

# 2012

FIRST QUARTER

## FINANCIAL REPORT

June 30, 2011

# EXECUTIVE SUMMARY

**T**he Canadian economy has emerged from recession and begun a slow recovery with modest growth.

Entrepreneurs appear more optimistic about their firms' prospects and business investment is gaining momentum, as credit conditions continue to ease and company balance sheets improve.

As a result, BDC posted a consolidated net income of close to \$176 million<sup>(1)</sup> for the first quarter of fiscal 2012, compared with \$68 million<sup>(1)</sup> reported in last year's first quarter. The increase in profitability was mainly due to a reversal of impairment losses on loans (previously called provision for credit losses), mainly reflecting the improving financial health of businesses.

As of June 30, 2011, the portfolio of BDC Financing<sup>(2)</sup> stood at \$14.6 billion, a 0.6% increase since March 31, 2011. Portfolio growth was slower than that experienced in recent years as more capital became available from other financial institutions.

During the first quarter, we continued to support entrepreneurs by financing their projects and working capital needs. Our clients accepted 1,500 loans for a total of \$831 million, an increase of \$131 million compared with the same quarter last year.

Among the highlights in our other lines of business, BDC Subordinate Financing clients accepted a total of \$32.8 million in the first quarter, almost three times the \$11.3 million recorded for the same period last year.

BDC Venture Capital scored a significant win in May when one of our investee companies was acquired, generating an outstanding return of more than 16 times our original investment.

BDC Venture Capital has also established a new approach that takes into account the industry's challenges and strives to build on BDC's role as an industry catalyst. This stemmed from a review conducted by BDC of Canada's venture capital industry and its own operations. For additional information, please see the Venture Capital Industry Review at [www.bdc.ca](http://www.bdc.ca).

With the implementation well under way, total direct investments authorized in the first quarter grew to \$19 million, compared with \$11 million for the same quarter last year.

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<sup>(1)</sup> Including \$1.8 million and \$4.0 million net income attributable to non-controlling interests for fiscal 2012 and 2011 first quarter, respectively.

<sup>(2)</sup> Unless otherwise indicated, BDC Financing excludes BDC Subordinate Financing.

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

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

BDC's services are designed to be complementary and to meet the needs of Canadian businesses. BDC seeks to earn an appropriate profit that is used to finance its activities and pay dividends to the government.

## EXECUTIVE SUMMARY

BDC continues to focus on the quality of its consulting services and has obtained ISO 9001:2008 certification for the design, development and provision of innovative consulting services for businesses. During the first quarter of fiscal 2012, consulting mandates were initiated with 500 clients.

Despite its relatively enviable economic position, Canada still faces fundamental, long-term challenges. A central preoccupation is low productivity. Since business innovation is essential to increasing productivity, BDC conducted an assessment of the needs of Canadian businesses for information and communications technology (ICT) in fiscal 2011. We are in the process of implementing a series of initiatives aimed at encouraging Canadian entrepreneurs to make more aggressive use of ICT.

During the first quarter, BDC closed its first transaction, valued at \$100 million, under the Multi-Seller Platform for Small Originators (MSPSO), created in partnership with TAO Asset Management (TAO). It also authorized an additional \$200 million in securitization facilities under this partnership. The MSPSO initiative was part of the Vehicle and Equipment Financing Partnership (VEFP) announced by the federal government in its 2010 budget.

During the first quarter, we paid \$50.1 million in dividends to our sole shareholder, the Government of Canada. Of this, \$5.0 million was on preferred shares declared in fiscal 2011. The remaining \$45.1 million was on common shares declared after March 31, 2011, based on fiscal 2011 performance.

In other highlights, BDC has been recognized as one of the best workplaces for Canadians over 40 years of age (second year in a row) in Canada's Top 100 Employers competition.

The Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) has also honoured BDC with a 2011 ADFIAP award in the Outstanding Development Project—Trade Development category.

During the quarter, BDC also presented Young Entrepreneur Awards to 11 outstanding businesspeople from across Canada, and held its 11th annual E-Spirit National Aboriginal Youth Business Plan Competition which attracted more than 200 Aboriginal students.

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From time to time, we make written or oral forward-looking statements. We may make forward-looking statements in this quarterly financial report. These forward-looking statements include statements about objectives and strategies for achieving objectives, as well as statements about outlooks, plans, expectations, anticipations, estimates and intentions.

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

## CONTEXT OF THE QUARTERLY FINANCIAL REPORT

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

## ADOPTION OF IFRS

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

In December 2009, the Public Sector Accounting Board confirmed that government business enterprises must adhere to the standards applicable to publicly accountable enterprises.

Therefore, BDC started applying IFRS for its quarterly Consolidated Financial Statements beginning on April 1, 2011. These statements also include comparative fiscal 2011 financial results restated to comply with IFRS. Note 13 to our unaudited quarterly Consolidated Financial Statements contains a detailed description of the impact of our conversion to IFRS, including a reconciliation of our financial statements previously prepared under Canadian generally accepted accounting principles (GAAP) to those under IFRS.

## RISK MANAGEMENT

Risk is an inherent feature of the financial sector. BDC uses an enterprise risk management (ERM) framework based in part on its obligation to remain financially sustainable.

BDC's risk management is accomplished through the development and communication of policies, the establishment of formal risk reviews and approval processes, and the establishment of limits and delegation of authorities. ERM is reviewed by the board of directors and its committees. In each line of business, management ensures that governance activities, controls, processes and procedures are consistent with BDC's ERM framework.

No changes were made to our ERM framework and no new risks were identified during the quarter ended June 30, 2011. For additional information about BDC's risk management, refer to our fiscal 2011 Annual Report (the Risk Management section of Management's Discussion and Analysis, as well as Note 19 to the Consolidated Financial Statements).

## ANALYSIS OF FINANCIAL RESULTS

Analysis of financial results is provided to enable a reader to assess our results of operations and financial condition for the three-month period ended June 30, 2011, compared with the corresponding period in the prior fiscal year. This analysis should be read in conjunction with our unaudited quarterly Consolidated Financial Statements included in this report and our fiscal 2011 Annual Report.

BDC reports on five business segments: Financing, Subordinate Financing, Venture Capital, Consulting and Securitization. All amounts are in Canadian dollars, unless specified, and are based on unaudited quarterly Consolidated Financial Statements prepared in accordance with IFRS.

### BDC Net Income

(\$ in millions)	Q1	
	F2012	F2011
Financing	157.7	42.4
Subordinate Financing	6.9	8.3
Venture Capital	(4.4)	2.1
Consulting	(3.1)	(2.6)
Securitization	18.5	18.0
<b>Net income</b>	<b>175.6</b>	<b>68.2</b>
<b>Net income attributable to:</b>		
BDC's shareholder	173.8	64.2
Non-controlling interests	1.8	4.0
<b>Net income</b>	<b>175.6</b>	<b>68.2</b>

BDC reported consolidated net income of \$175.6 million for the first quarter ended June 30, 2011, comprised of \$173.8 million attributable to BDC's shareholder and \$1.8 million to non-controlling interests. This compares with \$68.2 million consolidated net income for the first quarter of fiscal 2011, of which \$4.0 million was attributable to non-controlling interests.

Strong consolidated net income in the first quarter was generated mostly by BDC Financing, primarily due to a reversal of impairment losses on loans. Refer to the BDC Financing section of this analysis for further information.

Non-controlling interests related only to BDC Subordinate Financing and BDC Venture Capital operations.

**BDC Comprehensive Income**

(\$ in millions)	Q1	
	F2012	F2011
<b>Net income</b>	<b>175.6</b>	68.2
<b>Other comprehensive income (loss)</b>		
Net change in unrealized gains (losses) on available-for-sale assets	(12.3)	31.4
Net change in unrealized gains (losses) on cash flow hedges	6.7	3.0
Actuarial gains (losses) on post-employment benefits	(42.2)	(29.9)
<b>Other comprehensive income (loss)</b>	<b>(47.8)</b>	4.5
<b>Comprehensive income</b>	<b>127.8</b>	72.7
<b>Comprehensive income attributable to:</b>		
BDC's shareholder	126.0	68.7
Non-controlling interests	1.8	4.0
<b>Comprehensive income</b>	<b>127.8</b>	72.7

Total comprehensive income for the first quarter was \$127.8 million, comprising of \$175.6 million consolidated net income and \$47.8 million other comprehensive loss (OCI). OCI was \$52.3 million below last year, mostly due to the net change in unrealized gains or losses on available-for-sale assets and actuarial losses on post-employment benefits.

Net change in unrealized gains or losses on available-for-sale assets relates mostly to fluctuations in the fair value of asset-backed securities (ABS). For accounting purposes, ABS are classified as available-for-sale financial assets and any fair value changes are recorded in OCI. During the third quarter of fiscal 2011, the BDC valuation model for ABS was refined to include more specific Canadian ABS market data, where available. This market-based valuation approach mainly explains the variance in OCI between the two quarters.

Under IFRS, BDC has elected to recognize all actuarial gains and losses on post-employment benefits immediately in OCI at each reporting period. Actuarial gains or losses are affected mainly by the actual return on plan assets and the discount rate used to determine defined benefit obligations. Losses recorded in the first quarter of fiscal 2012 were the result of a lower-than-expected return on plan assets combined with a reduction in the discount rate used to value the defined benefit obligations.

**BDC Financing Results**

(\$ in millions)	Q1	
	F2012	F2011
Net interest and fee income	189.2	173.7
Impairment reversal (losses) on loans	37.7	(40.2)
Net gains (losses) on other financial instruments	3.2	(17.6)
<b>Income before operating and administrative expenses</b>	<b>230.1</b>	<b>115.9</b>
Operating and administrative expenses	72.4	73.5
<b>Income from Financing</b>	<b>157.7</b>	<b>42.4</b>

As % of average portfolio	Q1	
	F2012	F2011
Net interest and fee income	5.2	5.2
Impairment reversal (losses) on loans	1.0	(1.2)
Net gains (losses) on other financial instruments	0.1	(0.5)
<b>Income before operating and administrative expenses</b>	<b>6.3</b>	<b>3.5</b>
Operating and administrative expenses	2.0	2.2
<b>Income from Financing</b>	<b>4.3</b>	<b>1.3</b>

For the first quarter of fiscal 2012, BDC Financing income was \$157.7 million, a strong result compared with the \$42.4 million recorded for the same period last year. This profitability was mainly the result of the improving financial health of our clients, which resulted in a reversal of impairment losses of \$37.7 million.

A significant factor influencing impairment losses is the level of loans that BDC downgrades from performing to impaired status. As a result of the resilience of Canadian businesses and improved market conditions, downgrading rates have decreased. This resulted in a reversal of impairment losses in the first quarter of fiscal 2012.

The remaining increase in income was due to higher net interest and fee income due to the growth in loans outstanding; net gains on other financial instruments recorded during the quarter (compared with net losses in the first quarter of fiscal 2011); and slightly lower operating and administrative expenses.

**BDC Subordinate Financing Results**

(\$ in millions)	Q1	
	F2012	F2011
Net revenue on investments	10.6	11.6
Net change in unrealized appreciation (depreciation) of investments	0.1	0.6
<b>Income before operating and administrative expenses</b>	<b>10.7</b>	<b>12.2</b>
Operating and administrative expenses	3.8	3.9
<b>Income from Subordinate Financing</b>	<b>6.9</b>	<b>8.3</b>
<b>Income attributable to:</b>		
BDC's shareholder	4.9	4.1
Non-controlling interests	2.0	4.2
<b>Income from Subordinate Financing</b>	<b>6.9</b>	<b>8.3</b>

Income from Subordinate Financing for the first quarter of fiscal 2012 totalled \$6.9 million and included \$2 million of income attributable to non-controlling interests. This compares with \$8.3 million for the same period last year, of which \$4.2 million was attributable to non-controlling interests.

Net revenue on investments was \$1 million lower than last year due to net realized losses of \$2.8 million recorded in the first quarter of fiscal 2012. Net realized losses were mainly related to write-offs of investments. These had minimal impact on net results because a fair value depreciation of these investments had been taken in prior periods and then reversed at the time of the write-offs.

The net change in unrealized appreciation of \$0.1 million for the quarter included:

- > a \$1.3-million net fair value depreciation of the portfolio; and
- > a reversal of net fair value depreciation due to net realized losses totalling \$1.4 million.

Operating and administrative expenses of \$3.8 million were slightly lower than the same period last year.

**BDC Venture Capital Results**

(\$ in millions)	Q1	
	F2012	F2011
Net revenue on investments	17.9	5.2
Net change in unrealized appreciation (depreciation) of investments	(16.4)	(0.6)
Net unrealized foreign exchange gains (losses) on investments	(1.4)	6.2
Net gains (losses) on other financial instruments	0.8	(4.7)
<b>Income before operating and administrative expenses</b>	<b>0.9</b>	<b>6.1</b>
Operating and administrative expenses	5.3	4.0
<b>Income (loss) from Venture Capital</b>	<b>(4.4)</b>	<b>2.1</b>
<b>Income (loss) attributable to:</b>		
BDC's shareholder	(4.2)	2.3
Non-controlling interests	(0.2)	(0.2)
<b>Income (loss) from Venture Capital</b>	<b>(4.4)</b>	<b>2.1</b>

During the first quarter of fiscal 2012, Venture Capital recorded a \$4.4-million loss, compared with net income of \$2.1 million for the same period last year. Results for both quarters include a loss of \$0.2 million attributable to non-controlling interests.

Net revenue on investments of \$17.9 million for the first quarter was significantly higher (by \$12.7 million) than last year, as one of our investee companies was acquired, generating an outstanding return of more than 16 times our original investment. This significant gain had, however, no impact on the first quarter of fiscal 2012 results, as a fair value appreciation on this investment was recognized in the fourth quarter of fiscal 2011.

The net change in unrealized depreciation of \$16.4 million for the quarter included:

- > a \$3.5-million net fair value depreciation of the portfolio; and
- > a reversal of net fair value appreciation on divested investments and write-offs totalling \$12.9 million.

BDC records unrealized foreign exchange gains or losses on its investments in foreign currencies. BDC monitors currency movements and uses foreign exchange contracts to partially hedge investments in foreign currencies. As a result, net gains or losses on other financial instruments partially offset amounts recognized due to currency movements.

Operating and administrative expenses amounted to \$5.3 million for the quarter, compared with \$4.0 million last year. The increase was mostly due to non-recurring expenses related to the successful exit recorded during the first quarter.

### BDC Consulting Results

(\$ in millions)	Q1	
	F2012	F2011
Revenue	5.8	6.3
Operating and administrative expenses	8.9	8.9
<b>Loss from Consulting</b>	<b>(3.1)</b>	<b>(2.6)</b>

The loss from Consulting was \$3.1 million for the first quarter of fiscal 2012, \$0.5 million higher than the \$2.6-million loss recorded for the same quarter last year.

Despite general optimism about the future financial health of their firms, Canadian entrepreneurs remain reluctant to buy consulting services or to start new projects. Additionally, they are slowing the pace at which they proceed with current projects. BDC Consulting continues to be affected by this reluctance to spend working capital on discretionary items such as consulting.

### BDC Securitization Results

(\$ in millions)	Q1	
	F2012	F2011
Net interest and fee income	19.0	16.8
Net gains (losses) on other financial instruments	(0.1)	2.0
Operating and administrative expenses	0.4	0.8
<b>Income from Securitization</b>	<b>18.5</b>	<b>18.0</b>

BDC Securitization recorded net income of \$18.5 million in the first quarter of fiscal 2012, compared with \$18 million for the same period last year. Net interest and fee income was \$2.2 million higher than last year, which was offset by gains or losses on other financial instruments due to debt repurchase.

Operating and administrative expenses of \$0.4 million were \$0.4 million lower than last year. Last year's higher expenses were related mainly to set-up costs for the Multi-Seller Platform for Small Originators (MSPSO) program.

## Consolidated Statement of Financial Position and Cash Flows

As at June 30, 2011, total BDC assets amounted to \$18.2 billion, down \$0.2 billion from March 31, 2011, mainly due to a decrease in the asset-backed securities portfolio.

The asset-backed securities portfolio totalled \$2.7 billion, compared with \$3.1 billion at March 31, 2011. This portfolio consists mainly of AAA-rated term securities purchased under the Canadian Secured Credit Facility (CSCF). The decrease in the portfolio was primarily due to the expected maturity profile of the CSCF portfolio and securities called prior to maturity. During the first quarter of fiscal 2012, BDC also made three disbursements relating to its first transaction under the MSPSO program.

At \$13.9 billion, the loan portfolio (net of allowance for credit losses) represented BDC's largest asset (\$14.6 billion in gross portfolio and a \$0.7-billion allowance for credit losses). Portfolio growth was slower than that experienced in recent years as a result of higher loan prepayments and repayments, and lower disbursements due to increased market liquidity.

As for BDC's investment portfolios, the Subordinate Financing portfolio stood at \$400.1 million and the Venture Capital portfolio was \$394.8 million at June 30, 2011.

BDC holds cash and cash equivalents in accordance with its treasury risk policy. Our liquidities, which ensure funds are available to meet our contractual cash outflows, totalled \$709 million as at June 30, 2011, compared with \$653.2 million as at March 31, 2011. Cash flows used by financing activities amounted to \$339.9 million for the quarter, while operating and investing activities generated \$28.6 million and \$367 million in cash flows, respectively.

At June 30, 2011, we funded our portfolios and liquidities with borrowings of \$13.9 billion and total equity of \$3.8 billion. Borrowings comprised \$9.8 billion of short-term notes and \$4.1 billion of long-term notes.

Under IFRS, equity is comprised of \$3,694 million attributable to BDC's shareholder and \$136 million attributable to non-controlling interests. Upon transition to IFRS, preferred shares of \$230 million were also reclassified from equity to liabilities. Refer to Note 13, *First-time adoption of IFRS*, to the quarterly Consolidated Financial Statements included in this report for additional information.

# CONSOLIDATED FINANCIAL STATEMENTS

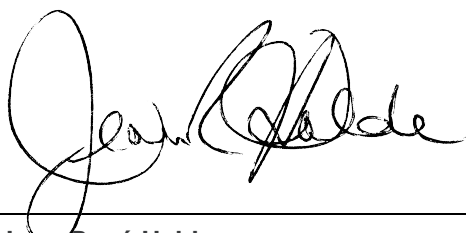
(unaudited, in thousands of Canadian dollars)

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## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

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

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



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**Jean-René Halde**  
President and Chief Executive Officer



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**Paul Buron**  
Executive Vice President and  
Chief Financial Officer

Montreal, Canada  
August 4, 2011

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(unaudited)

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(in thousands of Canadian dollars)	Notes	June 30, 2011	March 31, 2011	April 1, 2010 (Note 13)
<b>ASSETS</b>				
Cash and cash equivalents		708,973	653,231	1,022,571
Derivative assets		84,159	67,122	85,786
Loans and investments				
Asset-backed securities	5	2,690,387	3,068,949	3,277,291
Loans	6	13,874,008	13,731,011	12,525,521
Subordinate financing investments	7	400,097	387,091	357,732
Venture capital investments	8	394,808	413,782	367,917
		<b>17,359,300</b>	17,600,833	16,528,461
Property and equipment		17,987	18,524	16,944
Intangible assets		24,762	21,770	19,406
Post-employment benefit asset		16,506	45,213	-
Other assets		26,314	21,789	41,277
<b>Total assets</b>		<b>18,238,001</b>	18,428,482	17,714,445
<b>LIABILITIES AND EQUITY</b>				
<b>Liabilities</b>				
Accounts payable and accrued liabilities		89,449	91,971	74,104
Derivative liabilities		23,488	25,751	73,233
Borrowings				
Short-term notes		9,797,640	9,719,923	5,558,990
Long-term notes		4,066,813	4,405,122	8,177,122
		<b>13,864,453</b>	14,125,045	13,736,112
Preferred shares	9	230,000	230,000	230,000
Post-employment benefit liability		164,337	156,571	186,855
Other liabilities		36,387	39,297	43,006
<b>Total liabilities</b>		<b>14,408,114</b>	14,668,635	14,343,310
<b>Equity</b>				
Share capital	9	2,514,400	2,514,400	2,514,400
Contributed surplus		27,778	27,778	27,778
Retained earnings		1,133,019	1,046,431	651,426
Accumulated other comprehensive income		18,987	24,593	989
<b>Equity attributable to BDC's shareholder</b>		<b>3,694,184</b>	3,613,202	3,194,593
Non-controlling interests		135,703	146,645	176,542
<b>Total equity</b>		<b>3,829,887</b>	3,759,847	3,371,135
<b>Total liabilities and equity</b>		<b>18,238,001</b>	18,428,482	17,714,445
<b>Commitments (Note 11)</b>				

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

# CONSOLIDATED STATEMENT OF INCOME

(unaudited)

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(in thousands of Canadian dollars)	Three months ended June 30	
	2011	2010
Interest income	248,689	213,842
Interest expense	34,644	17,334
<b>Net interest income</b>	<b>214,045</b>	<b>196,508</b>
Net realized gains (losses) on investments	14,886	4,593
Consulting revenue	5,816	6,363
Fee and other income	7,850	6,161
Net realized gains (losses) on other financial instruments	2,146	2,463
<b>Net revenue</b>	<b>244,743</b>	<b>216,088</b>
Impairment reversal (losses) on loans	37,734	(40,207)
Net change in unrealized appreciation (depreciation) of investments	(16,350)	25
Net unrealized foreign exchange gains (losses) on investments	(1,374)	6,195
Net unrealized gains (losses) on other financial instruments	1,706	(22,821)
<b>Income before operating and administrative expenses</b>	<b>266,459</b>	<b>159,280</b>
Salaries and benefits	60,786	59,353
Premises and equipment	8,883	8,991
Other expenses	21,150	22,774
<b>Operating and administrative expenses</b>	<b>90,819</b>	<b>91,118</b>
<b>Net income</b>	<b>175,640</b>	<b>68,162</b>
<b>Net income attributable to:</b>		
BDC's shareholder	173,860	64,238
Non-controlling interests	1,780	3,924
<b>Net income</b>	<b>175,640</b>	<b>68,162</b>

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements and Note 10 provides additional information on segmented net income.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(unaudited)

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(in thousands of Canadian dollars)	Three months ended June 30	
	2011	2010
<b>Net income</b>	<b>175,640</b>	68,162
<b>Other comprehensive income (loss)</b>		
Net change in unrealized gains (losses) on available-for-sale assets	(12,331)	31,356
Net change in unrealized gains (losses) on cash flow hedges	6,725	3,039
Actuarial gains (losses) on post-employment benefits	(42,201)	(29,900)
<b>Other comprehensive income (loss)</b>	<b>(47,807)</b>	4,495
<b>Comprehensive income</b>	<b>127,833</b>	72,657
<b>Comprehensive income attributable to:</b>		
BDC's shareholder	126,053	68,733
Non-controlling interests	1,780	3,924
<b>Comprehensive income</b>	<b>127,833</b>	72,657

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended June 30  
(unaudited)

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(in thousands of Canadian dollars)	Accumulated other comprehensive income (loss)						Total	Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
	Share capital	Contributed surplus	Retained earnings	Available-for-sale assets	Cash flow hedges					
Balance at April 1, 2011	2,514,400	27,778	1,046,431	26,169	(1,576)	24,593	3,613,202	146,645	3,759,847	
Net income			173,860				173,860	1,780	175,640	
Net change in unrealized gains (losses) on available-for-sale assets				(12,331)		(12,331)	(12,331)		(12,331)	
Net change in unrealized gains (losses) on cash flow hedges					6,725	6,725	6,725		6,725	
Actuarial gains (losses) on post-employment benefits			(42,201)				(42,201)		(42,201)	
Dividends on common shares			(45,071)				(45,071)		(45,071)	
Distributions to non-controlling interests, net of capital injections								(12,722)	(12,722)	
<b>Balance at June 30, 2011</b>	<b>2,514,400</b>	<b>27,778</b>	<b>1,133,019</b>	<b>13,838</b>	<b>5,149</b>	<b>18,987</b>	<b>3,694,184</b>	<b>135,703</b>	<b>3,829,887</b>	

(in thousands of Canadian dollars)	Accumulated other comprehensive income (loss)						Total	Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
	Share capital	Contributed surplus	Retained earnings	Available-for-sale assets	Cash flow hedges					
Balance at April 1, 2010	2,514,400	27,778	651,426	6,369	(5,380)	989	3,194,593	176,542	3,371,135	
Net income			64,238				64,238	3,924	68,162	
Net change in unrealized gains (losses) on available-for-sale assets				31,356		31,356	31,356		31,356	
Net change in unrealized gains (losses) on cash flow hedges					3,039	3,039	3,039		3,039	
Actuarial gains (losses) on post-employment benefits			(29,900)				(29,900)		(29,900)	
Distributions to non-controlling interests, net of capital injections								(8,005)	(8,005)	
<b>Balance at June 30, 2010</b>	<b>2,514,400</b>	<b>27,778</b>	<b>685,764</b>	<b>37,725</b>	<b>(2,341)</b>	<b>35,384</b>	<b>3,263,326</b>	<b>172,461</b>	<b>3,435,787</b>	

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

(unaudited)

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(in thousands of Canadian dollars)	Three months ended June 30	
	2011	2010
<b>Operating activities</b>		
Net income	175,640	68,162
Adjustments to determine net cash flows		
Interest income	(248,689)	(213,842)
Interest expense	34,644	17,334
Net realized losses (gains) on investments	(14,886)	(4,593)
Impairment losses (reversal) on loans	(37,734)	40,207
Net change in unrealized depreciation (appreciation) on investments	16,350	(25)
Net unrealized foreign exchange losses (gains) on investments	1,374	(6,195)
Net unrealized losses (gains) on other financial instruments	(1,706)	22,821
Post-employment benefits funding in excess of amounts expensed	(5,728)	(1,168)
Amortization of property and equipment, and intangible assets	2,656	2,845
Other	(3,876)	(2,289)
Interest expense paid	(27,415)	(11,474)
Interest income received	247,985	216,313
Disbursements for loans	(649,046)	(778,121)
Repayments of loans	545,145	439,618
Changes in operating assets and liabilities		
Net change in accounts payable and accrued liabilities	1,357	(31,545)
Net change in other assets and other liabilities	(7,435)	(401)
<b>Net cash flows provided (used) by operating activities</b>	<b>28,636</b>	<b>(242,353)</b>
<b>Investing activities</b>		
Disbursements for asset-backed securities	(18,658)	(300,000)
Repayments and proceeds on sale of asset-backed securities	387,976	91,405
Disbursements for subordinate financing investments	(37,819)	(18,823)
Repayments of subordinate financing investments	21,757	11,857
Disbursements for venture capital investments	(33,416)	(30,121)
Proceeds on sale of venture capital investments	52,297	16,784
Acquisition of property and equipment	(901)	(1,524)
Acquisition of intangible assets	(4,210)	(1,430)
<b>Net cash flows provided (used) by investing activities</b>	<b>367,026</b>	<b>(231,853)</b>
<b>Financing activities</b>		
Net change in short-term notes	77,092	1,375,423
Issue of long-term notes	(6,587)	(305,000)
Repayment of long-term notes	(347,620)	(741,214)
Distributions to non-controlling interests, net of capital injections	(12,722)	(8,005)
Dividends paid on common and preferred shares	(50,083)	(1,250)
<b>Net cash flows provided (used) by financing activities</b>	<b>(339,920)</b>	<b>319,954</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>55,742</b>	<b>(154,252)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>653,231</b>	<b>1,022,571</b>
<b>Cash and cash equivalents at end of period</b>	<b>708,973</b>	<b>868,319</b>

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(unaudited, in thousands of Canadian dollars)

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## 1. BDC GENERAL DESCRIPTION

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

The objectives of the Business Development Bank of Canada and its subsidiaries (together, BDC) are to promote and assist in the establishment and development of business enterprises in Canada, with a focus on small and medium-sized enterprises, by providing a range of complementary lending, investment and consulting services. BDC offers Canadian companies services tailored to meet their current needs while earning an appropriate return on shareholder's capital, which is used to further BDC's activities, as BDC does not receive appropriations from the Government of Canada.

## 2. BASIS OF PREPARATION

BDC's condensed quarterly Consolidated Financial Statements are in compliance with the Standard on Quarterly Financial Reports for Crown Corporations, as required by the *Financial Administration Act* and issued by the Treasury Board of Canada, Secretariat. These financial statements must be read in conjunction with BDC's 2011 Annual Report and with the Management's Discussion and Analysis included in this quarterly financial report.

These are BDC's first quarterly Consolidated Financial Statements prepared using International Financial Reporting Standards (IFRS). Until March 31, 2011, BDC's Consolidated Financial Statements were prepared in accordance with Canadian Generally Accepted Accounting Policies (GAAP) which applied prior to conversion to IFRS.

In preparing these quarterly Consolidated Financial Statements as per IFRS, management has amended certain recognition and measurement methods to comply with IFRS. The comparative figures for 2011 were restated to reflect these adjustments. An explanation of how the transition to IFRS has affected reported equity, net income, comprehensive income and cash flows is provided in Note 13, *First-time adoption of IFRS*.

The quarterly Consolidated Financial Statements have also been prepared in accordance with the accounting policies BDC expects to use in its annual Consolidated Financial Statements for the year ending March 31, 2012. Refer to Note 3, *Significant accounting policies*, for a description of these policies. If BDC changes the application of these policies, a restatement of these quarterly Consolidated Financial Statements, including the IFRS transition adjustment, may result.

The Consolidated Financial Statements for the three-month period ended June 30, 2011, have been approved for issue by the board of directors on August 4, 2011.

## Basis of presentation and measurement

The Consolidated Financial Statements have been prepared under the historical cost convention, except for available-for-sale financial assets, financial assets and financial liabilities held at fair value through profit or loss, and all derivative contracts, which have been measured at fair value. In addition, the liability or asset for post-employment benefits is recognized as the present value of the defined obligation less the fair value of the plan assets of the defined benefit pension plans.

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

## Basis of consolidation

BDC conducts business through a variety of entities, including a wholly owned subsidiary and several other subsidiaries.

The Consolidated Financial Statements of BDC comprise the financial statements of the parent entity and the consolidated accounts of the subsidiaries as of June 30, 2011, March 31, 2011, and April 1, 2010. The financial statements of the subsidiaries are prepared using uniform accounting and valuation methods for similar transactions.

## Subsidiaries

Subsidiaries are entities controlled by BDC. Control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities, and is presumed when BDC directly or indirectly holds the majority of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether BDC controls another entity.

In instances where BDC does not hold a majority of the voting rights, further analysis is performed to determine whether or not BDC has control of the entity. BDC is deemed to have control when it makes most of the decisions within the terms of the constituting agreements.

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

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

- > Wholly owned subsidiary: BDC Capital Inc.
- > Investment funds in which BDC owned 50%:
  - AlterInvest Investment Fund Inc.
  - AlterInvest Fund L.P. and
  - AlterInvest II Fund L.P.
- > Investment fund in which BDC owned 20%: Go Capital LP.

### **Non-controlling interests**

Interests in the equity of subsidiaries not attributable to the parent are reported in consolidated equity as non-controlling interests. Profits or losses attributable to non-controlling interests are reported in consolidated net income and comprehensive income as net income attributable to non-controlling interests.

### **Associates**

Associates are those entities in which BDC has significant influence, but not control, over the financial and operating policies. Venture capital investments in associates that are held as part of BDC's investment portfolio are carried in the Statement of Financial Position at fair value. This treatment is permitted by International Accounting Standard (IAS) 28 *Investment in Associates*, which specifically excludes investments in associates held by venture capital organizations from its scope when those investments are designated, upon initial recognition, at fair value through profit or loss and accounted for in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*.

## **3. SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of these quarterly Consolidated Financial Statements are set out below. These policies have been consistently applied to all periods presented in these quarterly Consolidated Financial Statements and in preparing the opening IFRS Statement of Financial Position at April 1, 2010, and have been applied consistently by all entities consolidated by BDC.

### **Financial instruments**

#### **Recognition and measurement of financial instruments**

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

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

Financial instruments are recognized and derecognized using settlement date accounting.

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

Financial instruments are measured in subsequent periods either at fair value or at amortized cost using the effective interest rate method, depending on the financial instrument classification.

The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to its carrying amount. When calculating the effective interest rate, BDC estimates future cash flows, considering all contractual terms of the financial instrument.

## Classification of financial instruments

The following table summarizes the classification of BDC's financial instruments as at June 30 and March 31, 2011.

								June 30, 2011
	Note	Measured at fair value				Measured at amortized cost		Total
		FVTPL <sup>(1)</sup>			Cash flow hedges	Loans and receivables	Other financial liabilities	
		Held-for-trading	Designated as FVTPL	Available-for-sale				
<b>Assets</b>								
Cash and cash equivalents						708,973	708,973	
Derivative assets		78,304			5,855		84,159	
Asset-backed securities	5			2,690,387			2,690,387	
Loans	6					13,874,008	13,874,008	
Subordinate financing investments	7		400,097				400,097	
Venture capital investments	8		394,808				394,808	
Other assets <sup>(2)</sup>						21,090	21,090	
<b>Liabilities</b>								
Accounts payable and accrued liabilities							89,449	
Derivative liabilities		23,094			394		23,488	
Short-term notes						9,797,640	9,797,640	
Long-term notes			800,906			3,265,907	4,066,813	
Preferred shares	9					230,000	230,000	
Other liabilities <sup>(2)</sup>						22,019	22,019	

								March 31, 2011
	Note	Measured at fair value				Measured at amortized cost		Total
		FVTPL <sup>(1)</sup>			Cash flow hedges	Loans and receivables	Other financial liabilities	
		Held-for-trading	Designated as FVTPL	Available-for-sale				
<b>Assets</b>								
Cash and cash equivalents						653,231	653,231	
Derivative assets		66,181			941		67,122	
Asset-backed securities	5			3,068,949			3,068,949	
Loans	6					13,731,011	13,731,011	
Subordinate financing investments	7		387,091				387,091	
Venture capital investments	8		413,782				413,782	
Other assets <sup>(2)</sup>						17,260	17,260	
<b>Liabilities</b>								
Accounts payable and accrued liabilities							91,971	
Derivative liabilities		23,118			2,633		25,751	
Short-term notes						9,719,923	9,719,923	
Long-term notes			790,460			3,614,662	4,405,122	
Preferred shares	9					230,000	230,000	
Other liabilities <sup>(2)</sup>						25,554	25,554	

<sup>(1)</sup> Fair value through profit or loss.

<sup>(2)</sup> Certain items within the other assets and other liabilities categories on the Consolidated Statement of Financial Position are not considered to be financial instruments.

### **Fair value through profit or loss**

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

#### **FINANCIAL INSTRUMENTS CLASSIFIED AS HELD-FOR-TRADING**

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

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

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

#### **FINANCIAL INSTRUMENTS DESIGNATED AS FAIR VALUE THROUGH PROFIT OR LOSS**

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

- > the asset or liability is managed, evaluated and reported internally on a fair value basis; or
- > 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 and/or net unrealized foreign exchange gains or losses on investments, when related to subordinate financing and venture capital investments; or
- > net unrealized gains or losses on other financial instruments when related to derivatives and borrowings.

Gains and losses upon the sale or disposal 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 subordinate financing and venture capital investments; or
- > net realized gains or losses on other financial instruments when related to derivatives and borrowings.

### **Available-for-sale financial assets**

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

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

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

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

### **Cash flow hedge**

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. This process includes linking these derivative instruments to assets and liabilities on the Consolidated Statement of Financial Position. BDC assesses whether the derivatives used in hedging transactions are 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, 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.

If these hedging instruments are derecognized prior to maturity, 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.

### **Loans and receivables**

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

### **Other liabilities measured at amortized cost**

Financial liabilities that are not carried at fair value through profit or loss fall into this 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 repurchase agreements that have maturities at the original acquisition date of less than three months. Cash equivalents have been classified as loans and receivables.

The fair value of short-term bank notes and repurchase agreements is based on market quotes when available. If quoted market prices are not available, fair values are estimated using market prices of similar cash equivalents.

### Asset-backed securities

Asset-backed securities (ABS) are classified as available-for-sale assets. They are recorded at fair value and 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 asset-backed securities 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 asset-backed securities 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 amortized over the life of the security using the effective interest rate method and recognized in interest income.

### IMPAIRMENT OF ASSET-BACKED SECURITIES

BDC reviews ABS for possible impairment at each reporting date. BDC determines that asset-backed securities 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.

Impairment losses are recognized in the Consolidated Statement of Income during the period in which objective evidence 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. A loan is considered impaired when there is deterioration in credit quality to the extent that BDC no longer has reasonable assurance that the full amount of principal and interest will be collected.

The carrying amount of an impaired loan is reduced to its estimated realizable value by discounting the estimated future cash flows using the initial effective interest rate of the loan or, if cash flows cannot be reasonably determined, by using the estimated fair value of any underlying collateral, whether or not foreclosure is probable. The carrying amount of the impaired loan is reduced through the use of an allowance account and the amount of the loss is recognized in the Consolidated Statement of Income as impairment losses on loans.

When a subsequent event causes the amount of impairment loss to increase or decrease after the impairment was initially recognized, the increase or decrease is recorded through Impairment losses or reversals on loans in the Consolidated Statement of Income. Loans are written off when all collection efforts have been exhausted and no further prospect of recovery is likely.

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.

### **Subordinate financing and venture capital investments**

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

BDC's approach to fair value measurement for both subordinate financing and venture capital investments has been derived from international guidelines. Based on the type of investments carried out, BDC uses (i) market-based methodologies, such as the quoted share price or the price of recent similar investments; (ii) discounted earnings or cash flow approaches; or (iii) liquidation or asset-based methods.

### **Borrowings**

Short-term notes are measured at amortized cost.

BDC has two types of long-term notes: unstructured and structured. Unstructured long-term notes are recorded at amortized cost. Structured notes are notes for which interest and/or principal is 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 significantly modify the cash flows that would otherwise be required under the host debt contract.

The fair value of structured notes is determined using current market data sourced from leading inter-dealer brokers, together with industry standard models for estimating fair value.

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

## Derivatives

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

All BDC derivatives are over-the-counter derivatives. The fair value of these derivatives is determined using current market 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 June 30 and March 31, 2011, BDC has no embedded derivatives that must be separated from a host contract.

## Preferred shares classified in liabilities

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

Based on market conditions existing on initial recognition, the liability component was equal to the fair value of the entire instrument and the proceeds received. Consequently, the equity component was initially and subsequently valued at zero.

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

The dividends relating to the preferred shares classified as financial liabilities are recognized as interest expense in the Consolidated Statement of Income.

## 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 using the interest rate used to discount the future cash flows for the purposes of measuring the impairment loss.

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 profit or loss as the related services are performed.

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

## Property and equipment and intangible assets

### Property and equipment

Property and equipment are carried at cost less accumulated depreciation and accumulated impairment losses, if any. The cost of an item of property and equipment includes its purchase price and any costs directly attributable to bringing the assets to the location and condition necessary for it to operate in the manner intended by management.

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

- |   |  |
|---|--|
| > computer and telecommunications equipment | 4 years  |
| > furniture, fixtures and equipment         | 10 years   |
| > leasehold improvements                    | lease term, which averages approximately 6 years |

### Intangible assets

Intangible assets are carried at cost less accumulated depreciation and accumulated impairment losses, if any. 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 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. The amortization expense is included in Operating and administrative expenses in the Consolidated Statement of Income.

### Impairment of property and equipment and intangible assets

The residual values and useful lives of items of property and equipment and intangible assets are reviewed, and adjusted if appropriate, at each 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 intangible assets not yet available for use.

When impairment tests indicate that the carrying amount of an asset (or group of assets) is greater than its estimated recoverable amount, the carrying amount is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

### Post-employment benefits

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

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

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

The fair value of defined benefit pension plans' assets is established as follows:

- > short-term investments are valued at quoted market rates of return;
- > bonds are valued at market rates;
- > public equity investments are valued at fair value based on published closing prices or the last bid price if the instruments are not traded on the valuation date; and
- > private equity funds of funds are carried at fair value as determined by each general partner.

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

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

### Equity attributable to BDC's shareholder

Share capital represents the par value of common shares issued and in circulation. Contributed surplus represents the amount of the proceeds received upon issuance of shares, in excess of their par value.

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

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

### Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies 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 at average exchange rates for the reporting period. Foreign exchange gains and losses are included in profit or loss.

### Segmented information

BDC has the following operating segments, which are organized around differences in products and services: Financing, Subordinate financing, Venture Capital, Consulting and Securitization.

The operating segments are reported in a manner consistent with how 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. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Preparation of the quarterly Consolidated Financial Statements using IFRS requires management to make judgements, 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 quarterly Consolidated Financial Statements are summarized below.

### 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 in assumptions about these factors could affect the reported fair value of financial instruments. Refer to Note 3, *Significant accounting policies*, for more information of valuation techniques used for each type of financial instrument.

### **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.

### **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 determines the allowance based on quantitative and qualitative assessments that use current and historical credit information. The process requires BDC to make assumptions and judgements by carrying out certain activities, including the following: (i) assessing the impaired status and risk of a loan; (ii) estimating cash flows and collateral values; (iii) developing default rates and loss rates based on historical data; (iv) adjusting loss rates based on relevant experience; (v) assessing changes in credit strategies, processes and policies; (vi) assessing the current credit quality of the portfolio, based on credit quality trends and on portfolio characteristics and composition; and (vii) determining the current position of economic and credit cycles. Changes in these assumptions, or the use of other reasonable judgements, can materially affect the allowance level.

### **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.

### **Post-employment benefit asset and liability**

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

## Consolidation

A key judgement that has been used in the preparation of the quarterly Consolidated Financial Statements is that BDC has the power to control certain investment funds (refer to page 21 for additional information). BDC has assessed that it has the power to control the financial and operating policies of these funds through a combination of contractual agreements and voting power, and that it is able to use that control to generate variable returns. Consequently, these funds have been fully consolidated rather than accounted for using a proportional consolidation or equity accounting approach.

## 5. ASSET-BACKED SECURITIES

	June 30, 2011	March 31, 2011
Principal amount	2,676,826	3,046,801
Unamortized loss on initial recognition	(401)	(4,084)
Cumulative fair value appreciation (depreciation)	13,962	26,232
Carrying value	2,690,387	3,068,949
Yield	2.80%	2.78%
Unrealized gains (losses) recognized in OCI	(12,270)	19,861

The asset-backed securities portfolio as at June 30, 2011, consisted of investment-grade senior and subordinated medium-term notes (MTNs) issued by way of prospectus or private placement. The MTNs issued by private placement were purchased by BDC during the quarter ended June 30, 2011, through the Multi-Seller Platform for Small Originators. These MTNs amounted to \$18.3 million as at June 30, 2011 (nil as at March 31, 2011).

No asset-backed securities were impaired as at June 30 or March 31, 2011.

## 6. LOANS

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

	Within 1 year	1 to 5 years	Over 5 years	Total gross amount	Collective allowance	Individual allowance	Total allowance	Total net amount
Performing	672,589	3,002,970	10,315,693	13,991,252	(459,500)	-	(459,500)	13,531,752
Impaired	68,617	127,485	399,849	595,951	-	(253,695)	(253,695)	342,256
<b>Loans as at June 30, 2011</b>	<b>741,206</b>	<b>3,130,455</b>	<b>10,715,542</b>	<b>14,587,203</b>	<b>(459,500)</b>	<b>(253,695)</b>	<b>(713,195)</b>	<b>13,874,008</b>

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

### Allowance for credit losses

Balance as at April 1, 2011	774,676
Write-offs and other	(23,984)
Effect of discounting	(3,328)
Recoveries	3,566
	750,929
Impairment losses (reversal) on loans	(37,734)
<b>Balance at June 30, 2011</b>	<b>713,195</b>

### Concentrations of total loans outstanding

<b>Geographic distribution</b>		<b>June 30, 2011</b>		<b>March 31, 2011</b>
Newfoundland and Labrador	565,087	3.9%	554,681	3.8%
Prince Edward Island	41,753	0.3%	41,656	0.3%
Nova Scotia	399,412	2.7%	396,227	2.7%
New Brunswick	469,677	3.2%	466,658	3.2%
Quebec	4,783,181	32.8%	4,708,670	32.6%
Ontario	4,308,704	29.5%	4,364,728	30.1%
Manitoba	330,817	2.3%	326,301	2.2%
Saskatchewan	331,446	2.3%	320,845	2.2%
Alberta	1,594,723	10.9%	1,580,473	10.9%
British Columbia	1,660,152	11.4%	1,644,360	11.3%
Yukon	72,385	0.5%	70,524	0.5%
Northwest Territories and Nunavut	29,866	0.2%	30,564	0.2%
<b>Loans outstanding</b>	<b>14,587,203</b>	<b>100.0%</b>	<b>14,505,687</b>	<b>100.0%</b>

<b>Industry sector</b>		<b>June 30, 2011</b>		<b>March 31, 2011</b>
Manufacturing	3,846,440	26.4%	3,873,423	26.7%
Wholesale and retail trade	3,143,678	21.6%	3,092,093	21.3%
Tourism	1,808,086	12.4%	1,778,292	12.3%
Construction	1,097,779	7.5%	1,355,801	9.3%
Transportation and storage	802,914	5.5%	1,083,297	7.5%
Commercial properties	1,396,746	9.6%	799,962	5.5%
Business services	625,660	4.3%	641,932	4.4%
Other	1,865,900	12.9%	1,880,887	13.0%
<b>Loans outstanding</b>	<b>14,587,203</b>	<b>100.0%</b>	<b>14,505,687</b>	<b>100.0%</b>

## 7. SUBORDINATE FINANCING INVESTMENTS

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

	Within 1 year	1 to 5 years	Over 5 years	Total gross amount	Cumulative fair value depreciation	Total fair value
<b>As at June 30, 2011</b>	<b>59,006</b>	<b>305,809</b>	<b>50,612</b>	<b>415,427</b>	<b>(15,330)</b>	<b>400,097</b>
As at March 31, 2011	60,585	299,326	42,581	402,492	(15,401)	387,091

### Concentrations of total subordinate financing investments

Geographic distribution	June 30, 2011		March 31, 2011	
	Fair value	Cost	Fair value	Cost
Newfoundland and Labrador	20,441	20,360	20,991	20,910
Nova Scotia	9,128	9,305	7,624	7,801
New Brunswick	9,540	9,928	9,686	10,061
Quebec	198,315	212,805	196,040	208,929
Ontario	108,425	108,400	95,438	96,833
Manitoba	4,652	4,464	5,084	4,761
Saskatchewan	729	719	685	675
Alberta	30,020	29,731	33,292	32,987
British Columbia	18,847	19,715	18,251	19,535
<b>Subordinate financing investments</b>	<b>400,097</b>	<b>415,427</b>	<b>387,091</b>	<b>402,492</b>

Industry sector	June 30, 2011		March 31, 2011	
	Fair value	Cost	Fair value	Cost
Manufacturing	158,320	165,740	148,892	157,651
Business services	76,200	81,279	69,027	73,600
Wholesale and retail trade	66,536	65,023	70,598	68,284
Construction	21,592	23,213	18,896	19,529
Transportation and storage	11,212	9,821	12,127	10,736
Technologies	4,472	6,263	4,228	6,018
Tourism	3,556	3,413	3,380	3,237
Industrial technologies	1,161	1,625	1,161	1,625
Biotechnology	1,007	1,007	907	907
Other	56,041	58,043	57,875	60,905
<b>Subordinate financing investments</b>	<b>400,097</b>	<b>415,427</b>	<b>387,091</b>	<b>402,492</b>

## 8. VENTURE CAPITAL INVESTMENTS

BDC maintains a high-risk portfolio of venture capital investments that is focused on early-stage and fast-growing companies having promising positions in their respective marketplaces and strong growth potential. The concentrations and investment types of venture capital investments are listed below.

Industry sector	June 30, 2011		March 31, 2011	
	Fair value	Cost	Fair value	Cost
Biotechnology and pharmacology	73,931	105,325	75,837	112,422
Information technology	71,015	92,737	102,840	90,106
Electronics	54,868	65,008	55,161	70,598
Communications	49,094	56,306	48,195	53,912
Medical and health	38,354	47,310	33,736	43,204
Industrial	11,608	18,307	7,704	14,007
Other	5,260	5,173	3,334	3,250
Total direct investments	304,130	390,166	326,807	387,499
Funds	90,678	107,041	86,975	110,881
<b>Venture capital investments</b>	<b>394,808</b>	<b>497,207</b>	<b>413,782</b>	<b>498,380</b>

Investment type	June 30, 2011		March 31, 2011	
	Fair value	Cost	Fair value	Cost
Common shares	59,437	94,141	54,573	87,508
Preferred shares	205,999	248,787	240,030	259,924
Debentures	38,694	47,238	32,204	40,067
Total direct investments	304,130	390,166	326,807	387,499
Funds	90,678	107,041	86,975	110,881
<b>Venture capital investments</b>	<b>394,808</b>	<b>497,207</b>	<b>413,782</b>	<b>498,380</b>

## 9. SHARE CAPITAL AND PREFERRED SHARES

Authorized:

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

	June 30, 2011			March 31, 2011		
	Number of shares	Amount	Dividend rate	Number of shares	Amount	Dividend rate
Preferred shares classified as liabilities						
Class A - Series 1	500,000	50,000	2.625%	500,000	50,000	2.625%
- Series 2	500,000	50,000	1.815%	500,000	50,000	1.815%
- Series 3	500,000	50,000	2.205%	500,000	50,000	2.205%
- Series 4	400,000	40,000	1.400%	400,000	40,000	1.400%
- Series 5	400,000	40,000	1.690%	400,000	40,000	1.690%
		230,000			230,000	
Common shares	25,144,000	2,514,400		25,144,000	2,514,400	
<b>Total outstanding</b>		<b>2,744,400</b>			<b>2,744,400</b>	

Class A preferred shares have a fixed, preferential and cumulative dividend, and are exchangeable at the option of the holder, with the approval of the Minister of Finance, for fully paid common shares on the basis of one common share for each Class A preferred share. All dividends accumulated or declared and unpaid as at the date of exchange are payable by BDC on a pro-rata basis, as if such dividends had accrued from day to day. The dividend rates on Class A preferred shares are for periods ranging from two to five years and are adjusted at the beginning of the subsequent period to equal the Consolidated Revenue Fund lending rate published by the Minister of Finance, plus a specified premium ranging from 0.250% to 0.375%.

Although preferred shares are classified in liabilities, as per the BDC Act, these shares are to be included in the calculation of capital regardless of their Consolidated Financial Statement classification.

### Statutory limitations and capital adequacy

As per the BDC Act, the debt-to-equity ratio cannot exceed 12:1. In addition, the paid-in capital, the contributed surplus and any proceeds that have been prescribed as equity (such as hybrid capital instruments) must not exceed \$3.0 billion. As at June 30, 2011, and March 31, 2011, BDC met both of these statutory limitation requirements.

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. During the quarter ended June 30, 2011, BDC operated in accordance with these capital adequacy guidelines.

## 10. SEGMENTED INFORMATION

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

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

- > BDC **Financing** provides secured and specialized loans with a focus on small and medium-sized enterprises across Canada.
- > BDC **Subordinate Financing** provides flexible quasi-equity and equity-type financing to more mature businesses to support specific growth projects.
- > BDC **Venture Capital** provides investments to cover every stage of a technology-based company's development cycle, from seed funding to expansion. BDC also makes indirect investments via venture capital investment funds.
- > BDC **Consulting** provides customized consulting services related to business activities.
- > BDC **Securitization** purchases investments in asset-backed securities through the Canadian Secured Credit Facility and the Multi-Seller Platform for Small Originators. These securities are backed by vehicle and equipment loans and leases, as well as dealer floor plan loans.

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

Interest expense is allocated to each operating segment based on its business portfolio and the capital attributed to the segment. The attribution of capital to BDC's business segments is maintained in accordance with the capital adequacy ratios provided by the Treasury Board of Canada, Secretariat, and is consistently aligned to the economic risks of each specific business segment. Refer to Note 15, *Statutory limitations and capital adequacy*, to the Consolidated Financial Statements in the 2011 Annual Report for more information.

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

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

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

	June 30, 2011					
	BDC	Financing	Subordinate Financing	Venture Capital	Consulting	Securitization
Interest income	248,689	213,892	11,218	-	-	23,579
Interest expense	34,644	28,123	1,597	139	-	4,785
<b>Net interest income</b>	<b>214,045</b>	<b>185,769</b>	<b>9,621</b>	<b>(139)</b>	<b>-</b>	<b>18,794</b>
Net realized gains (losses) on investments	14,886	-	(2,821)	17,707	-	-
Consulting revenue	5,816	-	-	-	5,816	-
Fee and other income	7,850	3,388	3,847	340	-	275
Net realized gains (losses) on other financial instruments	2,146	26	-	2,232	-	(112)
<b>Net revenue</b>	<b>244,743</b>	<b>189,183</b>	<b>10,647</b>	<b>20,140</b>	<b>5,816</b>	<b>18,957</b>
Impairment reversal (losses) on loans	37,734	37,734	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	(16,350)	-	71	(16,426)	-	5
Net unrealized foreign exchange gains (losses) on investments	(1,374)	-	-	(1,374)	-	-
Net unrealized gains (losses) on other financial instruments	1,706	3,159	-	(1,453)	-	-
<b>Income before operating and administrative expenses</b>	<b>266,459</b>	<b>230,076</b>	<b>10,718</b>	<b>887</b>	<b>5,816</b>	<b>18,962</b>
Salaries and benefits	60,786	48,382	3,108	4,089	4,824	383
Premises and equipment	8,883	8,070	186	328	269	30
Other expenses	21,150	15,905	507	871	3,835	32
<b>Operating and administrative expenses</b>	<b>90,819</b>	<b>72,357</b>	<b>3,801</b>	<b>5,288</b>	<b>8,928</b>	<b>445</b>
<b>Net income (loss)</b>	<b>175,640</b>	<b>157,719</b>	<b>6,917</b>	<b>(4,401)</b>	<b>(3,112)</b>	<b>18,517</b>
<b>Net income (loss) attributable to:</b>						
BDC's shareholder	173,860	157,719	4,909	(4,173)	(3,112)	18,517
Non-controlling interests	1,780	-	2,008	(228)	-	-
<b>Net income (loss)</b>	<b>175,640</b>	<b>157,719</b>	<b>6,917</b>	<b>(4,401)</b>	<b>(3,112)</b>	<b>18,517</b>
<b>Business segment portfolio</b>	<b>17,359,299</b>	<b>13,874,007</b>	<b>400,097</b>	<b>394,808</b>	<b>-</b>	<b>2,690,387</b>

	June 30, 2010					
	BDC	Financing	Subordinate Financing	Venture Capital	Consulting	Securitization
Interest income	213,842	181,973	10,544	-	-	21,325
Interest expense	17,334	11,165	1,278	140	-	4,751
<b>Net interest income</b>	<b>196,508</b>	<b>170,808</b>	<b>9,266</b>	<b>(140)</b>	<b>-</b>	<b>16,574</b>
Net realized gains (losses) on investments	4,593	-	(44)	4,637	-	-
Consulting revenue	6,363	-	-	-	6,363	-
Fee and other income	6,161	2,900	2,338	702	-	221
Net realized gains (losses) on other financial instruments	2,463	26	-	437	-	2,000
<b>Net revenue</b>	<b>216,088</b>	<b>173,734</b>	<b>11,560</b>	<b>5,636</b>	<b>6,363</b>	<b>18,795</b>
Impairment reversal (losses) on loans	(40,207)	(40,207)	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	25	-	609	(584)	-	-
Net unrealized foreign exchange gains (losses) on investments	6,195	-	-	6,195	-	-
Net unrealized gains (losses) on other financial instruments	(22,821)	(17,640)	-	(5,181)	-	-
<b>Income before operating and administrative expenses</b>	<b>159,280</b>	<b>115,887</b>	<b>12,169</b>	<b>6,066</b>	<b>6,363</b>	<b>18,795</b>
Salaries and benefits	59,353	48,178	3,437	2,891	4,509	338
Premises and equipment	8,991	8,411	73	306	170	31
Other expenses	22,774	16,952	389	769	4,250	414
<b>Operating and administrative expenses</b>	<b>91,118</b>	<b>73,541</b>	<b>3,899</b>	<b>3,966</b>	<b>8,929</b>	<b>783</b>
<b>Net income (loss)</b>	<b>68,162</b>	<b>42,346</b>	<b>8,270</b>	<b>2,100</b>	<b>(2,566)</b>	<b>18,012</b>
<b>Net income (loss) attributable to:</b>						
BDC's shareholder	64,238	42,346	4,118	2,328	(2,566)	18,012
Non-controlling interests	3,924	-	4,152	(228)	-	-
<b>Net income (loss)</b>	<b>68,162</b>	<b>42,346</b>	<b>8,270</b>	<b>2,100</b>	<b>(2,566)</b>	<b>18,012</b>
<b>Business segment portfolio</b>	<b>17,102,666</b>	<b>12,826,902</b>	<b>365,151</b>	<b>391,837</b>	<b>-</b>	<b>3,518,776</b>

## 11. COMMITMENTS

Undisbursed amounts of authorized loans and subordinate financing investments were \$1,553,383 at June 30, 2011 (\$113,481 fixed rate and \$1,439,902 floating rate) and are expected to be disbursed within the next 12 months. The weighted average effective interest rate is 5.23% on loan commitments and 10.52% on subordinate financing commitments (excluding non-interest return). The following tables present undisbursed amounts of authorized loans and subordinate financing investments, by geographic and industry distribution.

<b>Geographic distribution</b>	<b>June 30, 2011</b>	
Newfoundland and Labrador	48,154	3.1%
Prince Edward Island	8,400	0.5%
Nova Scotia	24,610	1.6%
New Brunswick	44,138	2.8%
Quebec	514,866	33.2%
Ontario	473,036	30.5%
Manitoba	45,447	2.9%
Saskatchewan	35,725	2.3%
Alberta	219,737	14.1%
British Columbia	130,611	8.4%
Yukon	5,895	0.4%
Northwest Territories and Nunavut	2,764	0.2%
<b>Loans and subordinate financing investments</b>	<b>1,553,383</b>	<b>100.0%</b>

<b>Industry distribution</b>	<b>June 30, 2011</b>	
Manufacturing	336,348	21.7%
Wholesale and retail trade	301,768	19.4%
Tourism	208,452	13.4%
Construction	185,312	11.9%
Transportation and storage	92,332	5.9%
Commercial properties	127,061	8.2%
Business services	75,994	4.9%
Other	226,116	14.6%
<b>Loans and subordinate financing investments</b>	<b>1,553,383</b>	<b>100.0%</b>

The undisbursed amount of authorized venture capital investments was \$214,071 at June 30, 2011, and was related to the following industry sectors.

<b>Industry sector</b>	<b>June 30, 2011</b>	
Biotechnology and pharmacology	12,307	5.7%
Information technology	2,340	1.1%
Electronics	6,849	3.2%
Communications	3,607	1.7%
Medical and health	8,800	4.1%
Industrial	350	0.2%
Total direct investments	34,253	16.0%
Funds	179,818	84.0%
<b>Venture capital investments</b>	<b>214,071</b>	<b>100.0%</b>

The undisbursed amount of authorized asset-backed securities was \$331,300 at June 30, 2011.

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

## 12. RELATED PARTY TRANSACTIONS

As at June 30, 2011, BDC had \$9,784 million outstanding in short-term notes and \$3,163 million in long-term notes with Her Majesty in Right of Canada acting through the Minister of Finance (\$9,711 million in short-term notes and \$3,512 million in long-term notes at March 31, 2011).

Accrued interest on borrowings includes \$4.7 million payable to the Minister of Finance as at June 30, 2011 (\$5.2 million at March 31, 2011). During the quarter ended June 30, 2011, BDC also recorded \$30.3 million of interest expense related to the borrowings with the Minister of Finance. Last year's comparative figure for the same period was \$11.8 million.

In addition, certain borrowings with the Minister of Finance were repurchased during the quarter ended June 30, 2011. This resulted in net realized gains of \$0.1 million (\$2.0 million net realized gains for the same period last year).

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

## 13. FIRST-TIME ADOPTION OF IFRS

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

BDC’s IFRS accounting policies presented in Note 3 have been applied in preparing the Consolidated Financial Statements for the three-month period ended June 30, 2011, the comparative information and the opening Consolidated Statement of Financial Position as at the transition date.

### Initial elections upon adoption

IFRS 1 generally requires that an entity apply all IFRS effective at the end of its first IFRS reporting year retrospectively. However, IFRS 1 requires certain mandatory exceptions and provides optional exemptions from this general requirement. BDC has applied the mandatory exceptions that are relevant and has concluded not to apply any of the optional exemptions.

### Reconciliations of Canadian GAAP to IFRS

The following represents the reconciliations from Canadian GAAP to IFRS for the respective periods noted for equity, earnings and comprehensive income. The notes column refers to the notes to the reconciliations, which begin on page 43.

### Reconciliation of Consolidated Equity

As at	Notes	March 31, 2011	June 30, 2010	April 1, 2010
Shareholder's equity under Canadian GAAP		4,008,321	3,738,394	3,643,016
Differences increasing (decreasing) retained earnings:				
Post-employment benefits	A	(165,669)	(244,572)	(219,229)
Dividends on preferred shares included in net income	C	-	(1,250)	-
Other		550	754	807
		<b>(165,119)</b>	<b>(245,068)</b>	<b>(218,422)</b>
Reclassification of preferred shares in liabilities	C	(230,000)	(230,000)	(230,000)
<b>Equity attributable to BDC's shareholder under IFRS</b>		<b>3,613,202</b>	<b>3,263,326</b>	<b>3,194,594</b>
Non-controlling interests				
Joint ventures	B	139,221	165,536	170,548
Investments controlled by BDC	B	7,424	6,925	5,994
<b>Equity attributable to non-controlling interests under IFRS</b>		<b>146,645</b>	<b>172,461</b>	<b>176,542</b>
<b>Consolidated equity under IFRS</b>		<b>3,759,847</b>	<b>3,435,787</b>	<b>3,371,136</b>

## Reconciliation of Consolidated Net Income

For the year-to-date periods ended	Notes	March 31, 2011	June 30, 2010
Consolidated net income under Canadian GAAP		346,713	60,984
Differences increasing (decreasing) net income:			
Post-employment benefits	A	18,847	4,557
Dividends on preferred shares included in net income	C	(5,012)	(1,250)
Other		(257)	(53)
		<b>13,578</b>	<b>3,254</b>
<b>Net income attributable to BDC's shareholder under IFRS</b>		<b>360,291</b>	<b>64,238</b>
Impact of consolidation of:			
Joint ventures	B	8,752	4,152
Investments controlled by BDC	B	(2,523)	(228)
<b>Net income attributable to non-controlling interests under IFRS</b>		<b>6,229</b>	<b>3,924</b>
<b>Consolidated net income under IFRS</b>		<b>366,520</b>	<b>68,162</b>

## Reconciliation of Consolidated Comprehensive Income

For the year-to-date periods ended	Notes	March 31, 2011	June 30, 2010
Consolidated comprehensive income under Canadian GAAP		370,317	95,378
Differences increasing (decreasing) comprehensive income:			
Increase in net income attributable to the shareholder		13,578	3,254
Actuarial gains (losses) on post-employment benefits	A	34,713	(29,900)
		<b>48,291</b>	<b>(26,645)</b>
<b>Comprehensive income attributable to BDC's shareholder under IFRS</b>		<b>418,608</b>	<b>68,733</b>
Increase in net income attributable to non-controlling interests		6,229	3,924
<b>Comprehensive income attributable to non-controlling interests under IFRS</b>		<b>6,229</b>	<b>3,924</b>
<b>Consolidated comprehensive income under IFRS</b>		<b>424,837</b>	<b>72,657</b>

### Notes to the reconciliations

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

### A – POST-EMPLOYMENT BENEFITS

#### (i) Actuarial gains and losses

**Canadian GAAP:** Actuarial gains and losses that arose in calculating the present value of the defined benefit obligation and the fair value of plan assets were subject to a minimum required amortization based on a "corridor" approach. Each fiscal year, BDC determined whether the cumulative actuarial gain or loss was more than 10% of the

greater of the fair value of the pension plan assets or the defined benefit obligation. Any amount that exceeded this 10% corridor was amortized through the income statement over the average remaining service period of active employees. Amounts that fell within the 10% corridor were not amortized.

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

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

### **(ii) Attribution period**

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

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

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

### **(iii) Measurement date**

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

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

**Impact on financial statements:** Upon transition, BDC re-measured its defined benefit obligation and plan assets related to pension plans as at April 1, 2010. The impact upon transition and subsequent periods is not significant and is included in the total adjustment for post-employment benefits.

#### (iv) Past service costs

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

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

**Impact on financial statements:** The impact upon transition and subsequent periods is not significant and is included in the total adjustment for post-employment benefits.

### B – CONSOLIDATION

#### (i) Joint ventures

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

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

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

#### (ii) Venture capital and subordinate financing investments

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

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

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

## C – RECLASSIFICATION OF PREFERRED SHARES

**Canadian GAAP:** As per Canadian GAAP, BDC's preferred shares were classified as equity instruments.

**IFRS:** Under IFRS, if an entity is required to make a non-discretionary annual dividend payment on its preferred shares, these preferred shares need to be classified as a combined instrument, with a liability and an equity component. The equity component represents the residual amount, if any, after deducting the fair value assigned to the liability component. Because BDC's preferred shares are characterized by such an obligation to pay annual dividends, they were reclassified from equity to liabilities upon conversion to IFRS and no residual value was assigned to an equity component. In addition, since the preferred shares are classified as a liability, the dividends are to be recognized in net income as interest expense.

**Impact on financial statements:** Upon transition, preferred shares of \$230.0 million were reclassified from equity to liabilities. Subsequent to transition, dividends on preferred shares were recognized in net income as interest expense.

## D – FINANCIAL INSTRUMENT CLASSIFICATION

### (i) Venture capital and subordinate financing investments

**Canadian GAAP:** With the application of AcG-18, subordinate financing and venture capital investments were out of scope of the financial instrument classification requirements of section 3855, *Financial Instruments - Recognition and measurement*.

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

**Impact on financial statements:** Subordinate financing and venture capital investments are carried at fair value under both Canadian GAAP and IFRS, and therefore the new classification under IFRS did not have an impact on the consolidated financial results.

### (ii) Preferred shares

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

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

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

## Reconciliation of opening Consolidated Statement of Financial Position

The following reconciliation illustrates the reclassifications and restatements from Canadian GAAP to IFRS to the opening statement of financial position as at April 1, 2010.

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

### **Material adjustments to the Consolidated Statement of Cash Flows**

Following the transition to IFRS, disbursements for loans in the amount of \$778.1 million and repayments of loans in the amount of \$439.6 million have been classified as operating activities. Under previous Canadian GAAP, cash flows relating to loans were classified as cash flows from investing activities.

Furthermore, interest paid and interest received are now presented as separate line items in the Consolidated Statement of Cash Flows under operating activities.

The consolidation of BDC's subsidiaries has also affected the cash flows provided by operating, investing and financing activities. The impact is not significant for any category of cash flow.

There are no other material differences between the statement of cash flows presented under IFRS and the statement of cash flows previously presented under Canadian GAAP.

# TERMINOLOGY CORRESPONDENCE TABLE

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## Terminology used in fiscal 2011

Accrued benefit asset  
Accrued benefit liability  
Consolidated Balance Sheet  
General allowance  
Provision for credit losses  
Specific allowance

## Terminology used in fiscal 2012

Post-employment benefit asset  
Post-employment benefit liability  
Consolidated Statement of Financial Position  
Collective allowance  
Impairment losses on loans  
Individual allowance

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