Entrepreneurs first

2012

THIRD QUARTER

FINANCIAL REPORT

December 31, 2011

Canada

EXECUTIVE SUMMARY

As 2011 came to a close, the global economic recovery continued to be threatened by ongoing sovereign debt problems in Europe, as well as slow growth and fiscal challenges in the United States.

Canada is not immune to turbulence in the international economy. However, its fundamentals remain solid, with strong consumer demand and good fiscal conditions. While real gross domestic product (GDP) rebounded in the quarter ending September 30, 2011, economic growth has been moderate since the beginning of the year and is likely to remain so in the coming quarters. With the continued uncertainty, small and medium-sized enterprises (SMEs) appear wary of making significant investments or embarking on new projects, even though the availability of capital has mostly returned to levels seen before the financial crisis and recession.

As at December 31, 2011, BDC Financing's[(1)] loan portfolio stood at $15.1 billion, a 4.3% increase compared to March 31, 2011. BDC's growth has stabilized in fiscal 2012 due to improved credit conditions and increased liquidity in other financial institutions. These two factors resulted in higher loan prepayments and repayments, as well as lower levels of disbursements over the last nine months.

Our loan portfolio increased at a slower pace, compared to the strong growth experienced during the recent recession and recovery. The rapid expansion of our portfolio during that period demonstrated the need for a countercyclical lender with the flexibility and expertise to act quickly to complement the activities of other market players.

BDC's financing activities were well aligned with market conditions during the quarter, with clients accepting $933 million in loans versus $839 million recorded for the same period last year. For the nine months ended December 31, 2011, a total of $2.7 billion in loans was accepted, a level consistent with last year.

In the third quarter of fiscal 2012, BDC posted consolidated net income of $160 million,[(2)] compared to $83 million[(2)] for the same period last year. Net income for the nine-month period ended December 31, 2011, was $442 million[(3)] ($254 million[(3)] last year). The increase in profitability was mainly due to a decrease in our allowance for credit losses. BDC maintains the allowance at a level judged adequate for anticipated losses in our portfolio. Although the Bank finances creditworthy projects, they are generally riskier than those accepted by private sector financial institutions. The improved financial health of our clients has allowed us to reduce the level of funds set aside for potential losses.

For the quarter, consolidated comprehensive income totalled $102 million, compared to $93 million for the same period last year. For the nine-month period ended December 31, 2011, consolidated comprehensive income was $241 million, lower than the $297 million recorded last year. The decrease was mostly due to higher actuarial losses on post-employment benefits, offsetting the increase in net income for the year.

(1) Unless otherwise indicated, BDC Financing excludes BDC Subordinate Financing.

(2) Including $2.5 million and $2.2 million in net income attributable to non-controlling interests for fiscal 2012 and 2011, respectively.

(3) Including $9.7 million and $8.0 million in net income attributable to non-controlling interests for fiscal 2012 and 2011, respectively.

.

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

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

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

Among the highlights in our other lines of business, BDC Subordinate Financing continued to show a solid performance during the quarter. Clients accepted $45 million in financing in the third quarter, for a total of $114 million for the nine-month period. This was a strong result when compared to $31 million and $72 million recorded for the same periods last year, respectively.

Total BDC Venture Capital investments authorized in the third quarter reached $35 million, compared to $4 million in the same period last year. For the nine-month period ended December 31, 2011, total investments of $91 million were authorized, representing an increase of $55 million compared to last year.

In October, BDC scored a second major win for the year, when another one of our investee companies was acquired. This significant transaction, in addition to the one done in May, generated excellent returns. BDC is pleased to have contributed from the outset to the success of these thriving technology companies. Moreover, four other investee companies were winners of Deloitte's 2011 Canadian Technology Fast 50, a program that recognizes the 50 fastest growing Canadian technology companies.

BDC Consulting initiated new mandates with 457 clients during the quarter, for a total of 1,423 clients for the nine-month period. This compares with 558 and 1,536 clients, respectively, for the same periods last year. Activity continues to be affected by economic uncertainty, as Canadian entrepreneurs seem reluctant to spend working capital on discretionary items such as consulting.

In October, an originator under the Canadian Secured Credit Facility (CSCF) redeemed $1.7 billion in asset-backed securities (ABS) held by BDC. This redemption was the result of the improved availability of attractive financing options in this market segment.

Despite its relatively enviable economic position, Canada still faces fundamental, long-term challenges. A key concern is low levels of productivity and innovation in Canadian businesses. Increasing the use of information and communications technology (ICT) is a proven way for businesses to increase their productivity and capacity to innovate.

In October, BDC launched a series of initiatives aimed at encouraging Canadian entrepreneurs to make more aggressive use of ICT. One of these initiatives was the expansion of the SmartTech section on our BDC.ca website. It is an online resource centre offering a wide range of information, free tools and consulting solutions for small businesses. Early indications show a high level of interest in our ICT initiatives among entrepreneurs. The revamped SmartTech site has attracted 15,800 visitors and 8,145 online assessments. In addition, BDC Consulting has identified 238 opportunities for its new ICT consulting services. Concurrently, BDC announced that it had set aside $200 million for loans to help entrepreneurs invest in ICT.

Innovation was also the central theme of the 32nd edition of Small Business Week®, organized by BDC, which ran from October 16 to 22. This year's event was the most successful on record in terms of media coverage.

In other highlights, BDC and Export Development Canada finalized a memorandum of understanding (MOU) in November laying out guiding principles aimed at maximizing cooperation between the two organizations in order to provide better service to Canadian businesses.

In addition, BDC's leadership development program won the gold prize at the 2011 edition of the Canadian Awards for Training Excellence.

TABLE OF CONTENTS

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

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

CONTEXT OF THE QUARTERLY FINANCIAL REPORT

The *Financial Administration Act* requires that all departments and parent Crown corporations prepare and make public a quarterly financial report. 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 to 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 the unaudited quarterly Consolidated Financial Statements contains a detailed description of the impact of BDC's conversion to IFRS, including a reconciliation of its 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 manages risk through the development and communication of policies; the establishment of formal risk reviews and approval processes; and the establishment of limits and delegation of authorities. 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 significant changes were made to BDC's ERM framework and no new risks were identified during the quarter ended December 31, 2011. For additional information about BDC's risk management, refer to our fiscal 2011 Annual Report (the Risk Management section of the Management 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 BDC's results of operations and financial condition for the three-month and nine-month periods ended December 31, 2011, compared to the corresponding periods of the prior fiscal year. This analysis also includes comments on significant variances from BDC's fiscal 2012–2016 Corporate Plan.

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

This analysis should be read in conjunction with the unaudited quarterly Consolidated Financial Statements included in this report and with the fiscal 2011 Annual Report.

Net Income

	Three months ended December 31		Nine months ended December 31	
($ in millions)	**F2012**	F2011	**F2012**	F2011
Financing	**151.8**	74.2	**402.0**	212.1
Subordinate Financing	**6.7**	5.7	**26.4**	21.0
Venture Capital	**(4.0)**	(14.0)	**(19.2)**	(27.5)
Consulting	**(2.3)**	(1.9)	**(8.1)**	(6.4)
Securitization	**8.0**	18.5	**40.7**	54.4
Net income	**160.2**	82.5	**441.8**	253.6
Net income attributable to:				
BDC's shareholder	**157.7**	80.3	**432.1**	245.6
Non-controlling interests	**2.5**	2.2	**9.7**	8.0
Net income	**160.2**	82.5	**441.8**	253.6

Three and nine months ended December 31

BDC reported consolidated net income of $160.2 million for the third quarter ended December 31, 2011, comprising $157.7 million attributable to BDC's shareholder and $2.5 million to non-controlling interests. This compares with $82.5 million in consolidated net income for the third quarter of fiscal 2011, of which $2.2 million was attributable to non-controlling interests.

For the nine months ended December 31, 2011, BDC consolidated net income was $441.8 million, compared to $253.6 million for the same period last year. These results included $9.7 million and $8.0 million in net income attributable to non-controlling interests, respectively.

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

Strong consolidated net income for the current quarter and nine-month period was generated mostly by BDC Financing, primarily due to a decrease in the allowance for credit losses. Refer to the BDC Financing section of this analysis for further information. As a result, BDC consolidated net income for fiscal 2012 will exceed the 2012–2016 Corporate Plan target of $247 million.

Comprehensive Income

	Three months ended December 31		Nine months ended December 31	
($ in millions)	**F2012**	F2011	**F2012**	F2011
Net income	**160.2**	82.5	**441.8**	253.6
Other comprehensive income (loss)				
Net change in unrealized gains (losses) on available-for-sale assets	**(4.2)**	(41.2)	**(17.6)**	5.1
Net change in unrealized gains (losses) on cash flow hedges	**(2.2)**	(1.8)	**15.7**	4.1
Actuarial gains (losses) on post-employment benefits	**(51.6)**	53.2	**(199.0)**	33.9
Other comprehensive income (loss)	**(58.0)**	10.2	**(200.9)**	43.1
Comprehensive income	**102.2**	92.7	**240.9**	296.7
Comprehensive income attributable to:				
BDC's shareholder	**99.7**	90.5	**231.2**	288.7
Non-controlling interests	**2.5**	2.2	**9.7**	8.0
Comprehensive income	**102.2**	92.7	**240.9**	296.7

Three and nine months ended December 31

Consolidated comprehensive income for the third quarter was $102.2 million, for a total of $240.9 million for the nine months ended December 31, 2011. Consolidated comprehensive income for the third quarter comprised $160.2 million in consolidated net income and $58.0 million in other comprehensive loss (OCI). OCI for the third quarter was again affected by significant actuarial losses on post-employment benefits of $51.6 million, for a total of $199.0 million for the nine-month period. Last year's results for the third quarter were also impacted by unrealized losses on available-for-sale assets of $41.2 million, as BDC refined its valuation model for ABS to include more specific Canadian ABS data.

Under IFRS, BDC has elected to recognize all actuarial gains and losses on post-employment benefits immediately in OCI at each reporting period. These actuarial gains and losses are transferred immediately to retained earnings at the end of each period, thus affecting capital adequacy and the debt-to-equity ratio.

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 nine months 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.

In BDC's 2012–2016 Corporate Plan, no value was assigned to actuarial gains or losses, since they are subject to significant volatility and uncertainty related to future economic conditions.

BDC Financing Results

($ in millions)	Three months ended December 31 F2012	Three months ended December 31 F2011	Nine months ended December 31 F2012	Nine months ended December 31 F2011
Net interest and fee income	**199.0**	188.7	**581.9**	548.9
Impairment reversal (losses) on loans	**28.0**	(31.8)	**49.0**	(100.3)
Net gains (losses) on other financial instruments	**2.2**	(5.8)	**(0.4)**	(15.9)
Income before operating and administrative expenses	**229.2**	151.1	**630.5**	432.7
Operating and administrative expenses	**77.4**	76.9	**228.5**	220.6
Income from Financing	**151.8**	74.2	**402.0**	212.1

As % of average portfolio	Three months ended December 31 F2012	Three months ended December 31 F2011	Nine months ended December 31 F2012	Nine months ended December 31 F2011
Net interest and fee income	**5.3**	5.3	**5.2**	5.3
Impairment reversal (losses) on loans	**0.7**	(0.9)	**0.4**	(1.0)
Net gains (losses) on other financial instruments	**0.1**	(0.2)	**-**	(0.3)
Income before operating and administrative expenses	**6.1**	4.2	**5.6**	4.0
Operating and administrative expenses	**2.0**	2.1	**2.1**	2.1
Income from Financing	**4.1**	2.1	**3.5**	1.9

Three and nine months ended December 31

BDC Financing income was $151.8 million for the third quarter and $402.0 million for the nine months ended December 31. This compares favorably with last year's income of $74.2 million for the quarter and $212.1 million for the nine-month period.

The increase in profitability was mostly the result of a decrease in BDC's allowance for credit losses, which was adjusted by impairment reversals recorded in net income. Credit losses are volatile and BDC maintains the allowance for credit losses at a level judged adequate for anticipated losses in the portfolio. The improved financial health of our clients has allowed the Bank to reduce the amount of money set aside for potential losses.

Net interest and fee income was also higher than last year due to portfolio growth.

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

The increase in operating and administrative expenses is mainly related to higher costs to support the deployment of new initiatives and investments in work processes, including related technology improvements. These initiatives helped enhance our overall efficiency, as operating and administrative expenses, expressed as a percentage of the average portfolio, remained at the same level.

Income from BDC Financing for fiscal 2012 is expected to be higher than the 2012–2016 Corporate Plan objective of $207 million, as a result of lower-than-anticipated impairment losses on loans.

BDC Subordinate Financing Results

	Three months ended December 31		Nine months ended December 31	
($ in millions)	**F2012**	F2011	**F2012**	F2011
Net revenue on investments	**13.4**	10.6	**40.3**	34.5
Net change in unrealized appreciation (depreciation) of investments	**(1.2)**	(0.9)	**0.1**	(2.0)
Income before operating and administrative expenses	**12.2**	9.7	**40.4**	32.5
Operating and administrative expenses	**5.5**	4.0	**14.0**	11.5
Income from Subordinate Financing	**6.7**	5.7	**26.4**	21.0
Income attributable to:				
BDC's shareholder	**4.0**	2.5	**15.5**	11.2
Non-controlling interests	**2.7**	3.2	**10.9**	9.8
Income from Subordinate Financing	**6.7**	5.7	**26.4**	21.0

Three and nine months ended December 31

Income from BDC Subordinate Financing for the third quarter of fiscal 2012 was $6.7 million, for a total of $26.4 million for the nine months ended December 31, 2011. Income included $2.7 million and $10.9 million attributable to non-controlling interests for the three- and nine-month periods, respectively.

These results compare positively with last year’s income of $5.7 million for the third quarter and $21.0 million for the nine-month period. The increase from fiscal 2011 was mainly caused by higher net revenue from variable type returns and higher net interest income due to portfolio growth. Despite the unrealized depreciation recorded in the third quarter of fiscal 2012, a total net unrealized appreciation of $0.1 million was realized for the nine-month period, compared to an unrealized depreciation of $2.0 million last year.

The increase in operating and administrative expenses is mainly due to higher variable compensation and the implementation of a more rigorous internal cost allocation methodology between business segments.

Based on performance of the nine months of fiscal 2012, BDC anticipates that BDC Subordinate Financing income will be higher for the year than the 2012–2016 Corporate Plan target of $14.7 million.

BDC Venture Capital Results

	Three months ended December 31		Nine months ended December 31	
($ in millions)	**F2012**	F2011	**F2012**	F2011
Net revenue (loss) on investments	**(0.1)**	(19.0)	**7.8**	(51.9)
Net change in unrealized appreciation (depreciation) of investments	**1.9**	11.8	**(14.0)**	41.3
Net unrealized foreign exchange gains (losses) on investments	**(3.6)**	(5.4)	**7.1**	(3.7)
Net gains (losses) on other financial instruments	**2.9**	3.9	**(5.3)**	2.6
Income (loss) before operating and administrative expenses	**1.1**	(8.7)	**(4.4)**	(11.7)
Operating and administrative expenses	**5.1**	5.3	**14.8**	15.8
Loss from Venture Capital	**(4.0)**	(14.0)	**(19.2)**	(27.5)
Loss attributable to:				
BDC's shareholder	**(3.8)**	(13.0)	**(18.0)**	(25.7)
Non-controlling interests	**(0.2)**	(1.0)	**(1.2)**	(1.8)
Loss from Venture Capital	**(4.0)**	(14.0)	**(19.2)**	(27.5)

Three months ended December 31

During the third quarter of fiscal 2012, BDC Venture Capital recorded a $4.0 million loss, compared to a loss of $14.0 million for the same period last year. Results included losses of $0.2 million in fiscal 2012 and $1.0 million in fiscal 2011 attributable to non-controlling interests.

Net loss on investments of $0.1 million for the third quarter was mostly due to net realized gains of $37.2 million and write-offs of $37.8 million. BDC scored a second major win this year when one of our investee companies was acquired, generating an excellent return. In fiscal 2011, write-offs were the main component of the $19.2 million loss on investments. These had no significant impact on net results, as the change in fair value on these investments made in prior periods was reversed at the time of the sales and write-offs.

The net change in unrealized appreciation of $1.9 million for the quarter included the following:

> a $4.2 million net fair value appreciation of the portfolio ($9.5 million depreciation last year); and
> a reversal of net fair value appreciation on divested investments and write-offs totalling $2.3 million (a reversal of $21.3 million of net fair value depreciation last year).

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 $5.1 million for the quarter, slightly lower than the $5.3 million recorded last year.

Nine months ended December 31

For the nine months ended December 31, 2011, BDC Venture Capital recorded a $19.2 million loss, compared to a loss of $27.5 million for the same period last year. The results for both years included losses of $1.2 million and $1.8 million attributable to non-controlling interests, respectively.

Net revenue on investments of $7.8 million for the first nine months was significantly better than the net loss on investments of $51.9 million last year. This noticeable improvement is mostly due to the very favourable sale of two of our investee companies. However, these gains were partially offset by write-offs of $59.4 million. These gains and write-offs had no significant impact on fiscal 2012 results, as change in fair value was recognized in prior periods.

The net change in unrealized depreciation of $14.0 million for the nine months included the following:

- a $9.3 million net fair value depreciation of the portfolio ($13.5 million last year); and
- a reversal of net fair value appreciation on divested investments and write-offs totalling $4.7 million (a reversal of $54.8 million of net fair value depreciation last year).

BDC recorded $7.1 million in unrealized foreign exchange gains on its investments in foreign currencies, which was partially offset by a $5.3 million loss on foreign exchange contracts used to partially hedge investments in foreign currencies.

Operating and administrative expenses amounted to $14.8 million for the nine-month period, compared to $15.8 million last year.

BDC Consulting Results

	Three months ended December 31		Nine months ended December 31	
($ in millions)	**F2012**	F2011	**F2012**	F2011
Revenue	**6.4**	6.1	**17.8**	18.4
Operating and administrative expenses	**8.7**	8.0	**25.9**	24.8
Loss from Consulting	**(2.3)**	(1.9)	**(8.1)**	(6.4)

Three and nine months ended December 31

The loss from BDC Consulting was $2.3 million for the third quarter of fiscal 2012, $0.4 million higher than the $1.9 million loss recorded for the same quarter last year. The cumulative loss for the nine-month period totalled $8.1 million, compared to $6.4 million last year. Although revenues for the third quarter were up slightly from last year, Canadian entrepreneurs remain reluctant to buy consulting services. Operating expenses in fiscal 2012 were higher than last year, mainly as a result of the implementation of a more rigorous internal cost allocation methodology between business segments.

BDC Securitization Results

	Three months ended December 31		Nine months ended December 31	
($ in millions)	**F2012**	F2011	**F2012**	F2011
Net interest and fee income	**8.5**	17.6	**42.2**	52.6
Realized gains (losses) on investments	**-**	1.3	**-**	1.3
Net gains (losses) on other financial instruments	**-**	0.1	**(0.1)**	2.2
Income before operating and administrative expenses	**8.5**	19.0	**42.1**	56.1
Operating and administrative expenses	**0.5**	0.5	**1.4**	1.7
Income from Securitization	**8.0**	18.5	**40.7**	54.4

Three and nine months ended December 31

BDC Securitization income for the third quarter was $8.0 million, compared to $18.5 million for the same period last year. On a cumulative basis, income from securitization totalled $40.7 million, compared to $54.4 million last year.

In October, a $1.7 billion early redemption in asset-backed securities (ABS) by one originator under the Canadian Secured Credit Facility (CSCF) portfolio occurred. This significantly reduced net interest and fee income during the quarter. In addition, net interest and fee income for the nine-month period were affected by the decrease in the portfolio due to the expected maturity profile of the CSCF portfolio and other securities called prior to maturity. During the third quarter last year, BDC sold $193.4 million worth of ABS and, as a result, recorded a realized gain on investments of $1.3 million. For the nine-month period, net losses on other financial instruments of $0.1 million were recorded in fiscal 2012 due to the repurchase of $71.8 million of long-term debt in the CSCF program, compared to gains of $2.2 million last year, when long-term debt of $700.6 million was repurchased.

The Multi-Seller Platform for Small Originators (MSPSO), launched during the first quarter, is geared toward the purchase of term ABS supported by loans and leases on vehicles and equipment. As at December 31, 2011, total disbursements were $62 million.

Operating and administrative expenses for the nine months ended December 31, 2011 totalled $1.4 million, compared to $1.7 million last year.

The Corporate Plan objective was based on the assumption that BDC would hold all assets to maturity. Therefore, we do not expect to meet our 2012–2016 Corporate Plan objective of $64 million in income for fiscal 2012.

Consolidated Statement of Financial Position and Cash Flows

As at December 31, 2011, total BDC assets amounted to $17.3 billion, a decrease of $1.1 billion from March 31, 2011, mainly due to the decrease in ABS.

The ABS portfolio stood at $0.9 billion, compared to $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 due to the $1.7 billion early redemption in October by one originator under the CSCF portfolio. Also contributing to the decline of the portfolio were expected maturities and other securities called prior to maturity.

At $14.5 billion, the loan portfolio (net of allowance for credit losses) represented BDC's largest asset ($15.1 billion in gross portfolio and a $0.6 billion allowance for credit losses). Portfolio growth was slower than 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 BDC Subordinate Financing portfolio stood at $438.8 million, representing a 13.4% growth since March 31, 2011. The BDC Venture Capital portfolio was $386.4 million at December 31, 2011, compared to $413.8 million at March 31, 2011. The reduction in this portfolio was mainly due to two major sales in fiscal 2012, offset by investment disbursement.

Derivative assets of $117.4 million and derivative liabilities of $24.1 million reflect the fair value of derivative financial instruments as at December 31, 2011. Net derivative fair value increased by $52.0 million compared to the value at March 31, 2011, as a result of interest rate decreases and foreign exchange revaluation on swaps used to economically hedge BDC's structured long-term notes.

Post-employment benefit liability amounted to $283.9 million at December 31, 2011, representing an increase of $172.5 million compared to March 31, 2011, net post-employment benefit liability of $111.4 million (which included liabilities of $127.7 million and assets of $16.3 million). This significant increase was the result of actuarial losses recorded during the nine-month period ended December 31, 2011. Refer to page 8 of this report for further information on actuarial gains and losses on post-employment benefits.

BDC holds cash and cash equivalents in accordance with its Treasury Risk Policy. The Bank's liquidities, which ensure funds are available to meet BDC's cash outflows, totalled $955.9 million at December 31, 2011, compared to $653.2 million at March 31, 2011. For the nine-month period ended December 31, 2011, cash flow provided by investing activities amounted to $2,148.8 million, following the $1.7 billion redemption in ABS in October. Financing activities used $1,508.9 million in cash flow as long-term notes were repaid, while operating activities used $337.3 million.

At December 31, 2011, BDC funded its portfolios and liquidities with borrowings of $12.7 billion and total equity of $3.9 billion. Borrowings comprised $10.9 billion in short-term notes and $1.8 billion in long-term notes. Again, the proceeds received from the $1.7 billion early redemption in ABS allowed the Bank to repay a sizeable portion of our long-term notes.

Under IFRS, equity comprises $3.8 billion attributable to BDC's shareholder and $0.1 billion attributable to non-controlling interests. Upon transition to IFRS, preferred shares of $230 million were also reclassified from equity to liabilities. Refer to Note 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)

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 are 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.

Jean-René Halde
President and Chief Executive Officer

Paul Buron
Executive Vice President and
Chief Financial Officer

Montreal, Canada
February 1, 2012

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(unaudited)

(in thousands of Canadian dollars)	Notes	December 31, 2011	March 31, 2011	April 1, 2010 (Note 13)
ASSETS				
Cash and cash equivalents		**955,894**	653,231	1,022,571
Derivative assets		**117,399**	67,122	85,786
Loans and investments				
Asset-backed securities	5	**858,148**	3,068,949	3,277,291
Loans	6	**14,494,658**	13,731,011	12,525,521
Subordinate financing investments	7	**438,805**	387,091	357,732
Venture capital investments	8	**386,438**	413,782	367,917
		16,178,049	17,600,833	16,528,461
Property and equipment		**20,994**	18,524	16,944
Intangible assets		**31,448**	21,770	19,406
Post-employment benefit asset		**-**	16,309	-
Other assets		**17,791**	21,789	41,277
Total assets		**17,321,575**	18,399,578	17,714,445
LIABILITIES AND EQUITY				
Liabilities				
Accounts payable and accrued liabilities		**77,386**	91,970	74,104
Derivative liabilities		**24,065**	25,751	73,233
Borrowings				
Short-term notes		**10,883,899**	9,719,923	5,558,990
Long-term notes		**1,858,729**	4,405,122	8,177,122
		12,742,628	14,125,045	13,736,112
Preferred shares	9	**230,000**	230,000	230,000
Post-employment benefit liability		**283,880**	127,668	186,855
Other liabilities		**40,900**	39,297	43,006
Total liabilities		**13,398,859**	14,639,731	14,343,310
Equity				
Share capital	9	**2,514,400**	2,514,400	2,514,400
Contributed surplus		**27,778**	27,778	27,778
Retained earnings		**1,234,435**	1,046,431	651,426
Accumulated other comprehensive income		**22,722**	24,593	989
Equity attributable to BDC's shareholder		**3,799,335**	3,613,202	3,194,593
Non-controlling interests		**123,381**	146,645	176,542
Total equity		**3,922,716**	3,759,847	3,371,135
Total liabilities and equity		**17,321,575**	18,399,578	17,714,445

Commitments (Note 11)

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

CONSOLIDATED STATEMENT OF INCOME

(unaudited)

(in thousands of Canadian dollars)	Three months ended December 31		Nine months ended December 31	
	2011	2010	**2011**	2010
Interest income	**241,458**	247,534	**736,851**	696,484
Interest expense	**27,869**	36,114	**95,034**	78,179
Net interest income	**213,589**	211,420	**641,817**	618,305
Net realized gains (losses) on investments	**(2,158)**	(20,390)	**4,977**	(54,226)
Consulting revenue	**6,340**	6,096	**17,752**	18,357
Fee and other income	**9,307**	8,134	**25,281**	21,276
Net realized gains (losses) on other financial instruments	**(3,960)**	(4,137)	**(1,508)**	(640)
Net revenue	**223,118**	201,123	**688,319**	603,072
Impairment reversal (losses) on loans	**27,951**	(31,790)	**49,018**	(100,334)
Net change in unrealized appreciation (depreciation) of investments	**711**	10,892	**(13,870)**	39,322
Net unrealized foreign exchange gains (losses) on investments	**(3,593)**	(5,382)	**7,129**	(3,676)
Net unrealized gains (losses) on other financial instruments	**9,015**	2,378	**(4,349)**	(10,387)
Income before operating and administrative expenses	**257,202**	177,221	**726,247**	527,997
Salaries and benefits	**62,741**	60,229	**187,348**	176,193
Premises and equipment	**9,297**	8,848	**27,529**	27,804
Other expenses	**24,970**	25,632	**69,607**	70,428
Operating and administrative expenses	**97,008**	94,709	**284,484**	274,425
Net income	**160,194**	82,512	**441,763**	253,572
Net income attributable to:				
BDC's shareholder	**157,692**	80,359	**432,108**	245,576
Non-controlling interests	**2,502**	2,153	**9,655**	7,996
Net income	**160,194**	82,512	**441,763**	253,572

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)

(in thousands of Canadian dollars)	Three months ended December 31		Nine months ended December 31	
	2011	2010	**2011**	2010
Net income	**160,194**	82,512	**441,763**	253,572
Other comprehensive income (loss)				
Net change in unrealized gains (losses) on available-for-sale assets	**(4,202)**	(41,208)	**(17,635)**	5,149
Net change in unrealized gains (losses) on cash flow hedges	**(2,172)**	(1,815)	**15,764**	4,133
Actuarial gains (losses) on post-employment benefits	**(51,580)**	53,209	**(199,033)**	33,883
Other comprehensive income (loss)	**(57,954)**	10,186	**(200,904)**	43,165
Comprehensive income	**102,240**	92,698	**240,859**	296,737
Comprehensive income attributable to:				
BDC's shareholder	**99,738**	90,545	**231,204**	288,741
Non-controlling interests	**2,502**	2,153	**9,655**	7,996
Comprehensive income	**102,240**	92,698	**240,859**	296,737

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three-month periods ended December 31
(unaudited)

(in thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss): Available-for-sale assets	Accumulated other comprehensive income (loss): Cash flow hedges	Accumulated other comprehensive income (loss): Total	Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
Balance at September 30, 2011	2,514,400	27,778	1,128,323	12,736	16,360	29,096	3,699,597	133,261	3,832,858
Comprehensive income									
Net income			157,692				157,692	2,502	160,194
Other comprehensive income									
Net change in unrealized gains (losses) on available-for-sale assets				(4,202)		(4,202)	(4,202)		(4,202)
Net change in unrealized gains (losses) on cash flow hedges					(2,172)	(2,172)	(2,172)		(2,172)
Actuarial gains (losses) on post-employment benefits			(51,580)				(51,580)		(51,580)
Other comprehensive income	-	-	(51,580)	(4,202)	(2,172)	(6,374)	(57,954)	-	(57,954)
Comprehensive income	-	-	106,112	(4,202)	(2,172)	(6,374)	99,738	2,502	102,240
Distributions to non-controlling interests, net of capital injections								(12,382)	(12,382)
Balance at December 31, 2011	2,514,400	27,778	1,234,435	8,534	14,188	22,722	3,799,335	123,381	3,922,716

(in thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss): Available-for-sale assets	Accumulated other comprehensive income (loss): Cash flow hedges	Accumulated other comprehensive income (loss): Total	Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
Balance at September 30, 2010	2,514,400	27,778	797,317	52,726	568	53,294	3,392,789	168,312	3,561,101
Comprehensive income									
Net income			80,359				80,359	2,153	82,512
Other comprehensive income									
Net change in unrealized gains (losses) on available-for-sale assets				(41,208)		(41,208)	(41,208)		(41,208)
Net change in unrealized gains (losses) on cash flow hedges					(1,815)	(1,815)	(1,815)		(1,815)
Actuarial gains (losses) on post-employment benefits			53,209				53,209		53,209
Other comprehensive income	-	-	53,209	(41,208)	(1,815)	(43,023)	10,186	-	10,186
Comprehensive income	-	-	133,568	(41,208)	(1,815)	(43,023)	90,545	2,153	92,698
Distributions to non-controlling interests, net of capital injections								(12,277)	(12,277)
Balance at December 31, 2010	2,514,400	27,778	930,885	11,518	(1,247)	10,271	3,483,334	158,188	3,641,522

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine-month periods ended December 31
(unaudited)

(in thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss) Available-for-sale assets	Cash flow hedges	Total	Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
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
Comprehensive income									
Net income			432,108				432,108	9,655	441,763
Other comprehensive income									
Net change in unrealized gains (losses) on available-for-sale assets				(17,635)		(17,635)	(17,635)		(17,635)
Net change in unrealized gains (losses) on cash flow hedges					15,764	15,764	15,764		15,764
Actuarial gains (losses) on post-employment benefits			(199,033)				(199,033)		(199,033)
Other comprehensive income	-	-	(199,033)	(17,635)	15,764	(1,871)	(200,904)	-	(200,904)
Comprehensive income	-	-	233,075	(17,635)	15,764	(1,871)	231,204	9,655	240,859
Dividends on common shares			(45,071)				(45,071)		(45,071)
Distributions to non-controlling interests, net of capital injections								(32,919)	(32,919)
Balance at December 31, 2011	2,514,400	27,778	1,234,435	8,534	14,188	22,722	3,799,335	123,381	3,922,716

(in thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss) Available-for-sale assets	Cash flow hedges	Total	Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
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
Comprehensive income									
Net income			245,576				245,576	7,996	253,572
Other comprehensive income									
Net change in unrealized gains (losses) on available-for-sale assets				5,149		5,149	5,149		5,149
Net change in unrealized gains (losses) on cash flow hedges					4,133	4,133	4,133		4,133
Actuarial gains (losses) on post-employment benefits			33,883				33,883		33,883
Other comprehensive income	-	-	33,883	5,149	4,133	9,282	43,165	-	43,165
Comprehensive income	-	-	279,459	5,149	4,133	9,282	288,741	7,996	296,737
Distributions to non-controlling interests, net of capital injections								(26,350)	(26,350)
Balance at December 31, 2010	2,514,400	27,778	930,885	11,518	(1,247)	10,271	3,483,334	158,188	3,641,522

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

CONSOLIDATED STATEMENT OF CASH FLOWS

(unaudited)

(in thousands of Canadian dollars)	Three months ended December 31 2011	Three months ended December 31 2010	Nine months ended December 31 2011	Nine months ended December 31 2010
Operating activities				
Net income	**160,194**	82,512	**441,763**	253,572
Adjustments to determine net cash flows				
Interest income	**(241,458)**	(247,534)	**(736,851)**	(696,484)
Interest expense	**27,869**	36,114	**95,034**	78,179
Net realized losses (gains) on investments	**2,158**	20,390	**(4,977)**	54,226
Impairment losses (reversal) on loans	**(27,951)**	31,790	**(49,018)**	100,334
Net change in unrealized depreciation (appreciation) on investments	**(711)**	(10,892)	**13,870**	(39,322)
Net unrealized foreign exchange losses (gains) on investments	**3,593**	5,382	**(7,129)**	3,676
Net unrealized losses (gains) on other financial instruments	**(9,015)**	(2,378)	**4,349**	10,387
Post-employment benefits funding in excess of amounts expensed	**(7,243)**	(4,937)	**(26,512)**	(19,643)
Amortization of property and equipment, and intangible assets	**2,826**	2,535	**8,235**	9,036
Other	**(6,373)**	(2,154)	**(14,030)**	(10,479)
Interest expense paid	**(23,182)**	(30,326)	**(90,106)**	(68,489)
Interest income received	**238,616**	247,163	**738,005**	697,750
Disbursements for loans	**(989,722)**	(982,419)	**(2,500,404)**	(2,706,965)
Repayments of loans	**653,307**	564,568	**1,797,842**	1,491,407
Changes in operating assets and liabilities				
Net change in accounts payable and accrued liabilities	**10,621**	16,749	**(12,975)**	(3,701)
Net change in other assets and other liabilities	**7**	128	**5,601**	4,834
Net cash flows provided (used) by operating activities	**(206,464)**	(273,309)	**(337,303)**	(841,682)
Investing activities				
Disbursements for asset-backed securities	**(21,977)**	-	**(61,831)**	(300,000)
Repayments and proceeds on sale of asset-backed securities	**1,783,764**	275,955	**2,256,260**	454,445
Disbursements for subordinate financing investments	**(43,532)**	(27,466)	**(109,792)**	(68,710)
Repayments of subordinate financing investments	**18,735**	21,737	**57,446**	45,675
Disbursements for venture capital investments	**(16,240)**	(21,715)	**(73,129)**	(73,333)
Proceeds on sale of venture capital investments	**44,876**	10,135	**100,252**	31,740
Acquisition of property and equipment	**(3,386)**	(2,266)	**(6,878)**	(5,545)
Acquisition of intangible assets	**(4,601)**	(1,038)	**(13,505)**	(3,811)
Net cash flows provided (used) by investing activities	**1,757,639**	255,342	**2,148,823**	80,461
Financing activities				
Net change in short-term notes	**431,300**	1,793,683	**1,164,542**	4,042,868
Issue of long-term notes	**-**	-	**6,587**	305,000
Repayment of long-term notes	**(2,074,311)**	(1,724,264)	**(2,596,984)**	(3,675,465)
Distributions to non-controlling interests, net of capital injections	**(12,382)**	(12,277)	**(32,919)**	(26,350)
Dividends paid on common shares	**-**	-	**(45,071)**	-
Dividends paid on preferred shares	**-**	(2,528)	**(5,012)**	(8,930)
Net cash flows provided (used) by financing activities	**(1,655,393)**	54,614	**(1,508,857)**	637,123
Net increase (decrease) in cash and cash equivalents	**(104,218)**	36,647	**302,663**	(124,098)
Cash and cash equivalents at beginning of period	**1,060,112**	861,826	**653,231**	1,022,571
Cash and cash equivalents at end of period	**955,894**	898,473	**955,894**	898,473

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

1. BDC GENERAL DESCRIPTION

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

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

These quarterly Consolidated Financial Statements have been 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 the conversion to IFRS. To comply with IFRS, management has amended certain recognition and measurement methods. 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, it may result in a restatement of these quarterly Consolidated Financial Statements, including the IFRS transition adjustment.

These Consolidated Financial Statements were approved for issue by the board of directors on February 1, 2012.

Basis of presentation and measurement

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

- available-for-sale financial assets, financial assets and financial liabilities at fair value through profit or loss, and derivative contracts are all measured at fair value;
- the liability or asset in respect to post-employment benefits is recognized at the present value of the defined benefit obligation less the fair value of the plans' assets, together with adjustments for unrecognized past service costs.

These quarterly Consolidated Financial Statements are presented in Canadian dollars, which are BDC's functional currency, as well as 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 December 31, 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.

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

Non-controlling interests

Interests in the equity of subsidiaries not attributable to the parent entity 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 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.

(unaudited, in thousands of Canadian dollars)

Classification of financial instruments

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

December 31, 2011

		Measured at fair value				Measured at amortized cost		
		FVTPL[1]						
	Note	Held-for-trading	Designated as FVTPL	Available-for-sale	Cash flow hedges	Loans and receivables	Other financial liabilities	Total
Assets								
Cash and cash equivalents						**955,894**		**955,894**
Derivative assets		**103,217**			**14,182**			**117,399**
Asset-backed securities	5		**2,089**	**856,059**				**858,148**
Loans	6					**14,494,658**		**14,494,658**
Subordinate financing investments	7		**438,805**					**438,805**
Venture capital investments	8		**386,438**					**386,438**
Other assets[2]						**12,549**		**12,549**
Liabilities								
Accounts payable and accrued liabilities							**77,386**	**77,386**
Derivative liabilities		**23,995**			**70**			**24,065**
Short-term notes							**10,883,899**	**10,883,899**
Long-term notes			**724,546**				**1,134,183**	**1,858,729**
Preferred shares	9						**230,000**	**230,000**
Other liabilities[2]							**26,639**	**26,639**

March 31, 2011

		Measured at fair value				Measured at amortized cost		
		FVTPL[1]						
	Note	Held-for-trading	Designated as FVTPL	Available-for-sale	Cash flow hedges	Loans and receivables	Other financial liabilities	Total
Assets								
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[2]						17,260		17,260
Liabilities								
Accounts payable and accrued liabilities							91,970	91,970
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[2]							25,554	25,554

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

Fair value through profit or loss

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

FINANCIAL INSTRUMENTS CLASSIFIED AS HELD-FOR-TRADING

A financial instrument is classified as held-for-trading in the following circumstances:

> 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 at fair value through profit or loss are measured at fair value, with the variation of unrealized gains or losses being recognized in the Consolidated Statement of Income as follows:

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

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

> net realized gains or losses on investments when related to asset-backed securities, Subordinate financing and Venture capital investments; or
> net realized gains or losses on other financial instruments when related to derivatives and borrowings.

Available-for-sale financial assets

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

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

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

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

Cash flow hedges

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

Subsequent to initial recognition, derivatives designated as cash flow hedges are measured at fair value. The effective portion of changes in fair value of these derivatives is recognized in OCI, 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 and are used to manage liquidity risk. Cash equivalents have been classified as loans and receivables.

Asset-backed securities

The asset-backed securities (ABS) portfolio consists of investment-grade senior and subordinated medium-term notes issued by way of prospectus or private placement.

Investment-grade senior ABS are classified as available-for-sale assets, and subordinated medium-term ABS notes are designated as fair value through profit or loss on the basis that they are reported to and evaluated by senior management on a fair value basis. ABS presented on the Consolidated Statement of Financial Position include accrued interest receivable.

The fair value of ABS is calculated using forecasted cash flows and an estimated yield curve that is derived from the Canadian government yield curve and ABS spread for comparable transactions. The result is adjusted to reflect the risk of the underlying assets and deal structure.

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

IMPAIRMENT OF ASSET-BACKED SECURITIES

BDC reviews ABS classified as available-for-sale for possible impairment at each reporting date. BDC determines that ABS are impaired when there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and when that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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

The carrying amount of an impaired loan is reduced to 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 by using observable market data together with valuation models developed from recognized valuation techniques. Observable market data are sourced from leading inter-dealer brokers and include interest rates, foreign exchange rates, equity prices and other market references.

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

Derivatives

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

All BDC derivatives are over-the-counter and mainly composed of swaps and foreign exchange forwards. The fair value of swaps is calculated using a discounted cash flow method. The fair value of foreign exchange forwards is calculated by discounting the notional amount using the yield curve of the respective currencies. Inputs to both these calculations are market observable data sourced from leading inter-dealer brokers, together with industry standard valuation models for estimating fair value.

Embedded derivatives that are not closely related to the host contract must be separated and classified as held-for-trading financial instruments, unless the hybrid instrument is designated as fair value through profit or loss. As at December 31 and March 31, 2011, BDC had no embedded derivatives that must be separated from a host contract.

Preferred shares classified in liabilities

Given that BDC's preferred shares have a feature that requires a non-discretionary annual interest payment at a rate that is periodically adjusted to reflect the market rate, and a feature that allows the holder of the shares to exchange a fixed number of preferred shares for a fixed number of common shares, BDC's 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 are paid is considered to be a market rate and that there are 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.

Subordinate financing investments also bear non-interest returns, such as royalties and interest bonuses, which are recognized in fee and other income in the Consolidated Statement of Income when reasonable assurance of realization is achieved.

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 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 asset 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 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.

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.

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 assumptions, 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.

(unaudited, in thousands of Canadian dollars) 39

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 Note 2, *Basis of preparation,* for additional information). BDC has assessed that it has the power to control the financial and operating policies of these funds through a combination of contractual agreements and voting power, and that it is able to use that control to generate variable returns. Consequently, these funds have been fully consolidated rather than accounted for using a proportional consolidation or equity accounting approach.

5. ASSET-BACKED SECURITIES

	December 31, 2011	March 31, 2011
Available-for-sale		
Principal amount	**847,783**	3,046,801
Unamortized loss on initial recognition	**(258)**	(4,084)
Cumulative fair value appreciation (depreciation)	**8,534**	26,232
Carrying value	**856,059**	3,068,949
Yield	**2.99%**	2.78%
Fair value through profit or loss		
Principal amount	**2,045**	-
Cumulative fair value appreciation (depreciation)	**44**	-
Carrying value	**2,089**	-
Yield	**9.39%**	-
Asset-backed securities	**858,148**	3,068,949

No asset-backed securities were impaired as at December 31 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	**679,167**	**3,047,987**	**10,873,814**	**14,600,968**	**(424,500)**	**-**	**(424,500)**	**14,176,468**
Impaired	**36,539**	**111,216**	**386,815**	**534,570**	**-**	**(216,380)**	**(216,380)**	**318,190**
Loans as at December 31, 2011	**715,706**	**3,159,203**	**11,260,629**	**15,135,538**	**(424,500)**	**(216,380)**	**(640,880)**	**14,494,658**

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

(unaudited, in thousands of Canadian dollars)

Allowance for credit losses

	Nine months ended December 31, 2011
Balance at beginning of period	**774,676**
Write-offs and other	**(93,766)**
Effect of discounting	**(10,110)**
Recoveries	**19,098**
	689,898
Impairment losses (reversal) on loans	**(49,018)**
Balance at end of period	**640,880**

Concentrations of total loans outstanding

Geographic distribution		December 31, 2011		March 31, 2011
Newfoundland and Labrador	**576,706**	**3.8%**	554,681	3.8%
Prince Edward Island	**43,750**	**0.3%**	41,656	0.3%
Nova Scotia	**400,733**	**2.6%**	396,227	2.7%
New Brunswick	**486,260**	**3.2%**	466,658	3.2%
Quebec	**5,062,677**	**33.4%**	4,708,670	32.6%
Ontario	**4,347,097**	**28.7%**	4,364,728	30.1%
Manitoba	**369,153**	**2.4%**	326,301	2.2%
Saskatchewan	**361,496**	**2.4%**	320,845	2.2%
Alberta	**1,647,009**	**11.0%**	1,580,473	10.9%
British Columbia	**1,734,502**	**11.5%**	1,644,360	11.3%
Yukon	**75,665**	**0.5%**	70,524	0.5%
Northwest Territories and Nunavut	**30,490**	**0.2%**	30,564	0.2%
Loans outstanding	**15,135,538**	**100.0%**	14,505,687	100.0%

Industry sector		December 31, 2011		March 31, 2011
Manufacturing	**3,867,548**	**25.6%**	3,873,423	26.7%
Wholesale and retail trade	**3,293,602**	**21.8%**	3,092,093	21.3%
Tourism	**1,850,555**	**12.2%**	1,778,292	12.3%
Commercial properties	**1,505,602**	**9.9%**	799,962	5.5%
Construction	**1,143,147**	**7.6%**	1,355,801	9.3%
Transportation and storage	**880,170**	**5.8%**	1,083,297	7.5%
Business services	**634,743**	**4.2%**	641,932	4.4%
Other	**1,960,171**	**12.9%**	1,880,887	13.0%
Loans outstanding	**15,135,538**	**100.0%**	14,505,687	100.0%

(unaudited, in thousands of Canadian dollars)

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 cost	Cumulative fair value depreciation	Total fair value
As at December 31, 2011	**79,647**	**319,516**	**54,942**	**454,105**	**(15,300)**	**438,805**
As at March 31, 2011	60,585	299,326	42,581	402,492	(15,401)	387,091

Concentrations of total subordinate financing investments

	December 31, 2011		March 31, 2011	
Geographic distribution	**Fair value**	**Cost**	Fair value	Cost
Newfoundland and Labrador	**19,920**	**19,540**	20,991	20,910
Nova Scotia	**10,775**	**10,644**	7,624	7,801
New Brunswick	**8,797**	**9,631**	9,686	10,061
Quebec	**207,977**	**222,894**	196,040	208,929
Ontario	**124,067**	**123,708**	95,438	96,833
Manitoba	**8,260**	**8,087**	5,084	4,761
Saskatchewan	**617**	**609**	685	675
Alberta	**34,998**	**35,266**	33,292	32,987
British Columbia	**23,394**	**23,726**	18,251	19,535
Subordinate financing investments	**438,805**	**454,105**	387,091	402,492

	December 31, 2011		March 31, 2011	
Industry sector	**Fair value**	**Cost**	Fair value	Cost
Manufacturing	**167,289**	**173,487**	148,892	157,651
Business services	**91,113**	**97,724**	69,027	73,600
Wholesale and retail trade	**78,180**	**76,927**	70,598	68,284
Construction	**28,565**	**27,895**	18,896	19,529
Transportation and storage	**10,395**	**10,454**	12,127	10,736
Technologies	**4,802**	**6,421**	4,228	6,018
Tourism	**3,669**	**3,566**	3,380	3,237
Industrial technologies	**1,035**	**1,625**	1,161	1,625
Biotechnology	**1,107**	**1,107**	907	907
Other	**52,650**	**54,899**	57,875	60,905
Subordinate financing investments	**438,805**	**454,105**	387,091	402,492

(unaudited, in thousands of Canadian dollars)

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.

		December 31, 2011		March 31, 2011
Industry sector	**Fair value**	**Cost**	Fair value	Cost
Information technology	**76,293**	**90,373**	102,840	90,106
Communications	**29,090**	**40,828**	48,195	53,912
Biotechnology and pharmacology	**62,797**	**87,858**	75,837	112,422
Electronics	**62,425**	**67,401**	55,161	70,598
Medical and health	**39,204**	**48,309**	33,736	43,204
Industrial	**9,247**	**18,592**	7,704	14,007
Other	**5,457**	**5,173**	3,334	3,250
Total direct investments	**284,513**	**358,534**	326,807	387,499
Funds	**101,925**	**119,387**	86,975	110,881
Venture capital investments	**386,438**	**477,921**	413,782	498,380

		December 31, 2011		March 31, 2011
Investment type	**Fair value**	**Cost**	Fair value	Cost
Common shares	**52,813**	**79,957**	54,573	87,508
Preferred shares	**188,295**	**229,501**	240,030	259,924
Debt instruments	**43,405**	**49,076**	32,204	40,067
Total direct investments	**284,513**	**358,534**	326,807	387,499
Funds	**101,925**	**119,387**	86,975	110,881
Venture capital investments	**386,438**	**477,921**	413,782	498,380

(unaudited, in thousands of Canadian dollars)

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.

				December 31, 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**	**1.360%**	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	
Total outstanding			**2,744,400**			2,744,400	

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 *Business Development Bank of Canada Act* (BDC Act), these shares are to be included in the calculation of capital regardless of their Consolidated Financial Statement classification.

Statutory limitations

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

Capital adequacy

Treasury Board of Canada Secretariat provides guidelines to BDC on its capital adequacy ratios. BDC must maintain overall capital and loss provisions sufficient to ensure that it can withstand unfavourable economic circumstances without needing government funding. During the nine-month period ended December 31, 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.

(unaudited, in thousands of Canadian dollars)

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

Three months ended December 31, 2011

	BDC	Financing	Subordinate Financing	Venture Capital	Consulting	Securitization
Interest income	241,458	220,285	12,470	-	-	8,703
Interest expense	27,869	24,854	1,786	118	-	1,111
Net interest income (expense)	**213,589**	**195,431**	**10,684**	**(118)**	**-**	**7,592**
Net realized gains (losses) on investments	(2,158)	-	(1,573)	(585)	-	-
Consulting revenue	6,340	-	-	-	6,340	-
Fee and other income	9,307	3,591	4,252	572	-	892
Net realized gains (losses) on other financial instruments	(3,960)	70	-	(4,030)	-	-
Net revenue (loss)	**223,118**	**199,092**	**13,363**	**(4,161)**	**6,340**	**8,484**
Impairment reversal (losses) on loans	27,951	27,951	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	711	-	(1,223)	1,920	-	14
Net unrealized foreign exchange gains (losses) on investments	(3,593)	-	-	(3,593)	-	-
Net unrealized gains (losses) on other financial instruments	9,015	2,110	-	6,905	-	-
Income (loss) before operating and administrative expenses	**257,202**	**229,153**	**12,140**	**1,071**	**6,340**	**8,498**
Salaries and benefits	62,741	49,532	4,613	3,616	4,613	367
Premises and equipment	9,297	8,498	193	307	269	30
Other expenses	24,970	19,325	636	1,138	3,804	67
Operating and administrative expenses	**97,008**	**77,355**	**5,442**	**5,061**	**8,686**	**464**
Net income (loss)	**160,194**	**151,798**	**6,698**	**(3,990)**	**(2,346)**	**8,034**
Net income (loss) attributable to:						
BDC's shareholder	157,692	151,798	3,989	(3,783)	(2,346)	8,034
Non-controlling interests	2,502	-	2,709	(207)	-	-
Net income (loss)	**160,194**	**151,798**	**6,698**	**(3,990)**	**(2,346)**	**8,034**
Business segment portfolio at end of period	**16,178,049**	**14,494,658**	**438,805**	**386,438**	**-**	**858,148**

Three months ended December 31, 2010

	BDC	Financing	Subordinate Financing	Venture Capital	Consulting	Securitization
Interest income	247,534	213,324	11,004	-	-	23,206
Interest expense	36,114	28,549	1,454	141	-	5,970
Net interest income (expense)	**211,420**	**184,775**	**9,550**	**(141)**	**-**	**17,236**
Net realized gains (losses) on investments	(20,390)	-	(2,004)	(19,658)	-	1,272
Consulting revenue	6,096	-	-	-	6,096	-
Fee and other income	8,134	3,914	3,052	791	-	377
Net realized gains (losses) on other financial instruments	(4,137)	(5,697)	-	1,413	-	147
Net revenue (loss)	**201,123**	**182,992**	**10,598**	**(17,595)**	**6,096**	**19,032**
Impairment reversal (losses) on loans	(31,790)	(31,790)	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	10,892	-	(944)	11,836	-	-
Net unrealized foreign exchange gains (losses) on investments	(5,382)	-	-	(5,382)	-	-
Net unrealized gains (losses) on other financial instruments	2,378	(122)	-	2,500	-	-
Income (loss) before operating and administrative expenses	**177,221**	**151,080**	**9,654**	**(8,641)**	**6,096**	**19,032**
Salaries and benefits	60,229	48,647	3,242	3,512	4,476	352
Premises and equipment	8,848	8,247	136	263	174	28
Other expenses	25,632	19,943	556	1,562	3,380	191
Operating and administrative expenses	**94,709**	**76,837**	**3,934**	**5,337**	**8,030**	**571**
Net income (loss)	**82,512**	**74,243**	**5,720**	**(13,978)**	**(1,934)**	**18,461**
Net income (loss) attributable to:						
BDC's shareholder	80,359	74,243	2,541	(12,952)	(1,934)	18,461
Non-controlling interests	2,153	-	3,179	(1,026)	-	-
Net income (loss)	**82,512**	**74,243**	**5,720**	**(13,978)**	**(1,934)**	**18,461**
Business segment portfolio at end of period	**17,549,740**	**13,645,767**	**376,874**	**394,636**	**-**	**3,132,463**

(unaudited, in thousands of Canadian dollars)

Nine months ended December 31, 2011

	BDC	Financing	Subordinate Financing	Venture Capital	Consulting	Securitization
Interest income	736,851	650,189	35,656	-	-	51,006
Interest expense	95,034	79,254	5,117	398	-	10,265
Net interest income (expense)	**641,817**	**570,935**	**30,539**	**(398)**	**-**	**40,741**
Net realized gains (losses) on investments	4,977	-	(1,269)	6,246	-	-
Consulting revenue	17,752	-	-	-	17,752	-
Fee and other income	25,281	10,953	10,993	1,949	-	1,386
Net realized gains (losses) on other financial instruments	(1,508)	166	-	(1,562)	-	(112)
Net revenue (loss)	**688,319**	**582,054**	**40,263**	**6,235**	**17,752**	**42,015**
Impairment reversal (losses) on loans	49,018	49,018	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	(13,870)	-	100	(14,014)	-	44
Net unrealized foreign exchange gains (losses) on investments	7,129	-	-	7,129	-	-
Net unrealized gains (losses) on other financial instruments	(4,349)	(639)	-	(3,710)	-	-
Income (loss) before operating and administrative expenses	**726,247**	**630,433**	**40,363**	**(4,360)**	**17,752**	**42,059**
Salaries and benefits	187,348	150,058	11,568	10,460	14,144	1,118
Premises and equipment	27,529	25,082	571	976	810	90
Other expenses	69,607	53,332	1,827	3,346	10,934	168
Operating and administrative expenses	**284,484**	**228,472**	**13,966**	**14,782**	**25,888**	**1,376**
Net income (loss)	**441,763**	**401,961**	**26,397**	**(19,142)**	**(8,136)**	**40,683**
Net income (loss) attributable to:						
BDC's shareholder	432,108	401,961	15,513	(17,913)	(8,136)	40,683
Non-controlling interests	9,655	-	10,884	(1,229)	-	-
Net income (loss)	**441,763**	**401,961**	**26,397**	**(19,142)**	**(8,136)**	**40,683**
Business segment portfolio at end of period	**16,178,049**	**14,494,658**	**438,805**	**386,438**	**-**	**858,148**

Nine months ended December 31, 2010

	BDC	Financing	Subordinate Financing	Venture Capital	Consulting	Securitization
Interest income	696,484	596,148	32,656	-	-	67,680
Interest expense	78,179	57,819	4,035	422	-	15,903
Net interest income (expense)	**618,305**	**538,329**	**28,621**	**(422)**	**-**	**51,777**
Net realized gains (losses) on investments	(54,226)	-	(2,221)	(53,277)	-	1,272
Consulting revenue	18,357	-	-	-	18,357	-
Fee and other income	21,276	10,564	8,094	1,794	-	824
Net realized gains (losses) on other financial instruments	(640)	(5,645)	-	2,778	-	2,227
Net revenue (loss)	**603,072**	**543,248**	**34,494**	**(49,127)**	**18,357**	**56,100**
Impairment reversal (losses) on loans	(100,334)	(100,334)	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	39,322	-	(1,976)	41,298	-	-
Net unrealized foreign exchange gains (losses) on investments	(3,676)	-	-	(3,676)	-	-
Net unrealized gains (losses) on other financial instruments	(10,387)	(10,232)	-	(155)	-	-
Income (loss) before operating and administrative expenses	**527,997**	**432,682**	**32,518**	**(11,660)**	**18,357**	**56,100**
Salaries and benefits	176,193	143,221	9,851	8,994	13,108	1,019
Premises and equipment	27,804	26,021	378	802	515	88
Other expenses	70,428	51,311	1,326	6,063	11,118	610
Operating and administrative expenses	**274,425**	**220,553**	**11,555**	**15,859**	**24,741**	**1,717**
Net income (loss)	**253,572**	**212,129**	**20,963**	**(27,519)**	**(6,384)**	**54,383**
Net income (loss) attributable to:						
BDC's shareholder	245,576	212,129	11,148	(25,700)	(6,384)	54,383
Non-controlling interests	7,996	-	9,815	(1,819)	-	-
Net income (loss)	**253,572**	**212,129**	**20,963**	**(27,519)**	**(6,384)**	**54,383**
Business segment portfolio at end of period	**17,549,740**	**13,645,767**	**376,874**	**394,636**	**-**	**3,132,463**

(unaudited, in thousands of Canadian dollars) 47

11. COMMITMENTS

Undisbursed amounts of authorized loans and Subordinate financing investments were $1,488,204 at December 31, 2011 ($141,542 fixed rate; $1,346,662 floating rate) and are expected to be disbursed within the next 12 months. The weighted average effective interest rate is 5.16% on loan commitments and 10.36% on Subordinate financing commitments (excluding non-interest return). The following tables present undisbursed amounts of authorized loans and Subordinate financing investments, by location and industry.

Geographic distribution	December 31, 2011	
Newfoundland and Labrador	**87,981**	**5.9%**
Prince Edward Island	**3,929**	**0.3%**
Nova Scotia	**22,730**	**1.5%**
New Brunswick	**27,596**	**1.9%**
Quebec	**510,090**	**34.3%**
Ontario	**416,125**	**28.0%**
Manitoba	**30,473**	**2.0%**
Saskatchewan	**34,757**	**2.3%**
Alberta	**236,795**	**15.9%**
British Columbia	**109,668**	**7.4%**
Yukon	**6,565**	**0.4%**
Northwest Territories and Nunavut	**1,495**	**0.1%**
Loans and Subordinate financing investments	**1,488,204**	**100.0%**

Industry distribution	December 31, 2011	
Manufacturing	**358,183**	**24.1%**
Wholesale and retail trade	**248,844**	**16.7%**
Tourism	**190,546**	**12.8%**
Commercial properties	**158,515**	**10.7%**
Construction	**145,774**	**9.8%**
Transportation and storage	**87,015**	**5.8%**
Business services	**77,945**	**5.3%**
Other	**221,382**	**14.8%**
Loans and Subordinate financing investments	**1,488,204**	**100.0%**

(unaudited, in thousands of Canadian dollars)

The undisbursed amount of authorized Venture capital investments was $245,509 at December 31, 2011, and was related to the following industry sectors.

Industry sector	December 31, 2011	
Biotechnology and pharmacology	**8,063**	**3.3%**
Medical and health	**7,028**	**2.9%**
Industrial	**2,250**	**0.9%**
Information technology	**1,350**	**0.5%**
Communications	**831**	**0.3%**
Electronics	**647**	**0.3%**
Total direct investments	**20,169**	**8.2%**
Funds	**225,340**	**91.8%**
Venture capital investments	**245,509**	**100.0%**

The undisbursed amount of authorized asset-backed securities was $338,167 at December 31, 2011.

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

12. RELATED PARTY TRANSACTIONS

As at December 31, 2011, BDC had $10,854.0 million outstanding in short-term notes and $1,133.6 million in long-term notes with Her Majesty the Queen in Right of Canada acting through the Minister of Finance ($9,711.0 million in short-term notes and $3,512.3 million in long-term notes at March 31, 2011).

Accrued interest on borrowings includes $4.1 million payable to the Minister of Finance as at December 31, 2011 ($5.2 million at March 31, 2011).

BDC recorded $26.1 million of interest expense, related to the borrowings with the Minister of Finance, for the third quarter and $85.9 million for the nine months ended December 31, 2011. Last year's comparative figures for the same periods were $31.6 million and $63.5 million, respectively.

In addition, certain borrowings with the Minister of Finance were repurchased in fiscal 2012. This resulted in a net realized loss of $0.1 million for the nine-month period ($3.6 million in net realized loss 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 are 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- and nine-month periods ended December 31, 2011, the comparative information, and the opening Consolidated Statement of Financial Position as at the transition date.

Initial elections upon adoption

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

> immediate recognition of all cumulative actuarial gains and losses deferred under previous Canadian GAAP in opening retained earnings as of the date of transition; and

> disclosure of the defined benefit obligations, plan assets, deficit and experience adjustments on post-employment benefit assets and liabilities prospectively from the date of transition, progressively building the data to present the four years of comparative information required under IFRS (this will only affect disclosure for the annual Consolidated Financial Statements for the year ended March 31, 2012).

(unaudited, in thousands of Canadian dollars)

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 51.

Reconciliation of Consolidated Equity

As at	Notes	March 31, 2011	December 31, 2010	April 1, 2010
Shareholder's equity under Canadian GAAP		4,008,321	3,888,135	3,643,016
Differences increasing (decreasing) retained earnings:				
Post-employment benefits	A	(165,669)	(171,674)	(219,230)
Dividends on preferred shares included in net income	C	-	(3,777)	-
Other	E	550	650	807
		(165,119)	**(174,801)**	**(218,423)**
Reclassification of preferred shares in liabilities	C	(230,000)	(230,000)	(230,000)
Equity attributable to BDC's shareholder under IFRS		**3,613,202**	**3,483,334**	**3,194,593**
Non-controlling interests				
Joint ventures	B	139,221	151,100	170,548
Investments controlled by BDC	B	7,424	7,088	5,994
Equity attributable to non-controlling interests under IFRS		**146,645**	**158,188**	**176,542**
Consolidated equity under IFRS		**3,759,847**	**3,641,522**	**3,371,135**

Reconciliation of Consolidated Net Income

	Notes	For the year ended March 31, 2011	Three months ended December 31, 2010	Nine months ended December 31, 2010
Consolidated net income under Canadian GAAP		346,713	77,117	235,837
Differences increasing (decreasing) net income:				
Post-employment benefits	A	18,848	4,558	13,673
Dividends on preferred shares included in net income	C	(5,013)	(1,262)	(3,777)
Other	E	(257)	(54)	(157)
		13,578	**3,242**	**9,739**
Net income attributable to BDC's shareholder under IFRS		**360,291**	**80,359**	**245,576**
Impact of consolidation of:				
Joint ventures	B	8,752	3,179	9,815
Investments controlled by BDC	B	(2,523)	(1,026)	(1,819)
Net income attributable to non-controlling interests under IFRS		**6,229**	**2,153**	**7,996**
Consolidated net income under IFRS		**366,520**	**82,512**	**253,572**

(unaudited, in thousands of Canadian dollars)

Reconciliation of Consolidated Comprehensive Income

	Notes	For the year ended March 31, 2011	Three months ended December 31, 2010	Nine months ended December 31, 2010
Consolidated comprehensive income under Canadian GAAP		370,317	34,094	245,119
Differences increasing (decreasing) comprehensive income:				
Increase in net income attributable to the shareholder		13,578	3,242	9,739
Actuarial gains (losses) on post-employment benefits	A	34,713	53,209	33,883
		48,291	**56,451**	**43,622**
Comprehensive income attributable to BDC's shareholder under IFRS		**418,608**	**90,545**	**288,741**
Increase in net income attributable to non-controlling interests		6,229	2,153	7,996
Comprehensive income attributable to non-controlling interests under IFRS		**6,229**	**2,153**	**7,996**
Consolidated comprehensive income under IFRS		**424,837**	**92,698**	**296,737**

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.

(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-based vesting requirement and a vesting requirement of consecutive years of service immediately before retirement, the attribution period begins only when the employee commences working in periods that can be counted as consecutive years of service before retirement. As BDC's other post-employment benefit plans contain both requirements, the attribution period was revised at transition to IFRS.

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

(iii) Measurement date

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

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

Impact on financial statements: Upon transition, BDC re-measured its defined benefit obligation and plan assets related to pension plans as at April 1, 2010. 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.

(unaudited, in thousands of Canadian dollars) 53

The impact of these changes is summarized as follows:

	As at April 1, 2010
Differences increasing (decreasing) retained earnings	
Actuarial gains and losses	(227,878)
Attribution period	11,690
Measurement date	(3,146)
Past service costs	104
	(219,230)

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

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

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

D – FINANCIAL INSTRUMENT CLASSIFICATION

(i) Venture capital and Subordinate financing investments

Canadian GAAP: With the application of AcG-18, Venture capital and Subordinate financing 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 Venture capital and Subordinate financing investments to be carried at fair value through profit or loss.

Impact on financial statements: Venture capital and Subordinate financing 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.

E – OTHER DIFFERENCES

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

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

Material adjustments to the Consolidated Statement of Cash Flows

Following the transition to IFRS, disbursements and repayments of loans 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.

14. SUBSEQUENT EVENTS

Subsequent to December 31, 2011, notice was given to BDC by our shareholder to return $656 million of capital. We are presently in discussion with our shareholder to determine the means of this capital return.

15. COMPARATIVE FIGURES

Certain comparative figures have been reclassified in order to conform to the presentation adopted in the third quarter of fiscal 2012.

TERMINOLOGY CORRESPONDENCE TABLE

Terminology used in fiscal 2011	Terminology used in fiscal 2012
Accrued benefit asset	Post-employment benefit asset
Accrued benefit liability	Post-employment benefit liability
Consolidated Balance Sheet	Consolidated Statement of Financial Position
General allowance	Collective allowance
Provision for credit losses	Impairment losses on loans
Specific allowance	Individual allowance

Business Development Bank of Canada
Head Office
5 Place Ville-Marie, Suite 300
Montreal, Quebec H3B 5E7
T 1 877 BDC-BANX (232-2269)
F 1 877 329-9232

For our business centres, please visit: **www.bdc.ca**