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

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

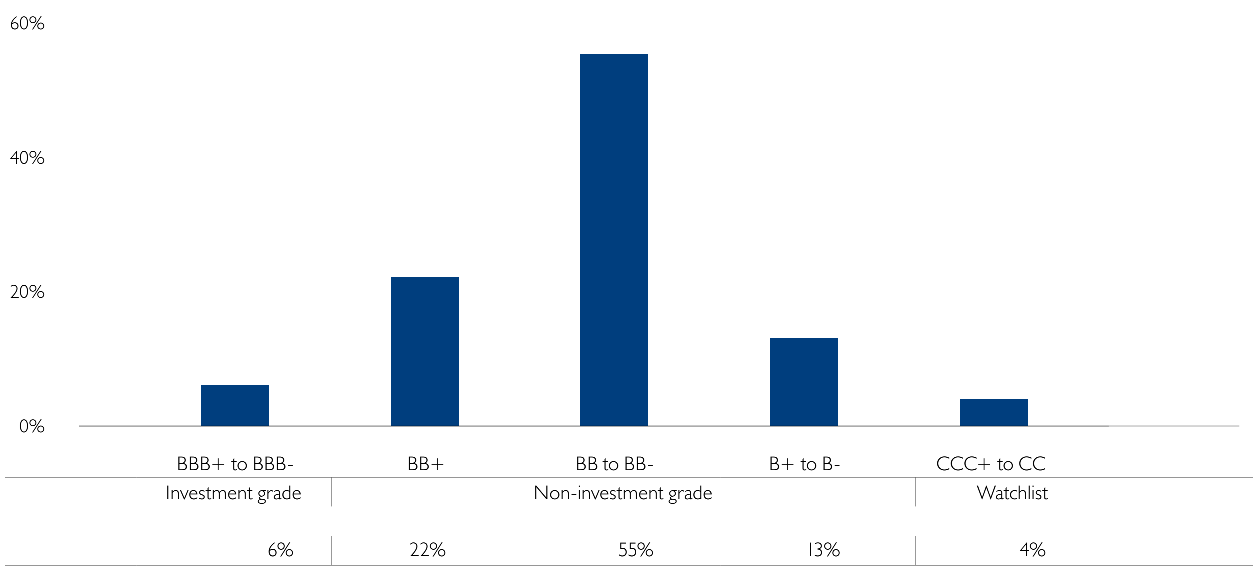
While BDC follows leading risk management practices, we generally assume more risk than a typical financial institution, due to our mandate and risk appetite. As a result, most of BDC's risk profile is non-investment grade. Please refer to Note 11—*Loans* to the Consolidated Financial Statements for further information on loans outstanding by grade equivalent.

BDC Financing Credit Risk Exposure

BDC rating	Annual PD	Grade equivalent	S&P equivalent	Moody's equivalent
0.5 - 1.0	0.1% - 0.5%	Investment grade	BBB+ to BBB-	Baa1 to Baa3
1.5 - 2.0	0.5% - 11.1%	Non-investment grade	BB+	Ba1
2.5 - 4.0			BB to BB-	Ba2 to Ba3
4.5 - 5.0			B+ to B-	B1 to B3
5.5	11.1% - 99.9%	Watchlist	CCC+ to CC	Caa1 to Ca
6.0 or higher	100%	Default	D	C

BDC Financing Performing Portfolio Classified by Credit Risk Exposure

as at March 31, 2014 (as a percentage of gross performing financing portfolio)



The most common method used to mitigate credit risk at the transaction level is to obtain quality collateral from borrowers. Obtaining collateral cannot replace a rigorous assessment of a borrower's ability to meet its obligations, but it is an important complement. Collateral is not required in all cases; it depends upon the type of loan granted. Please refer to Note 11—*Loans* for further information about principal collateral pledged as security and our level of security coverage.

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

Market risk

Market risk is the risk of financial loss that may arise from developments in marketplace dynamics or from our inability to forecast poor economic conditions quickly enough to mitigate losses in our portfolio. It represents 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 and Venture Capital Action Plan investments.

Managing market risk

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

Liquidity risk

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

Managing liquidity risk

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

OPERATIONAL RISK

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

Operational risk is present in all daily operations at BDC. As such, all of BDC's policies and corporate directives help BDC identify, analyze, mitigate and monitor this risk. They govern the way BDC manages its human capital and processes, safeguards information, administers loans and investments, and carries out its business and corporate activities. These activities are subject to internal audits. In addition, BDC has implemented an internal control framework based on the Committee of Sponsoring Organizations of the Treadway Commission (2013) (COSO) and an internal control 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 dictates its organizational capacity and enables it to fulfill its mission to help Canadian entrepreneurs succeed.

Managing human capital risk

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

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

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

> the board code of conduct;
> the BDC employee code of conduct, ethics and values (including the policy on the disclosure of wrongdoing, the anti-fraud corporate directive, and the anti-money laundering and anti-terrorist financing corporate directive);
> the policy on personal trading for employees and the policy on personal trading for directors;
> the charter of client rights;
> the policy and corporate directives on authorization limits and levels of authority;
> the 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 from 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, through a legislative compliance framework, helps BDC employees and management comply with laws and regulations, and manages all litigation involving BDC. It gives the Board of Directors the information it needs to comply with laws and corporate governance, and to oversee BDC's management of its legal and regulatory risk.

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 new standard, IFRS 9, *Financial Instruments*, has been published but is not yet effective for the year ended March 31, 2014. As a result, it has not been applied in preparing our fiscal 2014 Consolidated Financial Statements.

Information on IFRS 9, which is expected to affect BDC, is provided in Note 5 to the Consolidated Financial Statements. Revisions made to this standard 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 6 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 (2013) (COSO).

During fiscal 2014, BDC started using the updated Internal Control Framework dated May 2013.

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

As of March 31, 2014, 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, 2014, certifying officers evaluated the design and effectiveness of disclosure controls and procedures. Based on the results of the evaluation, they concluded that disclosure controls and procedures are adequately designed and operate effectively to provide reasonable assurance that material information disclosed is recorded, processed, summarized and presented within the requested timeframe, and that it is communicated to management on a timely basis for decision-making purposes.

Consolidated Financial Statements

Management's Responsibility for Financial Information

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

In discharging its responsibility for the integrity, fairness and quality of the Consolidated Financial Statements and for the accounting systems from which they are derived, management maintains a system of internal 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 (2013) (COSO). Refer to the *Management's Discussion and Analysis* section of the annual report for additional information (page 47).

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 11, 2014

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 2014, 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' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the 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 2014, 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, after giving retrospective effect to the change in method of accounting for employee benefits as explained in Note 4 to the consolidated financial statements, on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of Business Development Bank of Canada and its wholly-owned subsidiary that have come to our notice during our 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

11 June 2014
Montréal, Canada

Consolidated Statement of Financial Position

(in thousands of Canadian dollars)	Notes	March 31, 2014	March 31, 2013[1]	April 1, 2012[1]
ASSETS				
Cash and cash equivalents	8	**676,529**	701,678	740,667
Derivative assets	9	**54,501**	82,159	87,681
Loans and investments				
Asset-backed securities	10	**336,477**	437,453	763,200
Loans	11	**17,241,064**	15,871,635	14,739,271
Subordinate financing investments	12	**576,677**	557,840	457,369
Venture capital investments	13	**495,096**	456,708	358,951
Venture capital action plan investments	14	**5,169**	–	–
Total loans and investments		**18,654,483**	17,323,636	16,318,791
Property and equipment	15	**26,418**	25,671	25,171
Intangible assets	16	**58,280**	35,314	32,094
Net defined benefit asset	20	**83,527**	–	–
Other assets	17	**16,219**	15,447	15,478
Total assets		**19,569,957**	18,183,905	17,219,882
LIABILITIES AND EQUITY				
Liabilities				
Accounts payable and accrued liabilities	18	**106,027**	106,440	89,229
Derivative liabilities	9	**10,706**	16,212	17,244
Borrowings	19			
Short-term notes		**14,056,623**	12,731,629	11,214,813
Long-term notes		**775,340**	1,136,267	2,008,943
Total borrowings		**14,831,963**	13,867,896	13,223,756
Net defined benefit liability	20	**188,221**	191,245	218,378
Other liabilities	21	**42,991**	46,437	44,223
Total liabilities		**15,179,908**	14,228,230	13,592,830
Equity				
Share capital	22	**2,138,400**	2,088,400	2,088,400
Contributed surplus		**27,778**	27,778	27,778
Retained earnings		**2,167,279**	1,748,156	1,380,408
Accumulated other comprehensive income		**5,453**	8,568	15,185
Equity attributable to BDC's shareholder		**4,338,910**	3,872,902	3,511,771
Non-controlling interests		**51,139**	82,773	115,281
Total equity		**4,390,049**	3,955,675	3,627,052
Total liabilities and equity		**19,569,957**	18,183,905	17,219,882

Guarantees and contingent liabilities (Note 27)
Commitments (Note 28)

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

(1) Restated; refer to Note 4—*Application of New and Amended International Financial Reporting Standards*.

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)

	2014	2013[1]
Interest income	**1,020,165**	967,791
Interest expense	**132,813**	124,302
Net interest income	**887,352**	843,489
Net realized gains (losses) on investments	**(24,885)**	(46,685)
Consulting revenue	**21,684**	24,042
Fee and other income	**41,394**	38,838
Net realized gains (losses) on other financial instruments	**(8,031)**	4,140
Net revenue	**917,514**	863,824
Impairment reversals (losses) on loans	**(72,881)**	(19,076)
Net change in unrealized appreciation (depreciation) of investments	**3,201**	41,940
Net unrealized foreign exchange gains (losses) on investments	**14,584**	2,056
Net unrealized gains (losses) on other financial instruments	**(1,043)**	(2,415)
Income before operating and administrative expenses	**861,375**	886,329
Salaries and benefits	**293,677**	283,973
Premises and equipment	**40,611**	38,050
Other expenses	**94,475**	106,151
Operating and administrative expenses	**428,763**	428,174
Net income	**432,612**	458,155
Net income attributable to:		
BDC's shareholder	**425,968**	454,661
Non-controlling interests	**6,644**	3,494
Net income	**432,612**	458,155

The accompanying notes are an integral part of these Consolidated Financial Statements.
Note 25 provides additional information on the Consolidated Statement of Income and Note 26 provides segmented information.

(1) Restated; refer to Note 4—*Application of New and Amended International Financial Reporting Standards*.

Consolidated Statement of Comprehensive Income

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

	2014	2013[(1)]
Net income	**432,612**	458,155
Other comprehensive income (loss)		
Items that may be reclassified subsequently to net income		
Net change in unrealized gains (losses) on available-for-sale assets	**290**	(4,434)
Net unrealized gains (losses) on cash flow hedges	**(2,169)**	(695)
Reclassification to net income of losses (gains) on cash flow hedges	**(1,236)**	(1,488)
Net change in unrealized gains (losses) on cash flow hedges	**(3,405)**	(2,183)
Total items that may be reclassified subsequently to net income	**(3,115)**	(6,617)
Items that will not be reclassified to net income		
Remeasurements of net defined benefit asset or liability	**52,748**	(18,289)
Other comprehensive income (loss)	**49,633**	(24,906)
Total comprehensive income	**482,245**	433,249
Total comprehensive income attributable to:		
BDC's shareholder	**475,601**	429,755
Non-controlling interests	**6,644**	3,494
Total comprehensive income	**482,245**	433,249

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

(1) Restated; refer to Note 4—*Application of New and Amended International Financial Reporting Standards*.

Consolidated Statement of Changes in Equity

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

	Share capital	Contributed surplus	Retained earnings[1]	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 April 1, 2013[1]	2,088,400	27,778	1,748,156	1,917	6,651	8,568	3,872,902	82,773	3,955,675
Total comprehensive income									
Net income			425,968				425,968	6,644	432,612
Other comprehensive income (loss)									
Net change in unrealized gains (losses) on available-for-sale assets				290		290	290		290
Net change in unrealized gains (losses) on cash flow hedges					(3,405)	(3,405)	(3,405)		(3,405)
Remeasurements of net defined benefit asset or liability			52,748				52,748		52,748
Other comprehensive income (loss)	–	–	52,748	290	(3,405)	(3,115)	49,633	–	49,633
Total comprehensive income	–	–	478,716	290	(3,405)	(3,115)	475,601	6,644	482,245
Dividends on common shares			(59,593)				(59,593)		(59,593)
Distributions to non-controlling interests								(41,232)	(41,232)
Capital injections from non-controlling interests								2,954	2,954
Issuance of common shares	50,000						50,000		50,000
Transactions with owner, recorded directly in equity	50,000	–	(59,593)	–	–	–	(9,593)	(38,278)	(47,871)
Balance as at March 31, 2014	2,138,400	27,778	2,167,279	2,207	3,246	5,453	4,338,910	51,139	4,390,049

	Share capital	Contributed surplus	Retained earnings[1]	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 April 1, 2012[1]	2,088,400	27,778	1,380,408	6,351	8,834	15,185	3,511,771	115,281	3,627,052
Total comprehensive income									
Net income			454,661				454,661	3,494	458,155
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)
Remeasurements of net defined benefit asset or liability			(18,289)				(18,289)		(18,289)
Other comprehensive income (loss)	–	–	(18,289)	(4,434)	(2,183)	(6,617)	(24,906)	–	(24,906)
Total comprehensive income	–	–	436,372	(4,434)	(2,183)	(6,617)	429,755	3,494	433,249
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	1,748,156	1,917	6,651	8,568	3,872,902	82,773	3,955,675

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

(1) Restated; refer to Note 4—*Application of New and Amended International Financial Reporting Standards*.

Consolidated Statement of Cash Flows

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

	2014	2013[1]
Operating activities		
Net income	**432,612**	458,155
Adjustments to determine net cash flows		
Interest income	**(1,020,165)**	(967,791)
Interest expense	**132,813**	124,302
Net realized losses (gains) on investments	**24,885**	46,685
Impairment losses (reversals) on loans	**72,881**	19,076
Net change in unrealized depreciation (appreciation) on investments	**(3,201)**	(41,940)
Net unrealized foreign exchange losses (gains) on investments	**(14,584)**	(2,056)
Net unrealized losses (gains) on other financial instruments	**1,043**	2,415
Defined benefits funding in excess of amounts expensed	**(33,803)**	(45,422)
Depreciation of property and equipment, and amortization of intangible assets	**12,055**	10,694
Derecognition of intangible assets	**–**	8,284
Other	**(14,049)**	(6,373)
Interest expense paid	**(133,625)**	(122,841)
Interest income received	**1,006,820**	960,248
Disbursements for loans	**(4,047,973)**	(3,717,375)
Repayments of loans	**2,631,482**	2,575,803
Changes in operating assets and liabilities		
Net change in accounts payable and accrued liabilities	**(413)**	17,211
Net change in other assets and other liabilities	**(4,218)**	2,245
Net cash flows provided (used) by operating activities	**(957,440)**	(678,680)
Investing activities		
Disbursements for asset-backed securities	**(200,426)**	(193,355)
Repayments and proceeds on sale of asset-backed securities	**301,643**	514,573
Disbursements for subordinate financing investments	**(156,923)**	(195,062)
Repayments of subordinate financing investments	**115,485**	85,832
Disbursements for venture capital investments	**(118,274)**	(115,591)
Proceeds on sale of venture capital investments	**97,388**	26,871
Disbursements for venture capital action plan investments	**(5,702)**	–
Acquisition of property and equipment	**(7,977)**	(7,016)
Acquisition of intangible assets	**(27,791)**	(15,682)
Net cash flows provided (used) by investing activities	**(2,577)**	100,570
Financing activities		
Net change in short-term notes	**1,325,967**	1,515,432
Issue of long-term notes	**192,435**	200,929
Repayment of long-term notes	**(535,663)**	(1,072,614)
Distributions to non-controlling interests	**(41,232)**	(39,517)
Capital injections from non-controlling interests	**2,954**	3,515
Issuance of common shares	**50,000**	–
Dividends paid on common shares	**(59,593)**	(68,624)
Net cash flows provided (used) by financing activities	**934,868**	539,121
Net increase (decrease) in cash and cash equivalents	**(25,149)**	(38,989)
Cash and cash equivalents at beginning of year	**701,678**	740,667
Cash and cash equivalents at end of year	**676,529**	701,678

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

(1) Restated; refer to Note 4—*Application of New and Amended International Financial Reporting Standards*.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2014
(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, 2014, and March 31, 2013.

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 11, 2014.

BASIS OF PRESENTATION AND MEASUREMENT

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

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

> the net defined benefit asset or liability in respect to post-employment benefits has been recognized as the present value of the defined benefit obligation less the fair value of the plans' assets.

These Consolidated Financial Statements are presented in Canadian dollars, which is BDC's functional currency as well as the functional currency of its subsidiaries. The figures presented 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, 2014, March 31, 2013 and April 1, 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. BDC controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Control is presumed when BDC directly or indirectly holds the majority of the voting rights. The existence and effect of potential voting rights are considered when assessing whether BDC controls another entity.

In instances where BDC does not hold a majority of the voting rights, further analysis is performed to determine whether or not BDC has control of the entity. BDC is deemed to have control when, according to the terms of the shareholder's and/or limited partnership agreements, it makes most of the decisions impacting relevant activities.

Subsidiaries are fully consolidated from the date that control begins until the date that control ceases. No subsidiary has been acquired or disposed of during the reporting periods. Inter-company transactions and balances are eliminated upon consolidation.

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

Entity	Principal activity	Country of incorporation and residence	Proportion of ownership and voting power held	Basis of control
BDC Capital Inc.	Holding company structure for investment activities	Canada	100%	Voting power
AlterInvest Investment Fund Inc.	Investments in subordinate financing	Canada	50%	Voting power and contractual agreements
AlterInvest Fund L.P.	Investments in subordinate financing	Canada	50%	Voting power and contractual agreements
AlterInvest II Fund L.P.	Investments in subordinate financing	Canada	50%	Voting power and contractual agreements
Go Capital L.P.	Investments in venture capital	Canada	20%	Voting power and contractual agreements

GO CAPITAL L.P.

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

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

2. BASIS OF PREPARATION (continued)

ALTERINVEST II FUND L.P.

During fiscal 2014, having reached the end of their intended lives, AlterInvest Fund L.P. and AlterInvest Investment Fund Inc. began liquidating their investments. Those investments that were not reimbursed by their respective clients were transferred into AlterInvest II Fund L.P. The partnership interests of each partner in the funds involved did not change as a result of these transactions.

As at March 31, 2014, the total fair value of investments transferred to AlterInvest II Fund L.P. was $5.6 million (cost $7.7 million) calculated as per the fair value methodology described in Note 7—*Fair Value of Financial Instruments*. These transactions were non-cash and had no impact on profit or loss.

NON-CONTROLLING INTERESTS

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

ASSOCIATES

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

3.

SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these Consolidated Financial Statements are set out below. These policies have been consistently applied to all periods presented in these Consolidated Financial Statements and have been applied consistently by all entities consolidated by BDC.

FINANCIAL INSTRUMENTS

RECOGNITION AND MEASUREMENT OF FINANCIAL INSTRUMENTS

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

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

Financial instruments are recognized and derecognized using settlement date accounting.

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

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.

(in thousands of Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

FINANCIAL INSTRUMENTS (continued)

CLASSIFICATION OF FINANCIAL INSTRUMENTS

The following table summarizes the classification of BDC's financial instruments as at March 31, 2014, and March 31, 2013.

March 31, 2014

		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	8					676,529		676,529
Derivative assets	9	51,717			2,784			54,501
Asset-backed securities	10		4,750	331,727				336,477
Loans	11					17,241,064		17,241,064
Subordinate financing investments	12		576,677					576,677
Venture capital investments	13		495,096					495,096
Venture capital action plan investments	14		5,169					5,169
Other assets(2)	17					9,265		9,265
Total financial assets		51,717	1,081,692	331,727	2,784	17,926,858	–	19,394,778
Financial liabilities								
Accounts payable and accrued liabilities	18						106,027	106,027
Derivative liabilities	9	10,706						10,706
Short-term notes	19						14,056,623	14,056,623
Long-term notes	19		500,794				274,546	775,340
Other liabilities(2)	21						31,617	31,617
Total financial liabilities		10,706	500,794	–	–	–	14,468,813	14,980,313

(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.

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	8					701,678		701,678
Derivative assets	9	76,757			5,402			82,159
Asset-backed securities	10		3,725	433,728				437,453
Loans	11					15,871,635		15,871,635
Subordinate financing investments	12		557,840					557,840
Venture capital investments	13		456,708					456,708
Other assets(2)	17					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	18						106,440	106,440
Derivative liabilities	9	16,102			110			16,212
Short-term notes	19						12,731,629	12,731,629
Long-term notes	19		630,249				506,018	1,136,267
Other liabilities(2)	21						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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

FINANCIAL INSTRUMENTS (continued)

CLASSIFICATION OF FINANCIAL INSTRUMENTS (continued)

Fair value through profit or loss

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

Financial instruments classified as held-for-trading

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

- it is acquired or incurred principally for the purpose of selling or repurchasing instruments in the near term; or
- at initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

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

Financial instruments designated as fair value through profit or loss

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

- the asset or liability is managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise; or
- the asset or liability contains an embedded derivative that is separable and significantly modifies the cash flows that would otherwise be required under the contract.

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

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

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

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

- net realized gains or losses on investments when related to asset-backed securities, subordinate financing, venture capital investments and venture capital action plan investments; or
- net realized gains or losses on other financial instruments when related to derivatives and borrowings.

Available-for-sale financial assets

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

- intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity, or changes in interest rates, exchange rates or equity prices; and
- not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

FINANCIAL INSTRUMENTS (continued)

CLASSIFICATION OF FINANCIAL INSTRUMENTS (continued)

Cash flow hedges

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

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

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

Loans and receivables

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

Financial liabilities measured at amortized cost

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

MAJOR TYPES OF FINANCIAL INSTRUMENTS

Cash equivalents

Cash equivalents include short-term bank notes and reverse repurchase agreements that, at the original acquisition date, have maturities 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 assets.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

FINANCIAL INSTRUMENTS (continued)

MAJOR TYPES OF FINANCIAL INSTRUMENTS (continued)

Asset-backed securities (continued)

Impairment of asset-backed securities

At each reporting date, BDC reviews ABS classified as available-for-sale for possible impairments or reversals of previously recognized impairments. BDC determines that ABS are impaired when there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and when that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Refer to Note 6—*Significant Accounting Judgements, Estimates and Assumptions*, for more information regarding the criteria used to determine whether an impairment has occurred.

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

Loans

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

Allowance for credit losses

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

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

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

The carrying amounts of impaired loans are first reduced through the use of an allowance account, and then written off if and when all collection efforts have been exhausted and no further prospect of recovery is likely. The amounts of the initial impairment losses, as well as any subsequent increases or reversals of these impairment losses, are recognized in impairment losses or 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 6—*Significant Accounting Judgements, Estimates and Assumptions*, for more information regarding the criteria used to determine the amount of the allowance.

Subordinate financing, venture capital and venture capital action plan investments

Upon initial recognition, subordinate financing, venture capital and venture capital action plan (VCAP) investments are designated at fair value through profit or loss on the basis that they are part of a portfolio that is reported to and evaluated by senior management on a fair value basis, in accordance with a documented investment and risk management strategy.

BDC's valuation process for fair value measurement of subordinate financing, venture capital and VCAP investments has been derived from the International Private Equity and Venture Capital Valuation Guidelines. Based on the type of investments being valued, BDC uses (i) market-based methodologies, such as the quoted share price or the price of recent similar investments; (ii) discounted earnings or cash flow approaches; or (iii) liquidation or asset-based methods. These fair values are updated at least twice a year by internal valuators and are then reviewed by a valuation committee, which includes an external member who is a Chartered Business Valuator. VCAP includes fund-of-fund transactions that provide for certain other limited partners to receive a preferred return on the initial cost of their investment, later timing of cash calls and preference in the distributions. The impact of these terms and conditions is taken into account in the fair value calculation by applying an adjustment to the attributed net asset value of each fund.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

FINANCIAL INSTRUMENTS (continued)

MAJOR TYPES OF FINANCIAL INSTRUMENTS (continued)

Borrowings

Short-term notes are measured at amortized cost.

BDC has two types of long-term notes: unstructured and structured. Unstructured long-term notes are recorded at amortized cost. Structured notes are notes for which interest or principal, or both, are linked to fluctuations in equity indices, currency rates, swap rates and other market references. These structured notes have been designated at fair value through profit or loss, as they contain embedded derivatives that would otherwise need to be separated, given that they significantly modify the cash flows required under the host debt contract.

The fair value of structured notes is determined by using observable market data together with recognized valuation techniques. Observable market data are sourced from leading inter-dealer brokers and include interest rates, foreign exchange rates, equity prices and other market references.

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

Derivatives

Derivative financial instruments are financial contracts that derive their value from underlying changes in interest rates, foreign exchange rates, stock market indices, commodity prices or other financial instrument measures. BDC acquires derivative financial instruments to manage exposures to interest, currency and other market risks. BDC does not hold derivatives for speculative or trading purposes. Derivatives are either designated as cash flow hedges or classified as held-for-trading.

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

Embedded derivatives that are not closely related to the host contract must be separated and classified as held-for-trading financial instruments, unless the hybrid instrument is designated as fair value through profit or loss. As at March 31, 2014, and March 31, 2013, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

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

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

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

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

Intangible assets primarily comprise systems and software applications, the cost of which includes the purchase price plus any costs incurred to prepare them for their intended internal use. The intangible assets' lives are finite and are amortized using the straight-line method over their estimated useful economic lives, which range from three to seven years. Costs related to projects in progress are not subject to amortization until the related intangible asset is available for use. The amortization expense is included in the premises and equipment expense in the Consolidated Statement of Income.

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

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

NET DEFINED BENEFIT ASSET OR LIABILITY

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

EQUITY ATTRIBUTABLE TO BDC'S SHAREHOLDER

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

Unrealized gains and losses on financial instruments classified as available-for-sale assets are included in 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' net income and remeasurements of net defined benefit asset or liability, net of dividends paid.

TRANSLATION OF FOREIGN CURRENCIES

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

SEGMENTED INFORMATION

BDC has the following operating segments, which are based on differences in products and services: Financing, Subordinate Financing, Venture Capital, Consulting, Securitization and Venture Capital Action Plan.

The operating segments are reported in a manner consistent with the way BDC presents and discloses information that is regularly reviewed by the senior management team and the Board of Directors in assessing performance.

All transactions between business segments are recognized on an arm's-length basis. Income and expenses directly associated with each segment are included in determining business segment performance.

4.

APPLICATION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS

On April 1, 2013, BDC adopted the following new amendments and standards:

> IAS 1, *Presentation of Financial Statements*;
> IAS 19, *Employee Benefits*;
> IFRS 10, *Consolidated Financial Statements*;
> IFRS 12, *Disclosures of Interest in Other Entities*; and
> IFRS 13, *Fair Value Measurement*.

IAS 1, *Presentation of Financial Statements*, was amended to require entities to group items presented in OCI in two categories depending 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 adoption of the amendments to this standard did not have an impact on BDC's results or financial position.

IFRS 10, *Consolidated Financial Statements*, 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. The adoption of IFRS 10 did not have any impact on BDC's results or financial position.

(in thousands of Canadian dollars)

4. APPLICATION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

IFRS 12, *Disclosures 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 whose adoption had no impact on BDC's results or financial position.

IFRS 13, *Fair Value Measurement*, provides a common definition of fair value and sets out a framework for measuring fair value using the assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The adoption of IFRS 13 did not have a significant impact on BDC's results or financial position.

The amendments to IAS 19, *Employee Benefits*, affected amounts reported in these Consolidated Financial Statements, the presentation of balances and related disclosures, as described below.

AMENDMENTS TO IAS 19, EMPLOYEE BENEFITS

The amendments to IAS 19, which the Internal and Accounting Standards Board (IASB) issued in June 2011, changed the accounting for defined benefit plans. An adjustment of $1,791 was required as at April 1, 2012, and an adjustment of $11,468 was required for the year ended March 31, 2013, because the assumption used for the valuation of benefits payable on termination of employment under the registered pension plan and one of the supplemental pension plans terms was modified on application of the new standard. In addition to these adjustments, the most significant change for BDC was the requirement for interest income on plan assets to be computed by applying the discount rate used to measure the plan obligation, as opposed to applying management's best estimate of the expected long-term rate of return on plan assets. The cost of managing plan assets is recorded against the actual return on plan assets, while other administration costs are recorded in net income. Finally, there is an increase in disclosure requirements. Refer to Note 20—*Net Defined Benefit Asset or Liability*, for more detail.

These amendments were applied retrospectively to these Consolidated Financial Statements.

The impact of these amendments on the comparative figures is as follows.

Consolidated Statement of Financial Position			As at April 1, 2012
	As previously reported	Amended IAS 19 effects	Restated
Net defined benefit liability	220,169	(1,791)	218,378
Retained earnings	1,378,617	1,791	1,380,408

Consolidated Statement of Financial Position			As at March 31, 2013
	As previously reported	Amended IAS 19 effects	Restated
Net defined benefit liability	202,713	(11,468)	191,245
Retained earnings	1,736,688	11,468	1,748,156

Consolidated Statement of Comprehensive Income			Year ended March 31, 2013
	As previously reported	Amended IAS 19 effects	Restated
Operating and administrative expenses	418,018	10,156	428,174
Net income	468,311	(10,156)	458,155
Remeasurements of net defined benefit asset or liability	(38,122)	19,833	(18,289)
Other comprehensive income	(44,739)	19,833	(24,906)
Comprehensive income	423,572	9,677	433,249

5.
FUTURE ACCOUNTING CHANGES

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards had been published by the IASB but were not yet effective, and had not been adopted early by BDC. These standards include IFRS 9, *Financial Instruments*, described below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on BDC's financial statements.

IFRS 9, *FINANCIAL INSTRUMENTS*

The IASB aims to replace IAS 39, *Financial Instruments: Recognition and Measurement* in its entirety. The replacement standard (IFRS 9) is being issued in phases. To date, the chapters dealing with recognition, classification, measurement, and derecognition of financial assets and liabilities, as well as the chapter on hedge accounting, have been issued. Further chapters dealing with impairment methodology are still being developed. The tentative effective date for IFRS 9 is January 1, 2018.

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.

6.
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.

ESTIMATES AND ASSUMPTIONS

ALLOWANCE FOR CREDIT LOSSES

The allowance for credit losses on loans represents management's estimate of the losses incurred in the loan portfolio at the reporting date and is established at both the individual and collective asset 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 11—*Loans*, for more information on the allowance for credit losses.

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

ESTIMATES AND ASSUMPTIONS (continued)

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

These judgements include considerations of inputs such as the discount rate, the expected rate of return by level of risk and the weighted forecast of cash flows. Changes to these inputs could affect the reported fair value of financial instruments. Refer to Note 3—*Significant Accounting Policies*, for more information about the valuation techniques used for each type of financial instrument and to Note 7—*Fair Value of Financial Instruments*, for additional information on fair value hierarchy levels.

QUALIFYING HEDGE RELATIONSHIPS

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

NET DEFINED BENEFIT ASSET OR LIABILITY

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

Refer to Note 20—*Net Defined Benefit Asset or Liability*, for additional information about the key assumptions.

JUDGEMENTS

IMPAIRMENT OF AVAILABLE-FOR-SALE ASSETS

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

CONSOLIDATION

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

(in thousands of Canadian dollars)

7.
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, 2014			March 31, 2013
	Fair value hierarchy level	**Fair value**	**Carrying value**	Fair value hierarchy level	Fair value	Carrying value
Financial assets classified as loans and receivables						
Loans	**2**	**17,238,394**	**17,241,064**	2	15,928,340	15,871,635
Financial liabilities classified as financial liabilities						
Short-term notes	**1**	**14,055,883**	**14,056,623**	1	12,731,743	12,731,629
Long-term notes	**2**	**274,916**	**274,546**	2	506,623	506,018

FINANCIAL INSTRUMENTS CARRIED AT AMORTIZED COST

LOANS CLASSIFIED AS LOANS AND RECEIVABLES

The carrying value of performing floating-rate loans is a reasonable approximation of their fair value because the carrying value reflects changes in interest rates since the loan was originated. For performing fixed-rate loans, fair value is determined using a discounted cash flow calculation that uses market interest rates prevailing at the end of the period charged for similar new loans with corresponding remaining 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*.

SHORT-TERM NOTES CLASSIFIED AS FINANCIAL LIABILITIES

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

LONG-TERM NOTES CLASSIFIED AS FINANCIAL LIABILITIES

The fair value of long-term notes classified as financial liabilities is determined using a discount cash flow calculation that uses market interest rates based on the remaining time to maturity.

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

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

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

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

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

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

There have been no transfers between levels 1 and 2 or between levels 2 and 3 in the reporting periods. BDC's policy is to recognize transfers between levels 1 and 3 when private investments become publicly traded or public investments become private investments during the reporting periods.

(in thousands of Canadian dollars)

7. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (continued)

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

				March 31, 2014
	Fair value measurements using			Total
	Level 1	Level 2	Level 3	fair value
Assets				
Derivative assets		54,501		54,501
Asset-backed securities		336,477		336,477
Subordinate financing investments	684		575,993	576,677
Venture capital investments	6,058		489,038	495,096
Venture capital action plan investments			5,169	5,169
	6,742	390,978	1,070,200	1,467,920
Liabilities				
Derivative liabilities		10,706		10,706
Long-term notes / designated as fair value through profit or loss		500,794		500,794
	–	511,500	–	511,500

				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
Venture capital action plan investments			–	–
	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

(in thousands of Canadian dollars)

7. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (continued)

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

The procedures and valuation techniques used to determine the fair values of subordinate financing, venture capital and venture capital action plan investments included in level 3 are described in Note 3—*Significant Accounting Policies*. These valuation techniques draw upon diverse unobservable inputs, none of which, with the exception of the risk-free interest rate, is individually significant enough to have a material impact on BDC's net earnings if it varied within reasonably possible ranges. For subordinate financing, the impact of a 1% variation in the risk-free rate would result in a gain or loss of $10.6 million in the current period and an equivalent change in retained earnings ($9.9 million in 2013). Venture capital and venture capital action plan investments are not risk-free rate sensitive.

				March 31, 2014
	Subordinate financing investments	**Venture capital investments**	**Venture capital action plan investments**	**Total**
Fair value at April 1, 2013	**556,031**	**424,047**	**–**	**980,078**
Net realized gains (losses) on investments	**(9,970)**	**(22,027)**	**–**	**(31,997)**
Net change in unrealized appreciation (depreciation) of investments	**(16,582)**	**21,762**	**(533)**	**4,647**
Net unrealized foreign exchange gains (losses) on investments	**–**	**13,454**	**–**	**13,454**
Disbursements for investments	**156,239**	**118,274**	**5,702**	**280,215**
Repayments of investments and other	**(109,725)**	**(62,718)**	**–**	**(172,443)**
Transfers from level 3 to level 1	**–**	**(3,754)**	**–**	**(3,754)**
Fair value at March 31, 2014	**575,993**	**489,038**	**5,169**	**1,070,200**

				March 31, 2013
	Subordinate financing investments	Venture capital investments	Venture capital action plan 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

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.

	2014	2013
Net realized gains (losses) on investments	**(52,049)**	(36,164)
Net change in unrealized appreciation (depreciation) of investments	**24,471**	31,343
Net unrealized foreign exchange gains (losses) on investments	**12,693**	1,963
Total gains (losses) related to level 3 assets still held at the end of the reporting period	**(14,885)**	(2,858)

(in thousands of Canadian dollars)

8.

CASH AND CASH EQUIVALENTS

As at March 31, 2014, and March 31, 2013, there were 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 included the following components.

	March 31, 2014	March 31, 2013
Cash	**16,977**	9,654
Short-term bank notes and commercial paper	**627,822**	657,306
Reverse repurchase agreements	**31,730**	34,718
Cash and cash equivalents	**676,529**	701,678

9.

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 2014 and 2013.

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)

9. 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, 2014
	Gross assets	Gross liabilities	Net amount
Hedging			
Interest rate swap contracts	2,784	–	2,784
Total hedging	2,784	–	2,784
Held-for-trading			
Interest rate swap contracts	49,838	6,584	43,254
Equity-linked swap contracts	244	309	(65)
Cross-currency interest rate swap contracts	1,175	1,835	(660)
Foreign exchange forward contracts	460	1,978	(1,518)
Total held-for-trading	51,717	10,706	41,011
Total	54,501	10,706	43,795

			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

(in thousands of Canadian dollars)

9. 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, 2014**	March 31, 2013
	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	90,000	123,000	–	–	**213,000**	428,000
% receivable-fixed	*1.86*	*2.53*				
Total hedging	90,000	123,000	–	–	**213,000**	428,000
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	16,746	16,994	–	292,601	**326,341**	350,676
% receivable-fixed	*4.24*	*4.38*		*4.62*		
Equity-linked swap contracts	105,650	–	–	–	**105,650**	177,650
	172,396	16,994	60,000	292,601	**541,991**	638,326
Cross-currency interest rate swap contracts	7,067	–	10,875	7,254	**25,196**	40,233
	179,463	16,994	70,875	299,855	**567,187**	678,559
Foreign exchange forward contracts	257,534	–	–	–	**257,534**	229,042
Total held-for-trading	436,997	16,994	70,875	299,855	**824,721**	907,601
Total	526,997	139,994	70,875	299,855	**1,037,721**	1,335,601

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)

10.

ASSET-BACKED SECURITIES

The following table summarizes asset-backed securities by classification of financial instruments. As at March 31, 2014, no asset-backed securities had maturities of one to five years ($203,100 as at March 31, 2013) and $336,477 had maturities over five years ($234,353 as at March 31, 2013). 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, 2014, and 2013. Refer to Note 24—*Risk Management*, for additional information on credit risk associated with the asset-backed securities portfolio.

	March 31, 2014	March 31, 2013
Available-for-sale		
Principal amount	**329,521**	431,853
Unamortized loss on initial recognition	**–**	(41)
Cumulative fair value appreciation (depreciation)	**2,206**	1,916
Carrying value	**331,727**	433,728
Yield	**2.24%**	2.64%
Fair value through profit or loss		
Principal amount	**4,651**	3,680
Cumulative fair value appreciation (depreciation)	**99**	45
Carrying value	**4,750**	3,725
Yield	**8.06%**	9.20%
Asset-backed securities	**336,477**	437,453

11.

LOANS

The following table summarizes loans outstanding by contractual maturity date.

2014	Within 1 year	1 to 5 years	Over 5 years	Total gross amount	Collective allowance	Individual allowance	Total allowance	Total net amount
Performing	166,594	1,865,370	15,241,401	17,273,365	(340,000)	–	(340,000)	16,933,365
Impaired	9,226	49,330	417,393	475,949	–	(168,250)	(168,250)	307,699
Loans as at March 31, 2014	**175,820**	**1,914,700**	**15,658,794**	**17,749,314**	**(340,000)**	**(168,250)**	**(508,250)**	**17,241,064**

2013	Within 1 year	1 to 5 years	Over 5 years	Total gross amount	Collective allowance	Individual allowance	Total allowance	Total net amount
Performing	142,594	1,692,541	14,083,064	15,918,199	(350,000)	–	(350,000)	15,568,199
Impaired	8,503	62,679	420,592	491,774	–	(188,338)	(188,338)	303,436
Loans as at March 31, 2013	151,097	1,755,220	14,503,656	16,409,973	(350,000)	(188,338)	(538,338)	15,871,635

(in thousands of Canadian dollars)

11. LOANS (continued)

IMPAIRED LOANS

	March 31, 2014	March 31, 2013
Impaired at beginning of year	**491,774**	550,783
Downgraded	**362,517**	305,287
Upgraded	**(104,835)**	(72,602)
Write-offs	**(103,258)**	(90,558)
Liquidation and other	**(170,249)**	(201,136)
Balance at end of year	**475,949**	491,774

ALLOWANCE FOR CREDIT LOSSES

	March 31, 2014	March 31, 2013
Balance at beginning of year	**538,338**	610,167
Write-offs	**(103,258)**	(90,558)
Effect of discounting	**(12,485)**	(12,876)
Recoveries and other	**12,774**	12,529
	435,369	519,262
Impairment losses (reversals) on loans	**72,881**	19,076
Balance at end of year	**508,250**	538,338

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, 2014, $30.9 million ($27.4 million at March 31, 2013) of the impaired loans was secured by assets that BDC had the power to sell in order to satisfy borrower commitments. BDC's policy is to have these assets sold when other avenues of resolution have been exhausted.

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

BDC rating	Grade equivalent	March 31, 2014		March 31, 2013	
0.5 to 1.0	Investment grade	**1,004,868**	**6%**	1,027,604	6%
1.5 to 2.0	Non-investment grade	**3,847,699**	**22%**	3,573,912	22%
2.5 to 4.0		**9,474,214**	**55%**	8,693,537	55%
4.5 to 5.0		**2,237,592**	**13%**	2,035,827	13%
5.5	Watchlist	**708,992**	**4%**	587,319	4%
Performing loans outstanding		**17,273,365**	**100%**	15,918,199	100%

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

Secured risk exposure	March 31, 2014		March 31, 2013	
Secured financing(1)	**13,848,368**	**80%**	13,029,798	82%
Partially secured financing(2)	**1,684,851**	**10%**	1,524,246	10%
Leverage financing(3)	**1,740,146**	**10%**	1,364,155	8%
Performing loans outstanding	**17,273,365**	**100%**	15,918,199	100%

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

(in thousands of Canadian dollars)

11. 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, 2014	**136,150**	**77,727**	**90,881**	**304,758**
As at March 31, 2013	153,378	30,156	40,780	224,314

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, 2014, and March 31, 2013.

Geographic distribution	March 31, 2014	March 31, 2013
Newfoundland and Labrador	**741,843**	664,217
Prince Edward Island	**44,517**	48,014
Nova Scotia	**447,837**	380,785
New Brunswick	**486,006**	470,993
Quebec	**5,977,771**	5,584,253
Ontario	**4,681,243**	4,511,112
Manitoba	**502,059**	449,771
Saskatchewan	**532,345**	429,878
Alberta	**2,325,621**	1,984,704
British Columbia	**1,881,972**	1,760,439
Yukon	**97,598**	98,955
Northwest Territories and Nunavut	**30,502**	26,852
Total loans outstanding	**17,749,314**	16,409,973

Industry sector	March 31, 2014	March 31, 2013
Manufacturing	**4,025,056**	3,838,018
Wholesale and retail trade	**3,578,289**	3,412,386
Tourism	**2,305,724**	2,004,692
Service industries	**2,278,685**	2,039,675
Commercial properties	**2,050,634**	1,988,542
Construction	**1,478,046**	1,319,525
Transportation and storage	**1,023,372**	939,056
Other	**1,009,508**	868,079
Total loans outstanding	**17,749,314**	16,409,973

(in thousands of Canadian dollars)

12.

SUBORDINATE FINANCING INVESTMENTS

BDC maintains a medium- to high-risk portfolio of subordinate financing investments. The following table summarizes outstanding subordinate financing investments by their contractual maturity date. Both floating- and fixed-rate investments are classified based on their contractual maturity date.

	Within 1 year	1 to 5 years	Over 5 years	Total cost	Total fair value
As at March 31, 2014	**77,268**	**442,633**	**81,477**	**601,378**	**576,677**
As at March 31, 2013	78,598	377,602	109,834	566,034	557,840

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

The concentrations of subordinate financing investments by geographic and industry distribution are set out in the tables below. The largest concentration in one individual or closely related group of clients at March 31, 2014, was 2.5% of total subordinate financing investments at cost (2.2% at March 31, 2013). Subordinate financing's portfolio is composed primarily of debentures.

		March 31, 2014		March 31, 2013
Geographic distribution	**Fair value**	**Cost**	Fair value	Cost
Newfoundland and Labrador	**8,033**	**6,697**	12,818	14,283
Nova Scotia	**13,297**	**14,636**	13,175	13,257
New Brunswick	**11,756**	**11,806**	10,238	10,021
Quebec	**249,660**	**271,927**	253,416	265,001
Ontario	**182,588**	**186,901**	177,129	176,260
Manitoba	**8,050**	**6,062**	9,601	8,198
Saskatchewan	**5,108**	**3,659**	3,888	3,899
Alberta	**72,071**	**73,103**	51,792	48,868
British Columbia	**22,173**	**22,417**	22,521	22,729
Yukon	**2,715**	**2,915**	3,262	3,518
Northwest Territories and Nunavut	**1,226**	**1,255**	–	–
Subordinate financing investments	**576,677**	**601,378**	557,840	566,034

		March 31, 2014		March 31, 2013
Industry sector	**Fair value**	**Cost**	Fair value	Cost
Manufacturing	**204,022**	**205,280**	199,833	201,329
Business services	**114,686**	**129,493**	119,468	128,518
Wholesale and retail trade	**97,007**	**99,523**	98,297	96,070
Construction	**44,004**	**46,798**	34,400	33,321
Mining, oil and gas extraction	**34,524**	**35,346**	25,084	23,141
Information industries	**21,079**	**22,552**	19,758	18,831
Tourism	**12,808**	**11,882**	6,538	5,685
Transportation and storage	**9,426**	**10,138**	12,267	13,405
Real estate and rental and leasing	**8,918**	**8,539**	7,934	7,924
Educational services	**7,130**	**7,674**	10,230	10,488
Other	**23,073**	**24,153**	24,031	27,322
Subordinate financing investments	**576,677**	**601,378**	557,840	566,034

(in thousands of Canadian dollars)

13.

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 are listed below. The largest single investment within these sectors at March 31, 2014, was 7.86% of total venture capital investments at cost (7.15% at March 31, 2013).

		March 31, 2014		March 31, 2013
Industry sector	**Fair value**	**Cost**	Fair value	Cost
Information technology	**106,228**	**114,000**	113,289	101,279
Biotechnology and pharmacology	**53,383**	**62,834**	80,995	94,701
Electronics	**77,976**	**78,241**	53,490	66,992
Medical and health	**33,765**	**42,485**	40,257	51,230
Communications	**25,872**	**24,282**	29,509	46,092
Industrial	**9,690**	**14,042**	6,049	15,715
Energy	**8,259**	**16,065**	5,836	5,544
Other	**500**	**500**	500	500
Total direct investments	**315,673**	**352,449**	329,925	382,053
Funds	**179,423**	**182,173**	126,783	149,050
Venture capital investments	**495,096**	**534,622**	456,708	531,103

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

		March 31, 2014		March 31, 2013
Investment type	**Fair value**	**Cost**	Fair value	Cost
Common shares	**29,340**	**68,745**	61,266	99,668
Preferred shares	**248,090**	**243,132**	224,238	234,816
Debentures	**38,243**	**40,572**	44,421	47,569
Total direct investments	**315,673**	**352,449**	329,925	382,053
Funds	**179,423**	**182,173**	126,783	149,050
Venture capital investments	**495,096**	**534,622**	456,708	531,103

(in thousands of Canadian dollars)

14.
VENTURE CAPITAL ACTION PLAN INVESTMENTS

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

At March 31, 2014, the fair value of venture capital action plan investments stood at $5,169 (nil at March 31, 2013), and their cost was $5,702 (nil at March 31, 2013).

15.
PROPERTY AND EQUIPMENT

2014	Computer and telecommunications equipment	Furniture, fixtures and equipment	Leasehold improvements	Total
Cost				
Balance as at March 31, 2013	**27,324**	**23,077**	**43,319**	**93,720**
Additions	**6,488**	**716**	**773**	**7,977**
Balance as at March 31, 2014	**33,812**	**23,793**	**44,092**	**101,697**
Accumulated depreciation				
Balance as at March 31, 2013	**18,932**	**14,987**	**34,130**	**68,049**
Depreciation	**4,370**	**1,100**	**1,760**	**7,230**
Balance as at March 31, 2014	**23,302**	**16,087**	**35,890**	**75,279**
Property and equipment as at March 31, 2014	**10,510**	**7,706**	**8,202**	**26,418**

2013	Computer and telecommunications equipment	Furniture, fixtures and equipment	Leasehold improvements	Total
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

No property and equipment were impaired as at March 31, 2014 and 2013. In addition, as at March 31, 2014 and 2013, BDC had no significant contractual commitments to acquire property and equipment.

(in thousands of Canadian dollars)

16.

INTANGIBLE ASSETS

			2014
	Acquired systems and software applications	Projects in progress	Total
Cost			
Balance as at March 31, 2013	60,448	22,409	82,857
Additions, separately acquired	–	27,791	27,791
Available for use	5,177	(5,177)	–
Balance as at March 31, 2014	65,625	45,023	110,648
Accumulated amortization			
Balance as at March 31, 2013	47,543	–	47,543
Amortization	4,825	–	4,825
Balance as at March 31, 2014	52,368	–	52,368
Intangible assets as at March 31, 2014	13,257	45,023	58,280

			2013
	Acquired systems and software applications	Projects in progress	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

(in thousands of Canadian dollars)

17.
OTHER ASSETS

	March 31, 2014	March 31, 2013
Financial instruments		
Interest receivable on derivatives	2,514	2,551
Accounts receivable from consulting clients	1,377	1,837
Other	5,374	5,326
	9,265	9,714
Prepaids	6,954	5,733
Other assets	16,219	15,447

18.
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 31, 2014	March 31, 2013
Current		
Salaries and benefits payable	48,987	48,920
Accounts payable	6,768	4,433
Other	15,980	21,880
	71,735	75,233
Long-term accrued liabilities	34,292	31,207
Accounts payable and accrued liabilities	106,027	106,440

19.
BORROWINGS

The table below presents the outstanding short-term notes.

			March 31, 2014		March 31, 2013	
Maturity date	Effective rate	Currency	**Principal amount** (1)	**Carrying value**	Principal amount (1)	Carrying value
Short-term notes						
2014	0.92% - 1.16%	CAD	–	–	12,726,083	12,731,629
2015	0.73% - 1.14%	CAD	14,052,050	14,056,623	–	–
Total short-term notes				14,056,623		12,731,629

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

As at March 31, 2014, no short-term notes were funding asset-backed securities ($35,587 at March 31, 2013).

(in thousands of Canadian dollars)

19. BORROWINGS (continued)

The table below presents the outstanding long-term notes by maturity. Some long-term notes may be redeemable. As at March 31, 2014, long-term notes of $37,878 were redeemable prior to maturity.

				March 31, 2014			March 31, 2013
Maturity date	**2014 Effective rate** (1)	2013 Effective rate (1)	Currency	**Principal amount** (2)	**Carrying value**	Principal amount (2)	Carrying value
Long-term notes / financial liabilities							
2014		0.93% - 2.10%	CAD	–	–	424,291	424,515
2015	**0.96% - 1.20%**	0.96% - 1.13%	CAD	**94,699**	**94,933**	31,364	31,412
2016	**0.98% - 1.16%**		CAD	**89,100**	**89,258**	–	–
2018	**1.22% - 1.60%**	1.49% - 1.51%	CAD	**90,000**	**90,355**	50,000	50,091
					274,546		506,018
Long-term notes / designated as fair value through profit or loss							
2014		0.92% - 0.95%	CAD	–	–	94,698	99,675
2015	**0.94%**	0.94%	JPY	**500,000**	**5,605**	500,000	5,875
	0.92% - 0.95%	0.92% - 0.95%	CAD	**122,396**	**123,207**	123,294	122,528
2016	**0.92%**	0.92%	CAD	**16,994**	**18,010**	17,733	19,146
2018	**0.99%**	0.99%	JPY	**1,000,000**	**11,878**	1,000,000	12,129
2020		0.98%	JPY	–	–	1,300,000	14,189
2021	**0.95% - 0.97%**	0.95% - 0.97%	JPY	**660,000**	**7,003**	660,000	7,148
2022	**0.87% - 4.31%**	0.87% - 4.31%	CAD	**292,601**	**335,091**	292,601	349,559
					500,794		630,249
Total long-term notes					**775,340**		1,136,267

(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, 2014, was $42,396 higher than the total principal amount due at maturity given respective exchange rates (as at March 31, 2013, it was $61,222 higher).

As at March 31, 2014, long-term notes designated as financial liabilities included $184,191 of funding for asset-backed securities ($155,767 at March 31, 2013).

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

	March 31, 2014	March 31, 2013
Interest-bearing notes	**644,820**	916,446
Notes linked to equity indices	**40,064**	68,537
Notes linked to currency rates	**17,483**	18,004
Other structured notes	**72,973**	133,280
Total long-term notes	**775,340**	1,136,267

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.

20.

NET DEFINED BENEFIT ASSET OR LIABILITY

BDC offers defined benefit plans that provide pension and other post-employment benefits to eligible employees. The defined benefit pension plans provide benefits based on years of service and average earnings at retirement, fully indexed to the Consumer Price Index. Other post-employment benefit plans include health, dental and life insurance coverage, as well as a retirement allowance program for a closed group of employees who meet certain conditions.

These defined benefit plans expose BDC to actuarial risks, such as longevity risk, interest rate risk, inflation risk and market (investment) risk. The interest rate risk arises because each year the present value of the defined benefit obligation is calculated using a discount rate determined by reference to current market yields of high-quality corporate and provincial bonds, which may vary in the future. The investment risk arises because the actual return on the plan assets may not be sufficient to fulfill future obligations. The longevity risk arises because the present value of the obligation is calculated using projected cash flows based on a life expectancy table reflecting current expectations, which may change over time, and the inflation risk arises because the actual inflation rate in a given year may be different than the rate used for estimation purposes. For each of these risks, an unfavourable variance in any given year will result in an increase in the present value of the obligation, and ultimately in higher costs. The risk that such unfavourable variances might arise is considered by the actuaries and management when reviewing the inputs to the annual actuarial valuation report.

BDC is the legal administrator of these plans and has implemented a governance structure, as follows:

> The Human Resources Committee ("HR Committee") of the BDC Board of Directors ("board") is responsible for the design, funding, administration, communications and compliance of the plans. The HR Committee reports directly to the board and comprises independent board members.

> The Pension Funds Investment Committee of the Board ("Investment Committee") is responsible for overseeing all activities related to the investments of the funds of BDC's Pension Plan for Employees of the Business Development Bank of Canada (the "registered pension plan") and BDC's supplemental pension plans (jointly referred to as the "fund"). The Investment Committee reports directly to the board and comprises board members and one pensioner acting as an observer.

> The board is responsible for overall monitoring of the plans and the fund, and for approving recommendations from the HR Committee and the Investment Committee.

The registered pension plan is governed according to applicable federal legislation, such as the *Pension Benefits Standards Act* and the *Income Tax Act*. The plan is under the jurisdiction of the Office of the Superintendent of Financial Institutions Canada. Participants contribute a fixed percentage of their earnings to the plan, while BDC contributes the amount needed to maintain adequate funding, as dictated by the prevailing regulations. BDC may be required to take measures to offset any funding and solvency deficit by increasing its contributions. In addition, BDC pays the entire cost of the supplemental pension plans. The Investment Committee is responsible for the investment and funding policies with regard to the registered and supplemental pension plans.

The registered pension plan is either partly or wholly funded in accordance with actuarially determined amounts required to satisfy employee benefit entitlements. Benefits accruing to members of the contributory component of the registered pension plan are also funded by contributions by plan participants. BDC's best estimate of contributions to be paid for fiscal 2015 for the registered pension plan is $61.1 million. The supplemental pension plans are partly funded by BDC and BDC's best estimate of contributions for fiscal 2015 is $5.8 million. The other benefit plans are wholly unfunded. Estimated BDC-paid benefits for other post-employment benefit plans (including the retirement allowance plan) for fiscal 2015 amount to $5.6 million.

(in thousands of Canadian dollars)

20. NET DEFINED BENEFIT ASSET OR LIABILITY (continued)

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

	Registered pension plan		Supplemental pension plans		Other plans		Total	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
Defined benefit obligation at beginning of year	**948,111**	853,597	**92,131**	80,841	**134,308**	120,296	**1,174,550**	1,054,734
Current service cost	**40,767**	34,379	**2,193**	1,743	**4,645**	4,693	**47,605**	40,815
Interest expense	**40,964**	39,635	**3,981**	3,764	**5,788**	5,829	**50,733**	49,228
Benefit payments from plan	**(34,211)**	(38,337)	**(3,343)**	(3,204)	**–**	–	**(37,554)**	(41,541)
Benefit payments from employer	**–**	–	**–**	–	**(4,424)**	(3,693)	**(4,424)**	(3,693)
Participant contributions	**10,699**	10,081	**–**	–	**–**	–	**10,699**	10,081
Remeasurements								
Effect of changes in demographic assumptions	**61,239**	(2,485)	**6,950**	(18)	**9,077**	122,741	**77,266**	120,238
Effect of changes in financial assumptions	**(45,575)**	49,581	**(3,056)**	4,790	**(4,411)**	251	**(53,042)**	54,622
Effect of experience adjustments	**7,224**	1,660	**786**	4,215	**(1,376)**	(115,809)	**6,634**	(109,934)
Defined benefit obligation at end of year	**1,029,218**	948,111	**99,642**	92,131	**143,607**	134,308	**1,272,467**	1,174,550
Fair value of plan assets at beginning of year	**934,894**	791,773	**48,411**	44,583	**–**	–	**983,305**	836,356
Interest income	**42,343**	38,988	**2,215**	2,195	**–**	–	**44,558**	41,183
Employer contributions	**79,617**	87,578	**4,890**	4,331	**–**	–	**84,507**	91,909
Participant contributions	**10,699**	10,081	**–**	–	**–**	–	**10,699**	10,081
Benefit payments from plan	**(34,211)**	(38,337)	**(3,343)**	(3,204)	**–**	–	**(37,554)**	(41,541)
Administrative expenses paid from plan assets	**(1,231)**	(1,262)	**(117)**	(58)	**–**	–	**(1,348)**	(1,320)
Remeasurements								
Return on plan assets (excluding interest income)	**80,634**	46,073	**2,972**	564	**–**	–	**83,606**	46,637
Fair value of plan assets at end of year	**1,112,745**	934,894	**55,028**	48,411	**–**	–	**1,167,773**	983,305
Total net defined benefit (asset)	**(83,527)**	–	**–**	–	**–**	–	**(83,527)**	–
Total net defined benefit liability	**–**	13,217	**44,614**	43,720	**143,607**	134,308	**188,221**	191,245

(in thousands of Canadian dollars)

20. NET DEFINED BENEFIT ASSET OR LIABILITY (continued)

	Registered pension plan		Supplemental pension plans		Other plans		Total	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
Expense recognized in net income								
Current service cost	**40,767**	34,379	**2,193**	1,743	**4,645**	4,693	**47,605**	40,815
Interest expense on defined benefit obligation	**40,964**	39,635	**3,981**	3,764	**5,788**	5,829	**50,733**	49,228
Interest income on plan assets	**(42,343)**	(38,988)	**(2,215)**	(2,195)	**–**	–	**(44,558)**	(41,183)
Administrative expenses	**1,231**	1,262	**117**	58	**–**	–	**1,348**	1,320
Expense recognized in net income	**40,619**	36,288	**4,076**	3,370	**10,433**	10,522	**55,128**	50,180
Remeasurements recognized in OCI								
Effect of changes in demographic assumptions	**61,239**	(2,485)	**6,950**	(18)	**9,077**	122,741	**77,266**	120,238
Effect of changes in financial assumptions	**(45,575)**	49,581	**(3,056)**	4,790	**(4,411)**	251	**(53,042)**	54,622
Effect of experience adjustments	**7,224**	1,660	**786**	4,215	**(1,376)**	(115,809)	**6,634**	(109,934)
Return on plan assets (excluding interest income)	**(80,634)**	(46,073)	**(2,972)**	(564)	**–**	–	**(83,606)**	(46,637)
Remeasurement loss (gain) recognized in OCI	**(57,746)**	2,683	**1,708**	8,423	**3,290**	7,183	**(52,748)**	18,289

(in thousands of Canadian dollars)

20. NET DEFINED BENEFIT ASSET OR LIABILITY (continued)

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

			March 31, 2014			March 31, 2013
Investment type	**Quoted on active market**	**Unquoted**	**Total**	Quoted on active market	Unquoted	Total
Cash	**21,537**	–	**21,537**	4,510	–	4,510
Short-term investments	–	**8,039**	**8,039**	–	15,748	15,748
Bonds						
Government of Canada	–	**237,697**	**237,697**	–	205,743	205,743
Canadian provinces	–	**124,625**	**124,625**	–	106,498	106,498
Canadian corporate and municipal	–	**47,458**	**47,458**	–	41,618	41,618
Equity investments						
Canadian equities	**197,933**	–	**197,933**	225,130	–	225,130
U.S. equities	**97,825**	–	**97,825**	79,813	–	79,813
Foreign equities	**70,178**	–	**70,178**	61,574	–	61,574
Pooled equity funds	–	**314,017**	**314,017**	–	198,817	198,817
Private equity	–	**19,687**	**19,687**	–	17,675	17,675
Derivatives	–	**2,483**	**2,483**	–	1,112	1,112
Other	–	**26,294**	**26,294**	–	25,067	25,067
Fair value of plan assets	**387,473**	**780,300**	**1,167,773**	371,027	612,278	983,305

The investment objective for the plan assets of the registered pension plan is to outperform, in the long term, the pension obligation growth rate to compensate for the risk taken. The Pension Funds Investment Committee has established an investment policy that stipulates a diversification strategy, an acceptable level of investment risk, and a commensurate rate of return. The policy allows the use of derivatives for the purpose of managing currency risks. The plan assets must be invested in a portfolio of diversified securities, according to the investment policy established and approved by the Investment Committee. These investments must be well diversified by industrial sectors, based on the industry classification of specific identified indices. According to the policy, the portfolio can be divided into two large categories of investments: equity and fixed income assets. The target for fixed income assets is set at 40% of the fair market value of the portfolio. Investments in equity should represent approximately 60% of the fund's investments (32.5% in foreign equity and 27.5% in domestic equity). The positioning of the asset mix is reviewed on a monthly basis to assess the need for a rebalancing exercise.

(in thousands of Canadian dollars)

20. NET DEFINED BENEFIT ASSET OR LIABILITY (continued)

The significant actuarial assumptions adopted in measuring BDC's defined benefit obligation at year-end are as follows.

	Registered pension plan		Supplemental pension plans		Other plans	
	2014	2013	**2014**	2013	**2014**	2013
Discount rate	**4.60%**	4.40%	**4.60%**	4.40%	**4.60%**	4.40%
Inflation rate	**2.25%**	2.25%	**2.25%**	2.25%	**2.25%**	2.25%
Rate of salary increase	**3.35%**	3.35%	**3.35%**	3.35%	**3.35%**	3.35%
Rate of pension increase	**2.25%**	2.25%	**2.25%**	2.25%	**n/a**	n/a

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

The following mortality tables have been used to determine the present value of the benefit obligation:

> The 1994 Uninsured Pensioner Mortality Table with mortality improvement Scale AA was used for 2013.

> The 2014 Public Sector Mortality Table with mortality improvement Scale CPM-B, from the Canadian Pensioners' Mortality (CPM) study published by the Canadian Institute of Actuaries in February 2014, was used for 2014.

As at March 31, 2014, the weighted-average duration of the defined benefit obligation was 17.1 years (2013: 17.5 years).

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

Medical (drugs)
- 6.38% in 2014 reducing by 0.125% each year to 4% in 2033
  (6.5% in 2013 reducing by 0.125% each year to 4% in 2033)

Other medical costs
- 3.8% per year
  (3.9% per year in fiscal 2013)

Dental costs
- 4% per year
  (4% per year in fiscal 2013)

Weighted-average health care trend
- 5.0% in 2014 reducing by 0.058% each year to 3.9% in 2033
  (5.2% in 2013 reducing by 0.065% each year to 3.9% in 2033)

(in thousands of Canadian dollars)

20. NET DEFINED BENEFIT ASSET OR LIABILITY (continued)

SENSITIVITY OF ASSUMPTIONS

The present value of the defined benefit obligation is calculated, in the following sensitivity analyses, with the same method (the projected unit credit method) as the net defined benefit asset or liability recognized in the Consolidated Statement of Financial Position. The sensitivity analyses are based on a changing assumption while not changing all other assumptions. This analysis may not be representative of the actual change in the defined benefit obligation, as it is unlikely that a change in the assumptions would occur in isolation; some of the assumptions may be correlated.

			March 31, 2014
Increase (decrease) of the present value of the defined benefit obligation	Registered pension plan	Supplemental pension plan	Other plans
Discount rate			
Impact of: 1% increase	(161,200)	(13,834)	(19,213)
1% decrease	218,131	18,471	24,376
Rate of salary increase			
Impact of: 1% increase	22,828	7,476	862
1% decrease	(22,327)	(4,771)	(795)
Rate of price inflation			
Impact of: 1% increase	203,236	14,871	1,188
1% decrease	(154,069)	(11,594)	(1,046)
Rate of pension increase			
Impact of: 1% increase	169,992	17,363	–
1% decrease	(132,075)	(12,958)	–
Health care cost trend			
Impact of: 1% increase	–	–	19,189
1% decrease	–	–	(15,398)
Post-retirement mortality			
Impact of: 1 year older	(22,733)	(2,248)	(3,644)
1 year younger	22,541	2,219	3,704

(in thousands of Canadian dollars)

21.
OTHER LIABILITIES

	March 31, 2014	March 31, 2013
Financial instruments		
Deposits from clients	**24,957**	28,392
Other(1)	**6,660**	6,783
	31,617	35,175
Deferred income	**5,822**	5,136
Other(1)	**5,552**	6,126
Total other liabilities	**42,991**	46,437

(1) All other liabilities are non-current.

22.
SHARE CAPITAL

An unlimited number of common shares, having a par value of $100 each, is authorized. As at March 31, 2014, there were 21,384,000 common shares outstanding (20,884,000 at March 31, 2013).

On the date of the approval of the fiscal 2014 Consolidated Financial Statements, a dividend in respect of common shares of $54.6 million was declared, based on fiscal 2014 performance ($59.6 million in 2013).

In fiscal 2014, BDC issued 500,000 common shares (nil in 2013).

RECONCILIATION OF THE NUMBER OF COMMON SHARES ISSUED AND OUTSTANDING

	2014	2013
As at the beginning of the year	**20,884,000**	20,884,000
Shares issued	**500,000**	–
As at the end of the year	**21,384,000**	20,884,000

23.
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, 2014 was 3.4:1 (3.6:1 as at March 31, 2013).

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, 2014, these amounts totaled $2.166 billion ($2.116 billion as at March 31, 2013).

During 2014 and 2013, 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 5% for the Canadian Secured Credit Facility; 10% for the Funding Platform for Independent Lenders; 10% for term loans and 25% for quasi-equity loans, net of allowance for credit losses; 25% for subordinate financing investments; 100% for venture capital investments; and 100% for venture capital action plan investments. BDC has also established capital adequacy ratios for loan guarantees and letters of credit to reflect their relative risks (refer to Note 27—*Guarantees and Contingent Liabilities*, for additional information).

The available capital comprises the equity attributable to BDC's shareholder but excludes accumulated other comprehensive income on cash flow hedges.

BDC capital status is further adjusted by management to deduct any net defined benefit asset in order to minimize the volatility resulting from immediate recognition of actuarial gains and losses. In addition, the capital level is also managed to ensure that BDC can honour its commitments as they become due (refer to Note 28—*Commitments* for additional information).

(in thousands of Canadian dollars)

23. CAPITAL MANAGEMENT (continued)

The following table presents BDC's capital status as at March 31, 2014, and 2013. During fiscal 2014 and 2013, BDC complied with its capital adequacy guidelines.

	March 31, 2014			March 31, 2013		
	Carrying value	Capital ratio	Minimum capital required	Carrying value	Capital ratio	Minimum capital required
Asset-backed securities						
Canadian Secured Credit Facility	–	20 : 1	–	203,100	20 : 1	10,155
Funding Platform for Independent Lenders	336,477	10 : 1	33,648	234,353	10 : 1	23,435
Total asset-backed securities	336,477		33,648	437,453		33,590
Loans						
Term loans	15,724,639	10 : 1	1,572,464	14,670,266	10 : 1	1,467,027
Quasi-equity	1,516,425	4 : 1	379,106	1,201,369	4 : 1	300,342
Total loans	17,241,064		1,951,570	15,871,635		1,767,369
Subordinate financing(1)	534,904	4 : 1	133,726	483,401	4 : 1	120,850
Venture capital(1)	485,731	1 : 1	485,731	448,374	1 : 1	448,374
Venture capital action plan	5,169	1 : 1	5,169	–	–	–
Loan guarantees(2)	1,605	3 : 1	535	1,553	3 : 1	518
Letters of credit(2)	25,997	10 : 1	2,600	23,894	10 : 1	2,389
Total	18,630,947		2,612,979	17,266,310		2,373,090
Available capital			4,335,664			3,866,251
Capital status, per Treasury Board guidelines			1,722,685			1,493,161
Net defined benefit asset			83,527			–
Capital reserved for commitments			780,521			555,044
Capital status after net defined benefit asset deduction and capital reserved for commitments			858,637			938,117

(1) Net of non-controlling interest of $41,773 for subordinate financing and $9,365 for venture capital ($74,439 and $8,334 as at March 31, 2013, 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 27).

24.

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 (page 39).

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. For discussion of the other major risk categories, refer to page 43 of the annual report.

CREDIT RISK

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

Asset-backed securities issuers

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 securities 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.

As at March 31, 2014, and 2013, 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 ABS is limited to the carrying value of the securities. Refer to Note 10—*Asset-Backed Securities*, for additional information on this portfolio.

(in thousands of Canadian dollars)

24. RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Borrowers and investees

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

- the use of an internal credit risk rating classification;
- credit policies, guidelines and directives, communicated to officers whose activities and responsibilities include credit granting and risk assessment, which ensure early recognition of problem accounts and immediate implementation of steps to protect BDC's assets;
- independent reviews 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;
- monitoring of portfolio concentrations to protect BDC from being overly concentrated in any one province or industry sector;
- monitoring to ensure that exposure to a single borrower or associated borrowers, unless approved by the Board of Directors, does not represent more than 10% of the shareholder's equity;
- an annual review process to ensure appropriate classification of individual credit facilities;
- the conduct of semi-annual valuations 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 11—*Loans*, Note 12—*Subordinate Financing Investments*, Note 13—*Venture Capital Investments* and Note 14—*Venture Capital Action Plan Investments* for additional information on loans and investment portfolios.

Counterparties to 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, 2014, and March 31, 2013, BDC had no significant concentrations in any individual financial institution.

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

Counterparty credit risk exposure	Counterparty ratings			
	AA- to AA+	A- to A+	BBB to BBB+	Total
Gross positive replacement cost	**24,222**	**30,002**	**277**	**54,501**
Impact of master netting agreements	**(340)**	**(7,915)**	**(277)**	**(8,532)**
Replacement cost (after master netting agreements) – March 31, 2014	**23,882**	**22,087**	**–**	**45,969**
Replacement cost (after master netting agreements) – March 31, 2013	38,559	32,337	–	70,896
Number of counterparties				
March 31, 2014	**3**	**6**	**1**	**10**
March 31, 2013	3	5	1	9

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

24. 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 risk

As set out in the treasury risk policy, BDC manages market risk by matching the terms of assets and liabilities. As a result, BDC structured notes are economically hedged, using derivatives, to eliminate market risks such as exposure to interest rates in foreign markets, equity prices, and commodity or index fluctuations (refer to Note 9—*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 risk

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

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 19—*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, 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 using a net interest income sensitivity stress test. A parallel and sustainable 200-basis-point shock on the Canadian yield curve is simulated and the impact on net interest income has to be less than 10%. As at March 31, 2014, the impact was 5% or $45 million on net income and equity (2% or $20 million as at March 31, 2013).

(in thousands of Canadian dollars)

24. RISK MANAGEMENT (continued)

MARKET RISK (continued)

Interest rate risk (continued)

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

Canadian dollar transactions

	Floating rate	Within 3 months(2)	4 to 12 months	1 to 5 years	Over 5 years	Non-rate-sensitive(3)	Allowance and fair value	Total
Assets								
Cash and cash equivalents	8,904	659,552						**668,456**
Effective yield (%)		*1.11*						
Derivative assets		52,865						**52,865**
Asset-backed securities					336,477			**336,477**
Effective yield (%)					*2.32*			
Loans	13,422,955	289,792	446,407	2,133,965	887,115	475,949	(508,250)	**17,147,933**
Effective yield (%)	*5.29*	*5.14*	*5.49*	*5.22*	*5.44*			
Subordinate financing investments	56,728	12,205	50,548	322,873	47,886	108,350	(24,701)	**573,889**
Effective yield(1) (%)	*11.50*	*13.18*	*10.46*	*10.79*	*11.62*			
Venture capital investments						318,315		**318,315**
Venture capital action plan investments						5,169		**5,169**
Other						184,118		**184,118**
	13,488,587	**1,014,414**	**496,955**	**2,456,838**	**1,271,478**	**1,091,901**	**(532,951)**	**19,287,222**
Liabilities and equity								
Derivative liabilities		309	708	5,876				**6,893**
Short-term notes		14,056,623						**14,056,623**
Effective yield (%)		*0.79*						
Long-term notes		13,569	98,538	197,623	335,091	106,033		**750,854**
Effective yield (%)		*1.11*	*1.06*	*1.22*	*2.18*			
Other						336,900		**336,900**
Total equity						4,390,049		**4,390,049**
	–	**14,070,501**	**99,246**	**203,499**	**335,091**	**4,832,982**	**–**	**19,541,319**
Total gap position before derivatives								
March 31, 2014	**13,488,587**	**(13,056,087)**	**397,709**	**2,253,339**	**936,387**	**(3,741,081)**	**(532,951)**	**(254,097)**
March 31, 2013	12,403,675	(11,965,319)	261,149	2,483,324	686,628	(3,533,855)	(546,532)	(210,930)
Total derivative position	**–**	**(534,991)**	**56,746**	**79,994**	**292,601**	**105,650**	**–**	**–**
Total gap position March 31, 2014	**13,488,587**	**(13,591,078)**	**454,455**	**2,333,333**	**1,228,988**	**(3,635,431)**	**(532,951)**	**(254,097)**
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)

(1) Excludes non-interest return.
(2) This grouping includes asset-backed securities, short-term and long-term notes for which interest rates reset monthly. The short-term and long-term notes are used to fund floating-rate assets.
(3) Assets, liabilities and equities that are non-rate sensitive have no specific maturity.

(in thousands of Canadian dollars)

24. RISK MANAGEMENT (continued)

MARKET RISK (continued)

Interest rate risk (continued)

Foreign currency transactions, expressed in Canadian dollars

	Floating rate	Within 3 months(2)	4 to 12 months	1 to 5 years	Over 5 years	Non-rate-sensitive(3)	Allowance and fair value	Total
Assets								
Cash and cash equivalents	8,073							**8,073**
Effective yield (%)								
Derivative assets		1,176				460		**1,636**
Loans	93,131							**93,131**
Effective yield (%)	*3.63*							
Subordinate financing investments	2,788							**2,788**
Effective yield(1) (%)	*10.50*							
Venture capital investments						176,781		**176,781**
Venture capital action plan investments								
Other						326		**326**
	103,992	**1,176**	**–**	**–**	**–**	**177,567**	**–**	**282,735**
Liabilities and equity								
Derivative liabilities		1,835				1,978		**3,813**
Short-term notes								**–**
Effective yield (%)								
Long-term notes				17,483	7,003			**24,486**
Effective yield (%)				*0.97*	*0.96*			
Other						339		**339**
Total equity								**–**
	–	**1,835**	**–**	**17,483**	**7,003**	**2,317**	**–**	**28,638**
Total gap position before derivatives								
March 31, 2014	**103,992**	**(659)**	**–**	**(17,483)**	**(7,003)**	**175,250**	**–**	**254,097**
March 31, 2013	75,565	(575)	–	(18,004)	(21,337)	175,281	–	210,930
Total derivative position	**–**	**(23,129)**	**5,354**	**10,708**	**7,067**	**–**	**–**	**–**
Total gap position March 31, 2014	**103,992**	**(23,788)**	**5,354**	**(6,775)**	**64**	**175,250**	**–**	**254,097**
Total gap position March 31, 2013	75,565	(40,254)	–	(24)	362	175,281	–	210,930

(1) Excludes non-interest return.
(2) This grouping includes asset-backed securities, short-term and long-term notes for which interest rates reset monthly. The short-term and long-term notes are used to fund floating-rate assets.
(3) Assets, 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	**13,488,587**	**(13,591,078)**	**454,455**	**2,333,333**	**1,228,988**	**(3,635,431)**	**(532,951)**	**(254,097)**
Total gap position for foreign currency transactions	**103,992**	**(23,788)**	**5,354**	**(6,775)**	**64**	**175,250**	**–**	**254,097**
Total gap position March 31, 2014	**13,592,579**	**(13,614,866)**	**459,809**	**2,326,558**	**1,229,052**	**(3,460,181)**	**(532,951)**	**–**
Total gap position March 31, 2013	12,479,240	(12,821,899)	468,847	2,621,677	979,591	(3,180,924)	(546,532)	–

24. 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 are 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 9—*Derivative Financial Instruments* for more information.

Venture capital market risk

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

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)

24. 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 liabilites	**71,735**	**34,292**	**–**	**–**	**106,027**
Derivative liabilities[1]	**3,579**	**7,501**	**–**	**–**	**11,080**
Short-term notes[2]	**14,095,026**	**–**	**–**	**–**	**14,095,026**
Long-term notes[2]	**415,189**	**523,712**	**495,523**	**–**	**1,434,424**
Other financial liabilities	**–**	**–**	**–**	**31,617**	**31,617**
Commitments					
Loans	**1,896,622**	**–**	**–**	**–**	**1,896,622**
Subordinate financing investments	**53,721**	**–**	**–**	**–**	**53,721**
Venture capital investments	**–**	**–**	**–**	**327,259**	**327,259**
Venture capital action plan investments	**–**	**–**	**–**	**204,298**	**204,298**
Asset-backed securities	**196,000**	**–**	**–**	**–**	**196,000**
Letters of credit and loan guarantees	**–**	**–**	**–**	**27,602**	**27,602**
Total as at March 31, 2014	**16,731,872**	**565,505**	**495,523**	**590,776**	**18,383,676**

	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
Other 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

(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.

24. 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, 2014, the carrying amount of these collaterals was $6,050 ($17,350 at March 31, 2013).

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 of Canadian dollars)	Minimum	Actual	Maximum
As at March 31, 2014	**544**	**654**	**1,576**
As at March 31, 2013	433	650	1,485

Maturity and concentration limits	Limits	March 31, 2014	March 31, 2013
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)

25.

ADDITIONAL INFORMATION ON THE CONSOLIDATED STATEMENT OF INCOME

ADDITIONAL INFORMATION ON FINANCIAL INSTRUMENTS

	FVTPL(1)		Other financial instrument classification		Total	
	2014	2013	**2014**	2013	**2014**	2013
Interest income(2)	**58,021**	55,241	**962,144**	912,550	**1,020,165**	967,791
Interest expense	**8,692**	9,020	**124,121**	115,282	**132,813**	124,302
Fee and other income	**26,346**	25,548	**15,048**	13,290	**41,394**	38,838

(1) Fair value through profit or loss
(2) Interest income includes $33,996 for impaired loans in 2014 ($33,040 in 2013).

2014

	FVTPL(1)						
	Held-for-trading	**Designated as FVTPL**	**Available-for-sale**	**Cash flow hedges**	**Loans and Receivables**	**Other financial liabilities**	**Total**
Total gains (losses)							
Net realized gains (losses) on investments	**–**	**(24,885)**	**–**	**–**	**–**	**–**	**(24,885)**
Net realized gains (losses) on other financial instruments	**(9,267)**	**–**	**–**	**1,236**	**–**	**–**	**(8,031)**
Net change in unrealized appreciation (depreciation) of investments	**–**	**3,201**	**–**	**–**	**–**	**–**	**3,201**
Net unrealized foreign exchange gains (losses) on investments	**–**	**14,584**	**–**	**–**	**–**	**–**	**14,584**
Net unrealized gains (losses) on other financial instruments	**(19,530)**	**18,826**	**–**	**(339)**	**–**	**–**	**(1,043)**
	(28,797)	**11,726**	**–**	**897**	**–**	**–**	**(16,174)**

(1) Fair value through profit or loss

2013

	FVTPL(1)						
	Held-for-trading	Designated as FVTPL	Available-for-sale	Cash flow hedges	Loans and Receivables	Other financial liabilities	Total
Total gains (losses)							
Net realized gains (losses) on investments	–	(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)

(1) Fair value through profit or loss

(in thousands of Canadian dollars)

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

OTHER ADDITIONAL INFORMATION

	2014	2013
Amortization/depreciation of		
Loss on initial recognition of asset-backed securities included in interest income	(41)	(159)
Property and equipment included in operating and administrative expenses	7,230	6,516
Intangible assets included in operating and administrative expenses	4,825	4,178
Derecognition of intangible assets included in other expenses	–	8,284
Salaries and benefits		
Salaries and other benefits	238,549	233,793
Defined benefit plan expense (Note 20)	55,128	50,180
	293,677	283,973

26.

SEGMENTED INFORMATION

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

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

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

> **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 consulting services, group programs and other services related to business activities.

> **Securitization** purchases investments in asset-backed securities through the Funding Platform for Independent Lenders (F-PIL, formerly known as the Multi-Seller Platform for Small Originators) and until October 2013 managed 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.

> **Venture Capital Action Plan** supports the creation of large private sector-led funds of funds and also assists existing high-performing funds in partnership with institutional investors, corporate strategic investors and interested provinces.

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

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 Treasury Board of Canada Secretariat and is consistently aligned to the economic risks of each specific business segment. Refer to Note 23—*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)

26. SEGMENTED INFORMATION (continued)

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

March 31, 2014	BDC	Financing	Subordinate Financing	Venture Capital	Consulting	Securitization	Venture Capital Action Plan
Interest income	**1,020,165**	953,288	57,669	–	–	9,208	–
Interest expense	**132,813**	123,026	7,926	–	–	1,861	–
Net interest income (expense)	**887,352**	**830,262**	**49,743**	**–**	**–**	**7,347**	**–**
Net realized gains (losses) on investments	**(24,885)**	–	(5,887)	(18,998)	–	–	–
Consulting revenue	**21,684**	–	–	–	21,684	–	–
Fee and other income	**41,394**	14,925	22,211	4,089	–	123	46
Net realized gains (losses) on other financial instruments	**(8,031)**	1,236	–	(9,267)	–	–	–
Net revenue (loss)	**917,514**	**846,423**	**66,067**	**(24,176)**	**21,684**	**7,470**	**46**
Impairment reversals (losses) on loans	**(72,881)**	(72,881)	–	–	–	–	–
Net change in unrealized appreciation (depreciation) of investments	**3,201**	–	(16,606)	20,286	–	54	(533)
Net unrealized foreign exchange gains (losses) on investments	**14,584**	–	–	14,584	–	–	–
Net unrealized gains (losses) on other financial instruments	**(1,043)**	(830)	–	(213)	–	–	–
Income (loss) before operating and administrative expenses	**861,375**	**772,712**	**49,461**	**10,481**	**21,684**	**7,524**	**(487)**
Salaries and benefits	**293,677**	231,613	22,384	16,344	21,352	1,299	685
Premises and equipment	**40,611**	35,772	1,247	1,631	1,886	75	–
Other expenses	**94,475**	71,494	2,525	4,581	15,301	328	246
Operating and administrative expenses	**428,763**	**338,879**	**26,156**	**22,556**	**38,539**	**1,702**	**931**
Net income (loss)	**432,612**	**433,833**	**23,305**	**(12,075)**	**(16,855)**	**5,822**	**(1,418)**
Net income (loss) attributable to:							
BDC's shareholder	**425,968**	433,833	15,966	(11,380)	(16,855)	5,822	(1,418)
Non-controlling interests	**6,644**	–	7,339	(695)	–	–	–
Net income (loss)	**432,612**	**433,833**	**23,305**	**(12,075)**	**(16,855)**	**5,822**	**(1,418)**
Business segment portfolio as at March 31	**18,654,483**	**17,241,064**	**576,677**	**495,096**	**–**	**336,477**	**5,169**

(in thousands of Canadian dollars)

26. SEGMENTED INFORMATION (continued)

March 31, 2013	BDC	Financing	Subordinate Financing	Venture Capital	Consulting	Securitization	Venture Capital Action Plan
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	**283,973**	228,306	19,984	13,680	20,718	1,285	–
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	**428,174**	347,237	22,920	19,889	36,492	1,636	–
Net income (loss)	**458,155**	433,124	34,685	(8,559)	(12,450)	11,355	–
Net income (loss) attributable to:							
BDC's shareholder	**454,661**	433,124	28,820	(6,188)	(12,450)	11,355	–
Non-controlling interests	**3,494**	–	5,865	(2,371)	–	–	–
Net income (loss)	**458,155**	433,124	34,685	(8,559)	(12,450)	11,355	–
Business segment portfolio as at March 31	**17,323,636**	15,871,635	557,840	456,708	–	437,453	–

27.

GUARANTEES AND CONTINGENT LIABILITIES

FINANCIAL GUARANTEES

LETTERS OF CREDIT AND LOAN GUARANTEES

BDC issues "letters of credit and loan guarantees" (guarantees) to support businesses. Those guarantees represent BDC's obligation to make payments to third parties if clients are unable to meet their contractual commitments. 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 totaled $27.6 million as at March 31, 2014 ($25.4 million at March 31, 2013) and the existing terms expire within 39 months (within 20 months as at March 31, 2013). 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, 2014, and 2013 there were no liabilities recognized in BDC's Consolidated Statement of Financial Position related to these guarantees.

INDEMNIFICATION AGREEMENTS

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

These indemnification obligations will vary based upon each contract. In many cases, there are no predetermined amounts or limits included in these contracts, and the occurrence of contingent events that will trigger payment under them is difficult to predict. The nature of these indemnification contracts is such that BDC cannot reasonably estimate the maximum potential future amount that may be payable to counterparties. Historically, BDC has not made any significant payments under these indemnities and there were no significant provisions for indemnities as of March 31, 2014, and 2013.

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)

28.

COMMITMENTS

LOANS AND INVESTMENTS

LOANS

Undisbursed amounts of authorized loans were $1,896,622 at March 31, 2014 ($248,262 fixed rate; $1,648,360 floating rate) and are expected to be disbursed within the next 12 months. The weighted-average effective interest rate was 4.78% on loan commitments (5.01% at March 31, 2013). The following tables present undisbursed amounts of authorized loans by location and industry.

Commitments, by geographic distribution	March 31, 2014	March 31, 2013
Newfoundland and Labrador	**64,956**	73,891
Prince Edward Island	**4,448**	636
Nova Scotia	**60,085**	70,179
New Brunswick	**19,685**	21,059
Quebec	**547,558**	570,122
Ontario	**500,665**	478,959
Manitoba	**56,729**	37,610
Saskatchewan	**96,904**	83,533
Alberta	**352,070**	361,516
British Columbia	**191,288**	143,813
Yukon	**1,834**	8,592
Northwest Territories and Nunavut	**400**	1,218
Total	**1,896,622**	1,851,128

Commitments, by industry sector	March 31, 2014	March 31, 2013
Manufacturing	**404,133**	420,234
Tourism	**263,457**	253,436
Wholesale and retail trade	**259,707**	262,318
Construction	**247,274**	180,845
Service industries	**228,533**	209,473
Commercial properties	**130,645**	207,782
Transportation and storage	**121,206**	133,080
Other	**241,667**	183,960
Total	**1,896,622**	1,851,128

SUBORDINATE FINANCING

Undisbursed amounts of authorized subordinate financing investments were $53,721 at March 31, 2014 ($40,492 fixed rate; $13,229 floating rate) and are expected to be disbursed within the next 12 months. The weighted-average effective interest rate was 8.83% on subordinate financing commitments (10.30% at March 31, 2013), 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, 2014	March 31, 2013
Newfoundland and Labrador	**–**	500
Nova Scotia	**3,554**	–
New Brunswick	**1,750**	1,000
Quebec	**13,600**	9,595
Ontario	**24,442**	15,459
Saskatchewan	**625**	–
Alberta	**6,100**	8,703
British Columbia	**3,650**	4,250
Total	**53,721**	39,507

(in thousands of Canadian dollars)

28. COMMITMENTS (continued)

LOANS AND INVESTMENTS (continued)

SUBORDINATE FINANCING (continued)

Commitments, by industry sector	March 31, 2014	March 31, 2013
Manufacturing	**22,408**	22,035
Business services	**10,549**	7,733
Wholesale and retail trade	**11,859**	3,986
Mining, oil and gas extraction	**2,500**	3,703
Construction	**1,100**	250
Tourism	**800**	100
Information industries	**695**	1,400
Transportation and storage	**300**	300
Other	**3,510**	–
Total	**53,721**	39,507

VENTURE CAPITAL INVESTMENTS

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

Commitments, by industry sector	March 31, 2014	March 31, 2013
Information technology	**9,238**	4,175
Biotechnology and pharmacology	**7,112**	12,728
Electronics	**639**	2,916
Industrial	**583**	300
Energy	**320**	381
Medical and health	–	2,674
Communications	–	308
	17,892	23,482
External funds	**309,367**	267,297
Total	**327,259**	290,779

VENTURE CAPITAL ACTION PLAN INVESTMENTS

The undisbursed amounts of authorized venture capital action plan investments were $204,298 at March 31, 2014 (nil at March 31, 2013).

ASSET-BACKED SECURITIES

The undisbursed amounts of authorized asset-backed securities were $196,000 at March 31, 2014 ($472,000 at March 31, 2013).

INTANGIBLE ASSETS

As at March 31, 2014, there were no significant contractual commitments to acquire systems and software ($20,203 as at March 31, 2013).

(in thousands of Canadian dollars)

28. COMMITMENTS (continued)

LEASES

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

	March 31, 2014	March 31, 2013
Within 1 year	**27,636**	27,013
1 to 5 years	**95,255**	96,260
After 5 years	**23,145**	39,596
Total	**146,036**	162,869

During the year, lease payments recognized as an expense amounted to $25.8 million ($24.8 million in 2013). This amount consists of minimum lease payments. No significant sublease payments or contingent rent payments were made or received.

29.

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 20—*Net Defined Benefit Asset or Liability*, are also related parties. BDC's transactions with these funds include contributions paid to the plans, which are disclosed in Note 20. 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 19—*Borrowings*, for additional information on short-term and long-term notes.

	Short-term notes		Long-term notes		Total	
	2014	2013	**2014**	2013	**2014**	2013
Balance at beginning of year	**12,714,261**	11,201,950	**506,018**	1,364,208	**13,220,279**	12,566,158
Net change in short-term notes	**1,337,413**	1,510,785	**–**	–	**1,337,413**	1,510,785
Net change in accrued interest	**(1,107)**	1,526	**384**	(218)	**(723)**	1,308
Issuance of long-term notes	**–**	–	**192,435**	200,929	**192,435**	200,929
Repayment of long-term notes	**–**	–	**(424,291)**	(1,058,901)	**(424,291)**	(1,058,901)
Balance at end of year	**14,050,567**	12,714,261	**274,546**	506,018	**14,325,113**	13,220,279

During the year, BDC recorded $129 million in interest expense related to these borrowings ($120 million in 2013). No short-term and long-term notes with the Minister of Finance were repaid prior to maturity in fiscal 2014 (certain ones were repaid in 2013). As a result, there was no realized gain or loss in fiscal 2014 ($0.1 million net realized loss in 2013).

(in thousands of Canadian dollars)

29. RELATED PARTY TRANSACTIONS (continued)

KEY MANAGEMENT PERSONNEL

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

	2014	2013
Salaries and short-term employee benefits	**4,539**	4,014
Post-employment benefits	**1,058**	1,073
Other long-term benefits	**924**	1,040
Total	**6,521**	6,127

A loan in the amount of $500.0 thousand in favour of Farmer's Edge Precision Consulting Inc. was approved by the BDC Board of Directors. A member of the BDC Board of Directors acts as a director on the board of Farmer's Edge Precision Consulting Inc. and owns a small interest in the company. Said member of the BDC Board of Directors disclosed his interest to the board, was not present when the loan was discussed and did not vote on the resolution of the Board of Directors to approve the loan.

SUBSIDIARIES AND ASSOCIATES

The relationship between BDC and its subsidiaries meets the definition of a related party. All transactions between the Bank and its subsidiaries have been eliminated on consolidation, and as such are not disclosed as related party transactions.

In the normal course of business, BDC provides certain services to associates, including equity-type financing and investments. These transactions meet the definition of related party transactions and are made on terms equivalent to those that prevail in arms-length transactions.

30.

COMPARATIVE FIGURES

In fiscal 2014, BDC began classifying all of its loans and subordinate financing investments outstanding by maturity date. Prior to fiscal 2014, floating-rate loans and subordinate financing investments were classified based on their maturity date, and fixed-rate loans and subordinate financing investments were classified based on the earlier of their repricing or maturity date.

This change in classification only affected the presentation included in Note 11—*Loans* and Note 12—*Subordinate Financing Investments* and did not have an impact on the Consolidated Financial Statements.

Corporate Governance

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. As the Board of Directors oversees BDC's efforts to fulfill both, robust corporate governance is critically important.

WHAT IS ROBUST GOVERNANCE?

Robust governance begins with a clear mandate; BDC's mandate to promote entrepreneurship, with a special focus on small and medium-sized enterprises, is precise and well-understood. It is enabled by the presence of a transparent structure that makes roles, decision-making and accountibility clear. Finally, it is carried out by a team of dedicated, hard working people whose expertise and attention convert principles and procedures into decisions and actions that build trust.

During the year, BDC welcomed Samuel L. Duboc as chairperson of the board. Mr. Duboc has experience as an entrepreneur and investor, and has deep knowledge of venture capital. In addition, 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. Marie-Alice Vuicic, a human resources expert, and Edward Gordon, a financial advisor, joined its Board of Directors, replacing Jean Martel, whose mandate ended, and Thomas Spencer, who resigned.

Lastly, the board started its work to define criteria that would help it select the best candidate for the position of president and CEO of the Bank, as the term of the mandate of Jean-René Halde is scheduled to end in June 2015.

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. 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. 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 exerts 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.

The past year saw the arrival of Chairperson Duboc and other new members. Committee memberships were reassessed so that committees could benefit from their varied expertise and experience.

Committees

THE AUDIT COMMITTEE

CHAIRPERSON
Brian Hayward

NUMBER OF MEETINGS
5

MEMBERS
Eric Boyko
Michael Calyniuk
Sue Fawcett
Edward Gordon

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
Samuel L. Duboc

NUMBER OF MEETINGS
22

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
Samuel L. Duboc

NUMBER OF MEETINGS
6

MEMBERS
Brian Hayward
Prashant Pathak
Rick Perkins
Mary-Alice Vuicic

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;

> 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
Shahir Guindi
Prashant Pathak
Mary-Alice Vuicic

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
Edward Gordon
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
18

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		Board Credit and Risk		Governance and Nominating		Human Resources		Pension Funds Investment		Venture Capital Investment		Committee Meetings		
Directors	Attendance	Total	Percentage	Attendance	Total	Attendance	Total	Attendance	Total	Attendance	Total	Attendance	Total	Attendance	Total	Attendance	Total	Percentage
Samuel L. Duboc(1)	3	3	100%	0	0	2	3	1	1	0	0	0	0	0	0	3	4	75%
Eric Boyko(2)	10	11	91%	1	5	15	22	0	0	0	0	0	0	15	18	31	45	69%
Michael Calyniuk	11	11	100%	5	5	21	22	0	0	0	0	0	0	0	0	26	27	96%
Sue Fawcett(3)	11	11	100%	1	1	0	0	0	0	8	8	3	3	17	18	29	30	97%
Edward Gordon(4)	4	4	100%	0	0	0	0	0	0	1	1	1	1	0	0	2	2	100%
Shahir Guindi(5)	10	11	91%	0	0	20	22	0	0	0	0	3	4	0	0	23	26	88%
Brian Hayward	10	11	91%	5	5	18	22	5	6	0	0	0	0	0	0	28	33	85%
Jean Martel(6)	7	7	100%	3	4	0	0	4	5	4	7	0	0	0	0	11	16	69%
Prashant Pathak	11	11	100%	0	0	0	0	6	6	8	8	0	0	18	18	32	32	100%
Rick Perkins	11	11	100%	0	0	0	0	6	6	8	8	4	4	0	0	18	18	100%
Thomas Spencer(7)	10	11	91%	5	5	20	22	6	6	0	0	0	0	0	0	31	33	94%
Mary-Alice Vuicic(8)	4	5	80%	0	0	0	0	2	2	2	2	0	0	0	0	4	4	100%
Rosemary Zigrossi	10	11	91%	0	0	0	0	0	0	0	0	3	4	17	18	20	22	91%
Jean-René Halde(2) (9)	11	11	100%	0	0	11	22	0	0	0	0	0	0	15	18	26	40	65%

(1) Mr. Samuel L. Duboc was appointed chairperson of the board, effective January 2, 2014. He became chairperson of the Governance and Nominating Committee on January 22, 2014, and a member of the Board Credit and Risk Committee on February 12, 2014. As chairperson of the board, Mr. Duboc may attend any board committee meeting.

(2) Mr. Eric Boyko and Mr. Jean-René Halde are the only directors who are members of both the Venture Capital Investment Committee and the Board Credit and Risk Committee, resulting in a higher number of committee meetings to attend per year.

(3) Ms. Sue Fawcett was appointed to the Audit Committee and ceased to be a member of the Pension Funds Investment Committee on November 6, 2013. On February 12, 2014, she ceased to be a member of the Human Resources Committee and was reappointed to the Pension Funds Investment Committee.

(4) Mr. Edward Gordon was appointed to the Human Resources Committee and to the Pension Funds Investment Committee, effective December 11, 2013. On February 12, 2014, he was appointed as a member of the Audit Committee and ceased to be a member of the Human Resources Committee.

(5) Mr. Shahir Guindi ceased to be a member of the Pension Funds Investment Committee and was appointed to the Human Resources Committee, effective February 12, 2014.

(6) Mr. Jean Martel retired from the BDC Board of Directors on December 10, 2013.

(7) Mr. Thomas Spencer was appointed interim chairperson of the Governance and Nominating Committee, effective December 10, 2013, and ceased to be interim chairperson on January 22, 2014. He resigned from the board effective March 31, 2014.

(8) Ms. Mary-Alice Vuicic was appointed to the Human Resources Committee and to the Governance and Nominating Committee, effective November 6, 2013.

(9) As president and CEO, Mr. Halde may attend all committee meetings (where he is not formally a member). Note that he did not participate in five of the Board Credit and Risk Committee meetings due to his attendance at the Human Resources Committee meetings held concurrently.

Board of Directors

(March 31, 2014)

CURRENT MEMBERS

SAMUEL L. DUBOC
Chairperson of the Board
BDC
Toronto, Ontario

Samuel L. Duboc joined the BDC Board of Directors as chairperson in January 2014.

Mr. Duboc has a wealth of experience as an entrepreneur, investor, venture capitalist and board chair.

He is founder and CEO of EdgeStone Capital Partners, a private equity firm. Recently, Mr. Duboc served as the Clifford Clark visiting economist and special advisor on venture capital for the Department of Finance Canada, leading a team in designing and implementing the Government of Canada's Venture Capital Action Plan.

Prior to this, he was a managing director at CIBC Capital Partners and co-founder and COO of the Loyalty Group Inc., the parent of the AIR MILES Reward Program.

Mr. Duboc is chair of Stephenson's Rental Services Inc. and chair of EdgeStone Capital Corp., and sits on the board of EZShield Parent, Inc.

He is an active member of the community and serves as chair of a number of not-for-profit organizations (some of which he founded), including Pathways to Education Canada and the Pecaut Centre for Social Impact.

Mr. Duboc holds a Bachelor of Science in Chemical Engineering from Tufts University and an MBA from Harvard Business School. In 2000, he was recognized as one of Canada's Top 40 under 40 and in 2005 he was chosen as one of the 10 "most influential" alumni of the program.

Chairperson of the Board Credit and Risk Committee and chairperson of the Governance and Nominating Committee. As chairperson of the board, he is an ex officio member of all 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 five years.

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

He currently 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 8,000 business leaders.

Mr. Halde has served as a director of a number of for-profit companies, including CCL Industries Inc., Gaz Metropolitain Inc., Groupe Vidéotron Ltée and Provigo Inc.; he has also served with 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 leading multi-platform music service provider in the world, with more than 100 million subscribers in 113 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 has directed a large portion of his efforts toward working with Canadian small and medium-sized enterprises.

He is a strategic advisor or director of a number of companies.

Mr. Calyniuk is a retired partner of PricewaterhouseCoopers LLP, having held various senior local and global management positions 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 a 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 Directors (ICD) program.

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 Audit Committee, the Pension Funds Investment Committee and the Venture Capital Investment Committee.

EDWARD (TED) GORDON
Financial Security Advisor
Freedom 55 Financial
Ottawa, Ontario

Edward (Ted) Gordon joined the BDC Board of Directors in December 2013.

Mr. Gordon has more than 35 years of business experience focusing on financial management, primarily with Northern Telecom and as a principal with the Cartier Consulting Group.

He is a financial security advisor with Freedom 55 Financial in Ottawa, a division of the London Life Insurance Company, where he supports clients through the protection and growth of their wealth.

Mr. Gordon currently sits on the board of directors of the Perley and Rideau Veterans' Health Centre.

He was one of 13 Canadians on the federal government's Task Force on Financial Literacy, with the mandate to create a national strategy to improve the financial literacy of Canadians. The task force report, titled *Canadians and Their Money*, was delivered to the Minister of Finance in December 2010.

He is a former member of the board of directors of the Queensway Carleton Hospital, where he chaired the audit committee. He was also a member of the board of directors of the Ottawa Congress Centre (now the Ottawa Convention Centre) and the Log Farm Trust Society.

He was a professor in the School of Part-Time Studies at Algonquin College, where he designed and taught a non-credit, personal interest course called Personal Financial Literacy.

Mr. Gordon holds an Honours Business Administration (HBA) degree from the Ivey School of Business at the University of Western Ontario, as well as the chartered professional accountant (CPA) and chartered accountant (CA) designations.

Member of the Audit Committee and the Pension Funds 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 boards 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 the 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 Montreal 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 Human Resources 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 a chief executive officer in large Canadian companies. He is an accomplished senior executive with a proven track record in driving large-scale financial and cultural change to build organizational effectiveness and profitable growth.

He is president of Aldare Resources, a business consultancy that provides business advisory and governance services.

From 2001 until 2007, Mr. Hayward was CEO of Agricore United, one of the largest agribusinesses in Canada, exporting to over 50 countries and generating annual sales of about $4 billion.

Before that, he was CEO of United Grain Growers, the second-largest agribusiness in Western Canada. In this position, he successfully negotiated on behalf of his company the merger that led to the creation of Agricore United.

Mr. Hayward has extensive board experience, serving on public and private company boards, including those of Glacier Media Inc. and Ridley Inc. He has also provided leadership to a number of non-profit organizations, including the Royal Winnipeg Ballet, the Conference Board of Canada and the Arthritis Society.

Mr. Hayward has a Master of Agricultural Economics degree from McGill University. He also holds the chartered director (C.Dir.) designation from the Directors College of McMaster University's DeGroote School of Business.

Chairperson of the Audit Committee, member of the Board Credit and Risk Committee, and member of the Governance and Nominating 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 advisor 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 and 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, information technology 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 specializing in strategic investor relations for small and mid-cap companies.

Before that, 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 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 and Nominating Committee, and member of the Pension Funds Investment Committee.

MARY-ALICE VUICIC
Chief Administrative Officer and Executive Vice President
Shoppers Drug Mart
Toronto (Ontario)

Mary-Alice Vuicic joined the BDC Board of Directors in October 2013.

Ms. Vuicic has more than 20 years of experience working with large national and international organizations, and family-owned entrepreneurial businesses.

She is executive vice president, human resources and labour relations, at Shoppers Drug Mart.

Before joining Shoppers Drug Mart in 2007 as senior vice president, human resources and organizational development, Ms. Vuicic was vice president, people, at Walmart Canada, leading the human resources function in the organization.

Previously, she held human resources executive and management positions at Chapters/Indigo and Wendy's International, Inc.

She is an active member in the community and supports health and professional causes.

A certified human resources professional (CHRP), Ms. Vuicic holds a Bachelor of Arts degree from the University of Windsor and an Advanced Human Resources certificate from the University of Toronto, and has completed Harvard Business School's advanced management program.

Member of the Human Resources Committee and member of the Governance and Nominating Committee.

ROSEMARY ZIGROSSI
Director
Promontory Financial Group
Toronto, Ontario

Rosemary Zigrossi joined the BDC Board of Directors in 2008.

Ms. Zigrossi has almost 30 years of experience in the financial sector, both in investments and in financial reporting and analysis at leading Canadian organizations.

Ms. Zigrossi is currently a consultant 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 boards of directors of Sprott Asset Management and Russell Investment Corporate Class Inc., and the board of trustees of the McMichael Canadian Art Collection. She is also a member of the investment committee of Sustainable Development Technology Canada.

A past governor of Trent University, Ms. Zigrossi currently serves on its investment and pension committee. She is a former member of the Council of Canadian Academies Expert Panel on the State of Industrial Research and Development in Canada and a former member of the board of the Canadian Venture Capital Association, and she has served as a member of the board and chairman of a number of start-up companies.

Ms. Zigrossi is a chartered accountant (CA) and a chartered financial analyst (CFA), and holds the corporate director (ICD.D) designation from the Institute of Corporate Directors. She earned a Bachelor of Commerce from the University of Toronto and has completed the Harvard Business School program for management development.

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

Senior Management Team

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 five years.

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

He currently 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 8,000 business leaders.

Mr. Halde has served as a director of a number of for-profit companies, including CCL Industries Inc., Gaz Metropolitain Inc., Groupe Vidéotron Ltée and Provigo Inc.; he has also served with 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, as well as corporate strategy and planning.

In the fall of 2011, Mr. Buron was also appointed interim executive vice president of Financing and Consulting. For the following year, 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 of 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 National Bank of Canada. During his 18-year tenure, he held executive positions in key functions such as syndication, credit, commercial lending, marketing and business solutions.

After 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.

CHANTAL BELZILE
Senior Vice President and Chief Information Officer

Chantal Belzile was appointed senior vice president and chief information officer in 2012.

In this role, she has overall responsibility for developing and implementing the Bank's information technology strategy and services. This includes corporate project portfolio management, information security and compliance, and 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 of 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 airline's merger with 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 of Computer Science degree from the University of New Brunswick and a Master of Science degree from Queen's University.

MICHEL BERGERON
Senior Vice President,
Marketing and Public Affairs

Michel Bergeron was appointed senior vice president of Marketing and Public Affairs in 2012.

He oversees branding and advertising, client experience, economic analysis, government relations, 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 has 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 of 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 Finance Montreal, of Futurpreneur (formerly the 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 a Master of International Relations degree from Laval University.

MARY KARAMANOS
Senior Vice President,
Human Resources

Mary Karamanos was appointed senior vice president of Human Resources in 2004.

In this role, she works closely with other members of the senior management team and is responsible for the development and implementation of BDC's human capital strategies, including talent management and leadership development.

Over a 25-year career in business, she has acquired extensive experience in strategic human resources in both entrepreneurial companies and large global organizations in the retail, consumer goods and financial sectors.

Ms. Karamanos joined BDC in October 2002 as vice president of 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 certified compensation professional (CCP) designation from World at Work. She is active in the community and supports children's charities.

JÉRÔME NYCZ
Executive Vice President,
Subordinate Financing
and Venture Capital

Jérôme Nycz was appointed executive vice president of Subordinate Financing and Venture Capital in July 2013.

Mr. Nycz has over 20 years of experience in the financial and public sectors.

He joined BDC in 2002, overseeing corporate strategy and planning, and shareholder relations. In subsequent years, he added responsibility for enterprise risk management, economic analysis and knowledge management to his portfolio. During this time, he conducted several internal strategic reviews, including reviews of subordinate financing and venture capital (taking on the additional role of interim executive vice president of Venture Capital in 2011), and led a multidisciplinary team that prepared the Bank's submission for the 2010 legislative review of the BDC Act.

Prior to his current role, he was senior vice president of Corporate Strategy and Subordinate Financing.

Mr. Nycz began his career with the federal government as a 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 board member of Canada's Venture Capital and Private Equity Association (CVCA), Réseau Capital and 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 of Legal Affairs and corporate secretary in 2006.

She provides legal support to all business units, as well as the Board of Directors, and is responsible for developing and implementing strategies on records management.

Over a 35-year career in the financial sector, Ms. Paradis has acquired extensive experience in legal, administration and compliance matters, as well as human resources, finance and operations.

Ms. Paradis began her career at BDC in 1976 as legal counsel and re-joined BDC in 2004 as vice president of 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]	2014	2013	2012	2011	2010
BDC Financing					
Committed to clients[2]					
as at March 31					
Amount	**19,723,747**	18,341,604	16,956,675	15,913,193	14,783,510
Number of clients	**29,929**	28,056	27,582	27,989	28,331
Acceptances					
Amount	**4,102,065**	4,110,703	3,623,075	3,244,713	4,343,068
Number	**10,976**	9,195	6,926	9,795	8,014
BDC Subordinate Financing					
(includes both BDC and Caisse portion)					
Committed to clients[2]					
as at March 31					
Amount	**636,277**	583,816	498,670	414,394	380,680
Number of clients	**427**	400	385	352	348
Acceptances					
Amount	**186,606**	189,757	163,775	106,451	97,705
Number	**126**	113	137	97	68
BDC Venture Capital[3]					
Committed to clients[2]					
as at March 31					
Amount	**861,881**	821,882	735,454	726,431	734,932
Number of clients	**183**	149	103	104	118
Authorizations					
Amount	**154,754**	145,267	126,751	99,377	84,591
Number	**94**	87	45	45	43
BDC Consulting					
Number of mandates	**2,505**	2,180	2,236	2,300	2,504
BDC Securitization					
Amount committed to clients[2] as at March 31	**530,000**	907,048	1,110,024	3,193,441	3,575,327
Amount authorized (cancelled)	**(175,000)**[4]	265,000	290,000	150,000	3,653,740
Venture Capital Action Plan					
Commited to clients[2]					
as at March 31					
Amount	**210,000**	–	–	–	–
Number of clients	**5**	–	–	–	–
Authorizations					
Amount	**210,000**	–	–	–	–
Number	**5**	–	–	–	–
BDC					
Total committed to clients	**21,961,905**	20,654,350	19,300,823	20,247,459	19,474,449

(1) Data prior to fiscal 2011 are reported using Canadian GAAP.
(2) Amount committed to clients represents portfolio outstanding and amount undisbursed, at cost.
(3) For BDC Venture Capital commitment to clients, please see Note 13—*Venture Capital Investments* and Note 28—*Commitments* to the Consolidated Financial Statements.
(4) Amount cancelled includes $25,000 of authorizations and $200,000 of cancellations.

(in thousands of Canadian dollars)

Financial Information	2014	2013(1)	2012	2011	2010
			IFRS		Canadian GAAP
Net Income and Comprehensive Income – by Business Segments(2) for the years ended March 31					
Financing	**433,833**	433,124	504,736	305,603	76,232
Subordinate financing	**23,305**	34,685	36,212	20,400	10,214
Venture capital	**(12,075)**	(8,559)	(42,640)	(20,765)	(74,137)
Consulting	**(16,855)**	(12,450)	(11,020)	(8,883)	(4,645)
Securitization	**5,822**	11,355	46,159	70,166	(1,605)
Venture capital action plan	**(1,418)**	–	–	–	–
Net income	**432,612**	458,155	533,447	366,521	6,059
Net income attributable to:					
BDC's shareholder	**425,968**	454,661	520,335	360,292	6,059
Non-controlling interests	**6,644**	3,494	13,112	6,229	n/a
Net income	**432,612**	458,155	533,447	366,521	6,059
Other comprehensive income (loss)(3)	**49,633**	(24,906)	(152,486)	58,317	5,710
Total comprehensive income	**482,245**	433,249	380,961	424,838	11,769
Total comprehensive income attributable to:					
BDC's shareholder	**475,601**	429,755	367,849	418,609	11,769
Non-controlling interests	**6,644**	3,494	13,112	6,229	n/a
Total comprehensive income	**482,245**	433,249	380,961	424,838	11,769
Financial Position Information as at March 31					
Asset-backed securities(4)	**336,477**	437,453	763,200	3,068,949	3,277,291
Loans, net of allowance for credit losses	**17,241,064**	15,871,635	14,739,271	13,731,011	12,525,521
Subordinate financing investments	**576,677**	557,840	457,369	387,091	193,203
Venture capital investments	**495,096**	456,708	358,951	413,782	362,270
Venture capital action plan investments	**5,169**	–	–	–	–
Total assets	**19,569,957**	18,183,905	17,219,882	18,399,578	17,679,927
Total liabilities	**15,179,908**	14,228,230	13,594,621	14,639,731	14,036,911
Total equity attributable to:					
BDC's shareholder	**4,338,910**	3,872,902	3,509,980	3,613,202	3,643,016
Non-controlling interests	**51,139**	82,773	115,281	146,645	n/a
Total equity	**4,390,049**	3,955,675	3,625,261	3,759,847	3,643,016

(1) Restated; refer to Note 4—*Application of New and Amended International Financial Reporting Standards*.
(2) For detailed information on fiscal 2014 and fiscal 2013 segmented information under IFRS, please also refer to Note 26—*Segmented information* to the Consolidated Financial Statements.
(3) For detailed information on fiscal 2014 and fiscal 2013 Other comprehensive income, please refer to the Consolidated Statement of Comprehensive Income (page 54).
(4) 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.

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Iu130-2014E-PDF
1495-6721

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BDC

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