BDC

Entrepreneurs first

2014

FIRST QUARTER

FINANCIAL REPORT

June 30, 2013

Canada

EXECUTIVE SUMMARY

During this quarter, the Canadian economy continued to grow at a modest pace. Mining, oil and gas boosted Canada's export performance, even as the country's merchandise trade deficit widened. As the U.S. economy gains momentum, especially in the housing market, Canadian merchandise exports are expected to improve.

At the same time, consumer spending has slowed since the beginning of the year and the domestic housing market has softened. Investment by businesses in machinery and equipment is also off to a slower start than last year. As expected, domestic activity will be less supportive of economic growth this year than in the past three years.

However, business credit continues to expand in 2013. As of May, total business credit had increased by 7.6% over the previous 12 months, with short-term credit increasing by 11.6% and long-term credit by 6.1%.

With this improvement in business credit, BDC is actively working to address specific market needs to support the competitiveness of Canadian small and medium-sized enterprises (SMEs), in keeping with our complementary role. BDC is encouraging SMEs to improve their competitiveness through productivity and innovation. Initiatives such as BDC's loans to help SMEs adopt more information and communications technology (ICT), as well as our equipment line loans, have been well received.

Partly as a result of these targeted initiatives, clients of BDC Financing[(1)] accepted $1.2 billion in loans versus $1.0 billion for the same period last year.

As at June 30, BDC Financing's[(1)] loan portfolio, before allowance for credit losses, stood at $16.9 billion, a 2.9% increase since March 31.

During the quarter, BDC Subordinate Financing continued to address the needs of Canada's high-potential, high-growth firms through its specialized products. Clients of BDC Subordinate Financing accepted $35.4 million in financing in the first quarter, compared to $53.6 million in the same period last year. Although the number of clients this year was similar to fiscal 2013, the average amount of financing accepted by clients was lower.

To support innovative Canadian companies and continue its work in developing the venture capital ecosystem, BDC Venture Capital authorized investments totalling $18.6 million in the first quarter, compared to $35.4 million in the same period last year. While total authorized investments this quarter were lower than last year's, BDC Venture Capital is confident it will meet its objective for fiscal 2014.

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

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

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

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

EXECUTIVE SUMMARY

In June 2013, BDC Venture Capital announced its intention to invest more than $100 million in current and future scalable energy/cleantech (ECT) opportunities. Unlike conventional cleantech venture capital investments, which are usually directed to large, capital-intensive infrastructure projects, the BDC Venture Capital ECT Fund invests in scalable, capital-efficient ventures that can significantly improve the efficient use of scarce resources – in every industry and across all technology platforms, especially electronics, novel materials, and information and communications innovations.

In January 2013, the Prime Minister announced the Venture Capital Action Plan (VCAP), a comprehensive strategy for deploying $400 million in new capital over the next seven to 10 years to increase private sector venture capital financing for high-potential, innovative Canadian businesses. The government has requested that BDC's resources and expertise be used to support this initiative. Consequently, BDC has put in place a team of experts who will be responsible for carrying out all support related duties of this new business line.

Among the highlights in BDC's other lines of business, BDC Consulting initiated 674 new mandates during the quarter, compared to 507 during the same period last year. BDC Consulting services are a crucial part of BDC's support for entrepreneurs, as SMEs need access to quality advice at a price they can afford. BDC is continuing to improve the quality and efficiency of its consulting services.

BDC is also maintaining its role in the securitization market which helps SMEs get access to financing for the vehicles and equipment they need to improve productivity. As at June 30, total asset-backed securities stood at $380.8 million, compared to $437.5 million as at March 31. The decrease was mainly due to repayments of $113.3 million, offset by disbursements of $57.6 million in asset-backed securities investments.

In the first quarter of fiscal 2014, BDC posted consolidated net income of $113.8 million[(2)], compared to $107.9 million[(2)] for the same period last year. The increase is mostly attributable to a higher level of activity in BDC Financing and Subordinate Financing portfolios.

For the first quarter of fiscal 2014, consolidated total comprehensive income totalled $146.1 million, compared to a consolidated total comprehensive income of $42.4 million for the same period last year. The increase was mostly due to remeasurement gains on post-employment benefits as a result of higher discount rates used to value the post-employment benefit liability.

For the third consecutive year, BDC was recognized by the editors of Canada's Top 100 Employers competition as one of the best workplaces for Canadians over 40 years of age.

[(2)] Including $1.7 million and $0.2 million in net income attributable to non-controlling interests for fiscal 2014 and 2013, respectively.

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From time to time, we make written or oral forward-looking statements. We may make forward-looking statements in this quarterly financial report. These forward-looking statements include, 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. The Standard on Quarterly Financial Reports for Crown Corporations 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.

RISK MANAGEMENT

Risk is an inherent feature of the financial sector. BDC uses an enterprise risk management (ERM) framework.

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. The board of directors and its Board Credit and Risk Committee review ERM quarterly risk reports and monitor the effectiveness of the framework. 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 June 30, 2013.

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 period ended June 30, 2013, compared to the corresponding period of the prior fiscal year. This analysis also includes comments about significant variances from BDC's fiscal 2014-18 Corporate Plan, when applicable.

BDC reports on five business segments: Financing, Subordinate Financing, Venture Capital, Consulting, Securitization and a sixth segment, Venture Capital Action Plan (VCAP), at the request of the federal government in support of this new initiative. All amounts are in Canadian dollars, unless otherwise specified, and are based on unaudited quarterly Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS).

This analysis should be read in conjunction with the unaudited quarterly Consolidated Financial Statements included in this report.

Net Income

	Three months ended June 30	
($ in millions)	**F2014**	F2013
Financing	**106.9**	103.4
Subordinate Financing	**11.4**	5.6
Venture Capital	**(2.3)**	(1.3)
Consulting	**(4.0)**	(3.2)
Securitization	**2.0**	3.4
Venture Capital Action Plan	**(0.2)**	-
Net income	**113.8**	107.9
Net income attributable to:		
BDC's shareholder	**112.1**	107.7
Non-controlling interests	**1.7**	0.2
Net income	**113.8**	107.9

Three months ended June 30

BDC reported consolidated net income of $113.8 million for the first quarter ended June 30, 2013, comprising $112.1 million attributable to BDC's shareholder and $1.7 million to non-controlling interests. This compares to $107.9 million in consolidated net income for the first quarter of fiscal 2013, of which $0.2 million was attributable to non-controlling interests.

Net income in the first quarter of fiscal 2014 was higher than in the corresponding period of fiscal 2013 due primarily to an increase in BDC Financing and BDC Subordinate Financing results. Refer to the BDC Financing and BDC Subordinate Financing sections of this analysis for further information.

Currently, BDC expects its consolidated net income for fiscal 2014 to meet the Corporate Plan target of $348 million.

Comprehensive Income

	Three months ended June 30	
($ in millions)	**F2014**	F2013
Net income	**113.8**	107.9
Other comprehensive income (loss)		
Items that may be reclassified subsequently to net income		
Net change in unrealized gains (losses) on available-for-sale assets	**(0.9)**	(1.7)
Net change in unrealized gains (losses) on cash flow hedges	**(2.1)**	1.1
Total items that may be reclassified subsequently to net income	**(3.0)**	(0.6)
Items that will not be reclassified subsequently to net income		
Remeasurements of net post-employment benefit liability	**35.3**	(64.9)
Other comprehensive income (loss)	**32.3**	(65.5)
Total comprehensive income	**146.1**	42.4
Total comprehensive income attributable to:		
BDC's shareholder	**144.4**	42.2
Non-controlling interests	**1.7**	0.2
Total comprehensive income	**146.1**	42.4

Three months ended June 30

Consolidated total comprehensive income for the first quarter was $146.1 million, comprising $113.8 million in consolidated net income and $32.3 million in other comprehensive income.

BDC recorded other comprehensive income of $32.3 million for the three-month period ended June 30, 2013, compared to other comprehensive loss of $65.5 million for the same period last year. An increase in the discount rate resulted in remeasurement gains of $35.3 million on the post-employment benefits for the first quarter of fiscal 2014.

The amendments to IAS 19, *Employee Benefits*, changed the accounting for defined benefit plans. The most significant change is the requirement for interest income on plan assets to be calculated using the discount rate used to measure the plan obligation, as opposed to applying management's best estimate of the expected rate of return on plan assets. These changes were applied retrospectively to the quarterly Consolidated Financial Statements for the three-month period ended

June 30, 2013. For additional details of the impact of these amendments, refer to Note 3—*Significant Accounting Policies* and Note 4—*Application of New and Amended International Financial Reporting Standards* to the quarterly Consolidated Financial Statements.

BDC Financing Results

($ in millions)	Three months ended June 30 F2014	F2013
Net interest and fee income	**205.9**	196.9
Impairment reversals (losses) on loans	**(20.8)**	(15.5)
Net gains (losses) on other financial instruments	**0.2**	0.2
Income before operating and administrative expenses	**185.3**	181.6
Operating and administrative expenses	**78.4**	78.2
Income from Financing	**106.9**	103.4

As % of average portfolio	Three months ended June 30 F2014	F2013
Net interest and fee income	**4.9**	5.1
Impairment reversals (losses) on loans	**(0.5)**	(0.4)
Net gains (losses) on other financial instruments	**-**	-
Income before operating and administrative expenses	**4.4**	4.7
Operating and administrative expenses	**1.9**	2.0
Income from Financing	**2.5**	2.7

Three months ended June 30

BDC Financing's income for the first quarter was $106.9 million, compared to $103.4 million for the same period last year.

The increase in profitability was mostly due to higher net interest and fee income as a result of portfolio growth, partially offset by an increase in impairment losses on loans caused by higher downgrades recorded in the quarter. However, net interest and fee income as a percentage of average portfolio was lower year over year in the first quarter of fiscal 2014 due to a decrease in interest rates. Operating and administrative expenses, both in dollars and expressed as a percentage of the average portfolio, remained at a similar level as last year.

BDC Subordinate Financing Results

	Three months ended June 30	
($ in millions)	**F2014**	F2013
Net revenue on investments	**18.1**	13.7
Net change in unrealized appreciation (depreciation) of investments	**(1.0)**	(3.1)
Income before operating and administrative expenses	**17.1**	10.6
Operating and administrative expenses	**5.7**	5.0
Income from Subordinate Financing	**11.4**	5.6
Income attributable to:		
BDC's shareholder	**9.5**	5.3
Non-controlling interests	**1.9**	0.3
Income from Subordinate Financing	**11.4**	5.6

Three months ended June 30

BDC Subordinate Financing's income for the first quarter of fiscal 2014 was $11.4 million, compared to $5.6 million for the same period last year. Income included $1.9 million attributable to non-controlling interests in fiscal 2014 and $0.3 million in fiscal 2013.

Net revenue on investments was $4.4 million higher than last year due to higher net interest income as a result of portfolio growth ($1.6 million), higher fee and other income ($0.3 million), and higher realized gains ($2.5 million).

The net change in unrealized depreciation of investments of $1.0 million for the quarter included:

> a reversal of net fair value appreciation due to net realized gains totalling $1.0 million in fiscal 2014 ($0.7 million reversal of net fair value depreciation due to net realized losses and $3.8 million net change in fair value depreciation of the portfolio last year).

BDC Subordinate Financing's increased activities resulted in higher operating and administrative expenses.

BDC Venture Capital Results

($ in millions)	Three months ended June 30 F2014	F2013
Net revenue (loss) on investments	**13.8**	(0.8)
Net change in unrealized appreciation (depreciation) of investments	**(12.6)**	3.4
Net unrealized foreign exchange gains (losses) on investments	**5.8**	2.2
Net gains (losses) on other financial instruments	**(4.1)**	(1.5)
Income (loss) before operating and administrative expenses	**2.9**	3.3
Operating and administrative expenses	**5.2**	4.6
Loss from Venture Capital	**(2.3)**	(1.3)
Loss attributable to:		
BDC's shareholder	**(2.1)**	(1.2)
Non-controlling interests	**(0.2)**	(0.1)
Loss from Venture Capital	**(2.3)**	(1.3)

Three months ended June 30

During the first quarter of fiscal 2014, BDC Venture Capital recorded a $2.3 million loss, compared to a loss of $1.3 million for the same period last year. Results included losses of $0.2 million in fiscal 2014 and $0.1 million in fiscal 2013 attributable to non-controlling interests.

Net revenue on investments increased by $14.6 million, primarily due to the divestiture of an investee company during the first quarter of fiscal 2014.

The net change in unrealized depreciation of $12.6 million for the quarter included the following:

- a $1.2 million net fair value depreciation of the portfolio ($1.1 million appreciation last year); and
- a reversal of net fair value appreciation on divested investments and write-offs totalling $11.4 million (a reversal of $2.3 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 hedge investments in foreign currencies. As a result, net gains or losses on other financial instruments partially offset amounts recognized due to currency movements.

The increase in operating and administrative expenses was mainly due to costs associated with BDC Venture Capital's partnership with Canada's Department of Foreign Affairs and International Trade. As part of its objective to provide enhanced support to select Canadian technology accelerators

(CTAs), BDC Venture Capital is developing relationships with several Canadian trade commissions in the United States.

BDC Consulting Results

	Three months ended June 30	
($ in millions)	**F2014**	F2013
Revenue	**4.8**	6.0
Operating and administrative expenses	**8.8**	9.2
Loss from Consulting	**(4.0)**	(3.2)

Three months ended June 30

BDC Consulting's loss was $4.0 million for the first quarter of fiscal 2014, higher than the $3.2 million loss recorded for the same quarter last year. Both revenue and operating and administrative expenses in fiscal 2014 were lower than those recorded for the same period last year.

In fiscal 2013, BDC completed a review of its consulting practice to refine its approach to providing value-added advisory services to entrepreneurs. During the transition phase, which is expected to begin in fiscal 2014, higher losses are anticipated in BDC Consulting.

BDC Securitization Results

	Three months ended June 30	
($ in millions)	**F2014**	F2013
Net interest and fee income	**2.3**	3.8
Income before operating and administrative expenses	**2.3**	3.8
Operating and administrative expenses	**0.3**	0.4
Income from Securitization	**2.0**	3.4

Three months ended June 30

Income from BDC Securitization for the first quarter of fiscal 2014 was $2.0 million, compared to $3.4 million for the same period last year. The decrease in income was due to lower net interest and fee income as a result of the decline in the portfolio due to scheduled repayments.

Operating and administrative expenses for the first quarter of fiscal 2014 were slightly lower than those reported for the same period last year.

BDC Venture Capital Action Plan Results

Three months ended June 30

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

During the first quarter of fiscal 2014, BDC allocated resources and built a team of experts who will be responsible for supporting the operations of this new business line. For the three months ended June 30, 2013, $0.2 million in operating and administrative expenses were incurred, mostly for salaries and benefits.

Consolidated Statement of Financial Position and Cash Flows

As at June 30, 2013, total BDC assets amounted to $18.7 billion, an increase of $481.8 million from March 31, 2013, mainly due to the increase in loans.

The asset-backed securities (ABS) portfolio stood at $380.8 million, compared to $437.5 million at March 31, 2013. This portfolio consists mainly of AAA-rated term securities purchased under the Canadian Secured Credit Facility program (CSCF) and of implied AAA-rated securities purchased under the Funding Platform for Independent Lenders (F-PIL) program. The decline of the portfolio is due to scheduled repayments of ABS.

At $16.4 billion, the loan portfolio (net of allowance for credit losses) represented BDC's largest asset ($16.9 billion in gross portfolio and a $0.5 billion allowance for credit losses). The gross loan portfolio grew by 2.9% in the three months after March 31, 2013.

As for BDC's investment portfolios, the BDC Subordinate Financing portfolio stood at $566.2 million, compared to $557.8 million, representing growth of 1.5% since March 31, 2013. Investment disbursements accounted for most of the increase in this portfolio. The BDC Venture Capital portfolio was $446.1 million at June 30, 2013, compared to $456.7 million at March 31, 2013. The decrease in this portfolio was mainly due to the divestiture of an investee company during the quarter, partially offset by investment disbursements.

Derivative assets of $60.2 million and derivative liabilities of $17.7 million reflected the fair value of derivative financial instruments as at June 30, 2013. Net derivative fair value decreased by $23.5 million, compared to the value at March 31, 2013, primarily as the result of a decrease in the fair value of interest rate swaps.

The post-employment benefit liability amounted to $142.9 million at June 30, 2013, representing a decrease of $48.3 million compared to the outstanding balance as at March 31, 2013. This significant decrease was the result of remeasurement gains on post-employment benefits recorded during the three-month period ended June 30, 2013. Under the revised IAS 19, *Employee Benefits,* the post-employment benefit liability as at March 31, 2013, has been restated for comparative purposes. Refer to page 7 of this report for further information on remeasurements of 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 $773.8 million at June 30, 2013, compared to $701.7 million at March 31, 2013. For the three-month period ended June 30, 2013, cash flow provided by investing activities amounted to $53.5 million as a result of net repayments of asset-backed securities and net proceeds on sale of venture capital investments, offset by net disbursements for subordinate financing. Financing activities provided $388.8 million in cash flow, as a result of the issuance of short-term notes, offset by the payment of dividends on common shares, while operating activities used $370.2 million, mainly due to the increase in the loans portfolio.

At June 30, 2013, BDC funded its portfolios and liquidities with borrowings of $14.3 billion and total equity of $4.0 billion. Borrowings comprised $13.1 billion in short-term notes and $1.2 billion in long-term notes. Short-term notes increased by $422.0 million as a result of funding the loan portfolio with short-term debt.

CONSOLIDATED FINANCIAL STATEMENTS

(unaudited, in thousands of Canadian dollars)

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

Management is responsible for the preparation and fair presentation of these quarterly Consolidated 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 quarterly Consolidated 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 quarterly Consolidated Financial Statements.

Based on our knowledge, these unaudited quarterly Consolidated 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 quarterly Consolidated Financial Statements.

Jean-René Halde
President and Chief Executive Officer

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

Montreal, Canada
July 31, 2013

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(unaudited)

(in thousands of Canadian dollars)	Notes	**June 30, 2013**	March 31, 2013	April 1, 2012[1]
ASSETS				
Cash and cash equivalents		**773,769**	701,678	740,667
Derivative assets		**60,164**	82,159	87,681
Loans and investments				
Asset-backed securities	7	**380,812**	437,453	763,200
Loans	8	**16,350,104**	15,871,635	14,739,271
Subordinate financing investments	9	**566,190**	557,840	457,369
Venture capital investments	10	**446,141**	456,708	358,951
Total loans and investments		**17,743,247**	17,323,636	16,318,791
Property and equipment		**26,598**	25,671	25,171
Intangible assets		**42,071**	35,314	32,094
Other assets		**19,873**	15,447	15,478
Total assets		**18,665,722**	18,183,905	17,219,882
LIABILITIES AND EQUITY				
Liabilities				
Accounts payable and accrued liabilities		**113,514**	106,440	89,229
Derivative liabilities		**17,722**	16,212	17,244
Borrowings				
Short-term notes		**13,153,655**	12,731,629	11,214,813
Long-term notes		**1,160,916**	1,136,267	2,008,943
Total borrowings		**14,314,571**	13,867,896	13,223,756
Post-employment benefit liability		**142,908**	191,245	218,378
Other liabilities		**44,745**	46,437	44,223
Total liabilities		**14,633,460**	14,228,230	13,592,830
Equity				
Share capital	11	**2,088,400**	2,088,400	2,088,400
Contributed surplus		**27,778**	27,778	27,778
Retained earnings		**1,835,923**	1,748,156	1,380,408
Accumulated other comprehensive income		**5,602**	8,568	15,185
Equity attributable to BDC's shareholder		**3,957,703**	3,872,902	3,511,771
Non-controlling interests		**74,559**	82,773	115,281
Total equity		**4,032,262**	3,955,675	3,627,052
Total liabilities and equity		**18,665,722**	18,183,905	17,219,882

Guarantees (Note 13)

Commitments (Note 14)

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

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

CONSOLIDATED STATEMENT OF INCOME

(unaudited)

(in thousands of Canadian dollars)	Three months ended June 30 2013	2012[1]
Interest income	**250,153**	238,094
Interest expense	**33,351**	30,315
Net interest income	**216,802**	207,779
Net realized gains (losses) on investments	**13,903**	(3,376)
Consulting revenue	**4,796**	5,988
Fee and other income	**9,429**	9,224
Net realized gains (losses) on other financial instruments	**(1,819)**	2,067
Net revenue	**243,111**	221,682
Impairment reversals (losses) on loans	**(20,761)**	(15,522)
Net change in unrealized appreciation (depreciation) of investments	**(13,631)**	371
Net unrealized foreign exchange gains (losses) on investments	**5,778**	2,243
Net unrealized gains (losses) on other financial instruments	**(1,991)**	(3,447)
Income before operating and administrative expenses	**212,506**	205,327
Salaries and benefits	**69,601**	67,487
Premises and equipment	**10,029**	9,380
Other expenses	**19,109**	20,553
Operating and administrative expenses	**98,739**	97,420
Net income	**113,767**	107,907
Net income attributable to:		
BDC's shareholder	**112,104**	107,723
Non-controlling interests	**1,663**	184
Net income	**113,767**	107,907

The accompanying notes are an integral part of these Consolidated Financial Statements and Note 12 provides additional information on segmented net income.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(unaudited)

(in thousands of Canadian dollars)	Three months ended June 30 2013	2012[1]
Net income	**113,767**	107,907
Other comprehensive income (loss)		
Items that may be reclassified subsequently to net income		
Net change in unrealized gains (losses) on available-for-sale assets	**(893)**	(1,658)
Net change in unrealized gains (losses) on cash flow hedges	**(2,073)**	1,078
Total items that may be reclassified subsequently to net income	**(2,966)**	(580)
Items that will not be reclassified to net income		
Remeasurements of net post-employment benefit liability	**35,256**	(64,932)
Other comprehensive income (loss)	**32,290**	(65,512)
Total comprehensive income	**146,057**	42,395
Total comprehensive income attributable to:		
BDC's shareholder	**144,394**	42,211
Non-controlling interests	**1,663**	184
Total comprehensive income	**146,057**	42,395

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three-month period ended June 30
(unaudited)

(in thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings[1]	Accumulated other comprehensive income (loss): Available-for-sale assets	Accumulated other comprehensive income (loss): Cash flow hedges	Accumulated other comprehensive income (loss): Total	Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
Balance at March 31, 2013	**2,088,400**	**27,778**	**1,748,156**	**1,917**	**6,651**	**8,568**	**3,872,902**	**82,773**	**3,955,675**
Total comprehensive income									
Net income			**112,104**				**112,104**	**1,663**	**113,767**
Other comprehensive income (loss)									
Net change in unrealized gains (losses) on available-for-sale assets				**(893)**		**(893)**	**(893)**		**(893)**
Net change in unrealized gains (losses) on cash flow hedges					**(2,073)**	**(2,073)**	**(2,073)**		**(2,073)**
Remeasurements of net post-employment benefit liability			**35,256**				**35,256**		**35,256**
Other comprehensive income (loss)	**-**	**-**	**35,256**	**(893)**	**(2,073)**	**(2,966)**	**32,290**	**-**	**32,290**
Total comprehensive income	**-**	**-**	**147,360**	**(893)**	**(2,073)**	**(2,966)**	**144,394**	**1,663**	**146,057**
Dividends on common shares			**(59,593)**				**(59,593)**		**(59,593)**
Distributions to non-controlling interests								**(10,917)**	**(10,917)**
Capital injections from non-controlling interests								**1,040**	**1,040**
Transactions with owner, recorded directly in equity	**-**	**-**	**(59,593)**	**-**	**-**	**-**	**(59,593)**	**(9,877)**	**(69,470)**
Balance at June 30, 2013	**2,088,400**	**27,778**	**1,835,923**	**1,024**	**4,578**	**5,602**	**3,957,703**	**74,559**	**4,032,262**

(in thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings[1]	Accumulated other comprehensive income (loss): Available-for-sale assets	Accumulated other comprehensive income (loss): Cash flow hedges	Accumulated other comprehensive income (loss): Total	Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
Balance at April 1, 2012	**2,088,400**	**27,778**	**1,380,408**	**6,351**	**8,834**	**15,185**	**3,511,771**	**115,281**	**3,627,052**
Total comprehensive income									
Net income			107,723				107,723	184	107,907
Other comprehensive income									
Net change in unrealized gains (losses) on available-for-sale assets				(1,658)		(1,658)	(1,658)		(1,658)
Net change in unrealized gains (losses) on cash flow hedges					1,078	1,078	1,078		1,078
Remeasurements of net post-employment benefit liability			(64,932)				(64,932)		(64,932)
Other comprehensive income	-	-	(64,932)	(1,658)	1,078	(580)	(65,512)	-	(65,512)
Total comprehensive income	**-**	**-**	**42,791**	**(1,658)**	**1,078**	**(580)**	**42,211**	**184**	**42,395**
Dividends on common shares			(68,624)				**(68,624)**		**(68,624)**
Distributions to non-controlling interests								(8,396)	**(8,396)**
Capital injections from non-controlling interests								740	**740**
Transactions with owner, recorded directly in equity	**-**	**-**	**(68,624)**	**-**	**-**	**-**	**(68,624)**	**(7,656)**	**(76,280)**
Balance at June 30, 2012	**2,088,400**	**27,778**	**1,354,575**	**4,693**	**9,912**	**14,605**	**3,485,358**	**107,809**	**3,593,167**

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

(unaudited)

(in thousands of Canadian dollars)	Three months ended June 30 2013	2012
Operating activities		
Net income	**113,767**	107,907
Adjustments to determine net cash flows		
Interest income	**(250,153)**	(238,094)
Interest expense	**33,351**	30,315
Net realized losses (gains) on investments	**(13,903)**	3,376
Impairment losses (reversals) on loans	**20,761**	15,522
Net change in unrealized depreciation (appreciation) on investments	**13,631**	(371)
Net unrealized foreign exchange losses (gains) on investments	**(5,778)**	(2,243)
Net unrealized losses (gains) on other financial instruments	**1,991**	3,447
Post-employment benefits funding in excess of amounts expensed	**(13,080)**	(7,660)
Depreciation of property and equipment, and amortization of intangible assets	**2,957**	2,643
Other	**(1,882)**	(1,737)
Interest expense paid	**(28,321)**	(25,281)
Interest income received	**247,724**	238,264
Disbursements for loans	**(1,185,935)**	(884,336)
Repayments of loans	**693,728**	636,492
Changes in operating assets and liabilities		
Net change in accounts payable and accrued liabilities	**7,074**	2,141
Net change in other assets and other liabilities	**(6,118)**	(713)
Net cash flows provided (used) by operating activities	**(370,186)**	(120,328)
Investing activities		
Disbursements for asset-backed securities	**(57,580)**	(53,949)
Repayments and proceeds on sale of asset-backed securities	**113,349**	143,305
Disbursements for subordinate financing investments	**(28,633)**	(55,018)
Repayments of subordinate financing investments	**20,079**	12,012
Disbursements for venture capital investments	**(32,147)**	(37,559)
Proceeds on sale of venture capital investments	**49,032**	10,905
Acquisition of property and equipment	**(2,756)**	(853)
Acquisition of intangible assets	**(7,886)**	(4,711)
Net cash flows provided (used) by investing activities	**53,458**	14,132
Financing activities		
Net change in short-term notes	**421,736**	162,151
Issuance of long-term notes	**74,535**	100,000
Repayment of long-term notes	**(37,982)**	(118,505)
Distributions to non-controlling interests	**(10,917)**	(8,396)
Capital injections from non-controlling interests	**1,040**	740
Dividends paid on common shares	**(59,593)**	(68,624)
Net cash flows provided (used) by financing activities	**388,819**	67,366
Net increase (decrease) in cash and cash equivalents	**72,091**	(38,830)
Cash and cash equivalents at beginning of period	**701,678**	740,667
Cash and cash equivalents at end of period	**773,769**	701,837

The accompanying notes are an integral part of these Consolidated Financial 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 continued under its current name by an Act of Parliament that was enacted on July 13, 1995. BDC is incorporated in Canada and wholly owned by the Government of Canada.

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

2. BASIS OF PREPARATION

Statement of compliance

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 condensed quarterly Consolidated Financial Statements have been prepared using International Financial Reporting Standards (IFRS) and were approved for issue by the board of directors on July 31, 2013.

Basis of presentation and measurement

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

- available-for-sale financial assets, financial assets and financial liabilities at fair value through profit or loss and derivative financial instruments have been measured at fair value; and
- the liability or asset in respect to post-employment benefits has been recognized as the present value of the defined benefit obligation less the fair value of the plans' assets.

These condensed quarterly Consolidated Financial Statements are presented in Canadian dollars, which is BDC's functional currency as well as the functional currency of its subsidiaries. The figures shown in the condensed 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 investment funds and other entities that are considered to be subsidiaries for financial reporting purposes.

The condensed quarterly Consolidated Financial Statements of BDC comprise the financial statements of the parent entity and the consolidated financial statements of the subsidiaries referred to above as of June 30, 2013, and March 31, 2013. The financial statements of the subsidiaries are prepared using uniform accounting policies and valuation methods for similar transactions.

Subsidiaries

For financial reporting purposes, subsidiaries are defined as entities controlled by BDC. Control exists when all three of the following criteria are met: BDC possess power over the entity; BDC has exposure to variable returns from its involvement with the entity; and BDC has the ability to use its power over the entity to affect its returns. A comprehensive analysis is performed to determine whether or not BDC has control of the entity. This analysis is based on the detailed guidance provided in IFRS.

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

The following entities have been consolidated in BDC's condensed quarterly 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. Net income and each component of other comprehensive income are attributed to BDC's shareholder and to non-controlling interests in accordance with their respective shareholdings, even if this results in the non-controlling interests having a deficit balance.

Associates

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

Financial instruments

Recognition and measurement of financial instruments

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

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

Financial instruments are recognized and derecognized using settlement date accounting.

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

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

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

(unaudited, in thousands of Canadian dollars)

Classification of financial instruments

The following table summarizes the classification of BDC's financial instruments as at June 30, 2013, and March 31, 2013.

June 30, 2013

		Measured at fair value				Measured at amortized cost		
		FVTPL[1]						
	Note	Held-for-trading	Designated as FVTPL	Available-for-sale	Cash flow hedges	Loans and receivables	Financial liabilities	Total
Financial assets								
Cash and cash equivalents						773,769		773,769
Derivative assets		56,479			3,685			60,164
Asset-backed securities	7		4,391	376,421				380,812
Loans	8					16,350,104		16,350,104
Subordinate financing investments	9		566,190					566,190
Venture capital investments	10		446,141					446,141
Other assets[2]						12,970		12,970
Total financial assets		56,479	1,016,722	376,421	3,685	17,136,843	-	18,590,150
Financial liabilities								
Accounts payable and accrued liabilities							113,514	113,514
Derivative liabilities		17,600			122			17,722
Short-term notes							13,153,655	13,153,655
Long-term notes			617,178				543,738	1,160,916
Other liabilities[2]							31,637	31,637
Total financial liabilities		17,600	617,178	-	122	-	13,842,544	14,477,444

March 31, 2013

		Measured at fair value				Measured at amortized cost		
		FVTPL[1]						
	Note	Held-for-trading	Designated as FVTPL	Available-for-sale	Cash flow hedges	Loans and receivables	Financial liabilities	Total
Financial assets								
Cash and cash equivalents						701,678		701,678
Derivative assets		76,757			5,402			82,159
Asset-backed securities	7		3,725	433,728				437,453
Loans	8					15,871,635		15,871,635
Subordinate financing investments	9		557,840					557,840
Venture capital investments	10		456,708					456,708
Other assets[2]						9,714		9,714
Total financial assets		76,757	1,018,273	433,728	5,402	16,583,027	-	18,117,187
Financial liabilities								
Accounts payable and accrued liabilities							106,440	106,440
Derivative liabilities		16,102			110			16,212
Short-term notes							12,731,629	12,731,629
Long-term notes			630,249				506,018	1,136,267
Other liabilities[2]							35,175	35,175
Total financial liabilities		16,102	630,249	-	110	-	13,379,262	14,025,723

[1] Fair value through profit or loss.

[2] Certain items within the other assets and other liabilities categories on the Consolidated Statement of Financial Position are not considered to be financial instruments.

Fair value through profit or loss

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

FINANCIAL INSTRUMENTS CLASSIFIED AS HELD-FOR-TRADING

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

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

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

FINANCIAL INSTRUMENTS DESIGNATED AS FAIR VALUE THROUGH PROFIT OR LOSS

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

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

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

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

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

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

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

Available-for-sale financial assets

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

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

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

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

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 the changes in cash flow of hedged items, both at inception and over the life of the hedge.

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

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

Loans and receivables

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

Financial liabilities measured at amortized cost

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

Major types of financial instruments

Cash equivalents

Cash equivalents include short-term bank notes and reverse repurchase agreements that have maturities at the original acquisition date of less than three months and are used to manage liquidity risk. Reverse repurchase agreements are short-term transactions where BDC purchases assets, normally federal government bonds, from a counterparty, generally a financial institution, and simultaneously agrees to resell them on a specified date and at a specified price. Since by virtue of the reverse repurchase agreement, the counterparty retains the risks and rights associated with the ownership of the financial assets involved, these transactions are accounted for by BDC as secured loans.

Cash equivalents have been classified as loans and receivables.

Asset-backed securities

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

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

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

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

IMPAIRMENT OF ASSET-BACKED SECURITIES

BDC reviews ABS classified as available-for-sale for possible impairment or reversals of previously recognized impairments at each reporting date. BDC determines that ABS are impaired when there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and when that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Refer to Note 5—*Significant Accounting Judgements, Estimates and Assumptions* for more information regarding the criteria used to determine whether an impairment has occurred.

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

Loans

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

ALLOWANCE FOR CREDIT LOSSES

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

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

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

The carrying amounts of impaired loans are first reduced through the use of an allowance account, and then written off if and when all collection efforts have been exhausted and no further prospect of recovery is likely. The amounts of the initial impairment losses, as well as any subsequent increases to or reversals of these impairment losses, are recognized in impairment losses or reversals on loans in the Consolidated Statement of Income.

Loans for which an individual allowance has not been established are then included in groups of assets having similar credit risk characteristics and collectively assessed for any impairment that has been incurred but not yet identified. Refer to Note 5—*Significant Accounting Judgements, Estimates and Assumptions* for more information regarding the criteria used to determine the amount of the allowance.

Subordinate financing and Venture capital investments

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

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

Borrowings

Short-term notes are measured at amortized cost.

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

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

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

Derivatives

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

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

Embedded derivatives that are not closely related to the host contract must be separated and classified as held-for-trading financial instruments, unless the hybrid instrument is designated as fair value through profit or loss. As at June 30, 2013, and March 31, 2013, BDC had no embedded derivatives that needed to be separated from a host contract.

Interest income, interest expense and fee income

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

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

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

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

Property and equipment, and intangible assets

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

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

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

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

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

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

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

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

Post-employment benefits

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

BDC's net post-employment benefit asset or liability in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefits employees have earned in return for their services in the current and prior periods. These benefits are discounted to determine their present value and the fair value of any plan assets is deducted.

The liability is calculated for each plan using the projected unit credit method. In determining the present value of its post-employment benefit liability, 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 post-employment benefit liability is calculated by discounting the estimated future cash outflows using interest rates of high-quality corporate and provincial bonds that have terms to maturity approximating the terms of the obligation.

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

Remeasurements arising from defined benefit plans comprise actuarial gains or losses as well as differences between the return on plan assets and interest income on plan assets. BDC recognizes such remeasurements immediately in other comprehensive income. Current service costs, past service costs, and net interest on the net post-employment asset or liability are recognized in net income.

Equity attributable to BDC's shareholder

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

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

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

Translation of foreign currencies

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

Segmented information

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

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

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

(unaudited, in thousands of Canadian dollars)

4. APPLICATION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Certain pronouncements were issued by the International Accounting Standards Board (IASB) or the IFRS Interpretations Committee that are mandatory for BDC's accounting period beginning on April 1, 2013.

The following new standards and amendments were determined to be relevant to BDC. However, their mandatory adoption did not have a significant impact on the condensed quarterly Consolidated Financial Statements:

> IFRS 10, *Consolidated Financial Statements;*
> IFRS 12, *Disclosures of Interest in Other Entities;*
> IAS 27, *Separate Financial Statements*; and
> IAS 28, *Investments in Associates and Joint Ventures.*

The accounting policies set out in Note 3—*Significant Accounting Policies* reflect the changes resulting from the adoption of the above-mentioned standards and amendments.

The following new standards and amendments adopted by BDC on April 1, 2013, affected amounts reported in these condensed quarterly Consolidated Financial Statements, the presentation of balances or related disclosures.

Amendments to IAS 19, *Employee Benefits*

The amendments to IAS 19, which the IASB issued in June 2011, changed the accounting for defined benefit plans. The most significant change for BDC is the requirement for interest income on plan assets to be computed by applying the discount rate used to measure the plan obligation, as opposed to applying management's best estimate of the expected long-term rate of return on plan assets. The cost of managing plan assets is recorded against the actual return on plan assets, while other administration costs are recorded in net income. Finally, there will be increased disclosure in the annual financial statements.

These amendments were applied retrospectively to these condensed quarterly Consolidated Financial Statements.

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

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

(unaudited, in thousands of Canadian dollars)

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

Consolidated Statement of Comprehensive Income Three months ended June 30, 2012	As previously reported	Amended IAS 19 effects	Restated
Operating and administrative expenses	94,881	2,539	97,420
Net income	110,446	(2,539)	107,907
Remeasurements of net post-employment benefit liability	(69,890)	4,958	(64,932)
Other comprehensive loss	(70,470)	4,958	(65,512)
Comprehensive income	39,976	2,419	42,395

IFRS 13, *Fair Value Measurement*

IFRS 13 defines fair value, provides a common definition of fair value, sets out a framework for measuring fair value, and requires disclosure regarding fair value measurements. Except for the additional disclosure requirements required upon adoption (refer to Note 6—*Fair Value of Financial Instruments*), there is no impact on BDC's quarterly results or financial position.

5. 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 Consolidated Financial Statements are summarized below.

Allowance for credit losses

The allowance for credit losses on loans represents management's estimate of the losses incurred in the loan portfolio at the reporting date and is established at both the individual and collective asset level.

BDC reviews its significant loans individually to assess whether an impairment loss should be recorded. The process requires BDC to make assumptions and judgements by carrying out certain activities, including assessing the impaired status and risk of a loan, and estimating future cash flows and collateral values.

Loans that have been assessed individually and found not to be impaired and all other loans are then collectively assessed for any impairment that has been incurred but not yet identified. In assessing collective impairment, BDC uses statistical modelling of historical portfolio trends, such as default rates and loss rates, adjusted to reflect management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling.

Changes in these assumptions, or the use of other reasonable judgements, can materially affect the allowance level. Refer to Note 8—*Loans* for more information on the allowance for credit losses.

Fair value of financial instruments

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

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

These judgements include considerations of inputs such as the discount rate, the expected rate of return by level of risk and the weighted forecast of cash flows. Changes to these inputs could affect the reported fair value of financial instruments. Refer to Note 3—*Significant Accounting Policies* for more information about the valuation techniques used for each type of financial instrument and to Note 6—*Fair Value of Financial Instruments* for additional information on fair value hierarchy levels.

Impairment of available-for-sale assets

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

Qualifying hedge relationships

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

Post-employment benefit asset and liability

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

Consolidation

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

(unaudited, in thousands of Canadian dollars)

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

				June 30, 2013
	Fair value measurements using			
	Level 1	Level 2	Level 3	Total fair value
Assets				
Derivative assets		60,164		60,164
Asset-backed securities		380,812		380,812
Subordinate financing investments	1,767		564,423	566,190
Venture capital investments	30,421		415,720	446,141
	32,188	440,976	980,143	1,453,307
Liabilities				
Derivative liabilities		17,722		17,722
Long-term notes designated as FVTPL[1]		617,178		617,178
	-	634,900	-	634,900

[1] Fair value through profit or loss.

(unaudited, in thousands of Canadian dollars)

	Fair value measurements using			March 31, 2013
	Level 1	Level 2	Level 3	Total fair value
Assets				
Derivative assets		82,159		82,159
Asset-backed securities		437,453		437,453
Subordinate financing investments	1,809		556,031	557,840
Venture capital investments	32,661		424,047	456,708
	34,470	519,612	980,078	1,534,160
Liabilities				
Derivative liabilities		16,212		16,212
Long-term notes designated as FVTPL[1]		630,249		630,249
	-	646,461	-	646,461

[1] Fair value through profit or loss.

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

	Subordinate financing investments	Venture capital investments	June 30, 2013 Total
Fair value at April 1, 2013	**556,031**	**424,047**	**980,078**
Net realized gains (losses) on investments	**991**	**15,113**	**16,104**
Net change in unrealized appreciation (depreciation) of investments	**(1,087)**	**(12,477)**	**(13,564)**
Net unrealized foreign exchange gains (losses) on investments	**-**	**4,867**	**4,867**
Disbursements for investments	**28,633**	**32,147**	**60,780**
Repayments of investments and other	**(20,145)**	**(47,743)**	**(67,888)**
Transfers from level 3 to level 1	**-**	**(234)**	**(234)**
Fair value at June 30, 2013	**564,423**	**415,720**	**980,143**

(unaudited, in thousands of Canadian dollars)

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

7. ASSET-BACKED SECURITIES

	June 30, 2013	March 31, 2013
Available-for-sale		
Principal amount	**375,398**	431,853
Unamortized loss on initial recognition	**-**	(41)
Cumulative fair value appreciation (depreciation)	**1,023**	1,916
Carrying value	**376,421**	433,728
Yield	**2.45%**	2.64%
Fair value through profit or loss		
Principal amount	**4,288**	3,680
Cumulative fair value appreciation (depreciation)	**103**	45
Carrying value	**4,391**	3,725
Yield	**8.72%**	9.20%
Asset-backed securities	**380,812**	437,453

No asset-backed securities were impaired as at June 30 or March 31, 2013.

(unaudited, in thousands of Canadian dollars)

8. LOANS

The following table provides loans outstanding by maturity date.

	Within 1 year	1 to 5 years	Over 5 years	Total gross amount	Collective allowance	Individual allowance	Total allowance	Total net amount
Performing	**145,287**	**1,746,598**	**14,490,622**	**16,382,507**	**(350,000)**	**-**	**(350,000)**	**16,032,507**
Impaired	**8,232**	**66,509**	**429,224**	**503,965**	**-**	**(186,368)**	**(186,368)**	**317,597**
Loans as at June 30, 2013	**153,519**	**1,813,107**	**14,919,846**	**16,886,472**	**(350,000)**	**(186,368)**	**(536,368)**	**16,350,104**

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

Allowance for credit losses

	June 30, 2013	March 31, 2013
Balance at beginning of period	**538,338**	610,167
Write-offs	**(22,803)**	(90,558)
Effect of discounting	**(3,003)**	(12,876)
Recoveries and other	**3,075**	12,529
	515,607	519,262
Impairment losses (reversals) on loans	**20,761**	19,076
Balance at end of period	**536,368**	538,338

Concentrations of total loans outstanding

Geographic distribution		June 30, 2013		March 31, 2013
Newfoundland and Labrador	**678,264**	**4.0%**	664,217	4.0%
Prince Edward Island	**46,545**	**0.3%**	48,014	0.3%
Nova Scotia	**395,640**	**2.3%**	380,785	2.3%
New Brunswick	**472,359**	**2.8%**	470,993	2.9%
Quebec	**5,735,788**	**33.9%**	5,584,253	34.0%
Ontario	**4,618,458**	**27.4%**	4,511,112	27.6%
Manitoba	**456,621**	**2.7%**	449,771	2.7%
Saskatchewan	**449,119**	**2.7%**	429,878	2.6%
Alberta	**2,095,696**	**12.4%**	1,984,704	12.1%
British Columbia	**1,810,361**	**10.7%**	1,760,439	10.7%
Yukon	**100,686**	**0.6%**	98,955	0.6%
Northwest Territories and Nunavut	**26,935**	**0.2%**	26,852	0.2%
Loans outstanding	**16,886,472**	**100.0%**	16,409,973	100.0%

(unaudited, in thousands of Canadian dollars)

Industry sector		June 30, 2013		March 31, 2013
Manufacturing	**4,128,837**	**24.5%**	4,042,442	24.6%
Wholesale and retail trade	**3,617,152**	**21.4%**	3,513,350	21.4%
Commercial properties	**2,193,896**	**13.0%**	2,211,238	13.6%
Tourism	**2,150,247**	**12.7%**	2,035,027	12.4%
Construction	**1,453,740**	**8.6%**	1,397,565	8.5%
Transportation and storage	**1,022,026**	**6.1%**	998,243	6.1%
Business services	**761,662**	**4.5%**	762,816	4.6%
Other	**1,558,912**	**9.2%**	1,449,292	8.8%
Loans outstanding	**16,886,472**	**100.0%**	16,409,973	100.0%

9. SUBORDINATE FINANCING INVESTMENTS

BDC maintains a medium- to high-risk portfolio of subordinate financing investments. The following table summarizes subordinate financing investments by maturity date.

	Within 1 year	1 to 5 years	Over 5 years	Total cost	Total fair value
As at June 30, 2013	**84,658**	**409,333**	**81,471**	**575,462**	**566,190**
As at March 31, 2013	78,598	377,602	109,834	566,034	557,840

Concentrations of total subordinate financing investments

	June 30, 2013		March 31, 2013	
Geographic distribution	**Fair value**	**Cost**	Fair value	Cost
Newfoundland and Labrador	**12,338**	**14,413**	12,818	14,283
Nova Scotia	**14,264**	**14,346**	13,175	13,257
New Brunswick	**10,530**	**10,313**	10,238	10,021
Quebec	**256,312**	**268,354**	253,416	265,001
Ontario	**177,180**	**176,256**	177,129	176,260
Manitoba	**9,585**	**8,182**	9,601	8,198
Saskatchewan	**3,888**	**3,899**	3,888	3,899
Alberta	**55,745**	**52,916**	51,792	48,868
British Columbia	**23,690**	**23,869**	22,521	22,729
Yukon	**2,658**	**2,914**	3,262	3,518
Subordinate financing investments	**566,190**	**575,462**	557,840	566,034

(unaudited, in thousands of Canadian dollars)

	June 30, 2013		March 31, 2013	
Industry sector	**Fair value**	**Cost**	Fair value	Cost
Manufacturing	**208,908**	**210,316**	199,833	201,329
Business services	**118,485**	**127,946**	119,468	128,518
Wholesale and retail trade	**99,742**	**97,543**	98,297	96,070
Construction	**33,944**	**32,874**	34,400	33,321
Mining, and oil and gas extraction	**25,328**	**23,480**	25,084	23,141
Information industries	**21,431**	**20,502**	19,758	18,831
Transportation and storage	**10,911**	**12,049**	12,267	13,405
Educational services	**9,311**	**10,179**	10,230	10,488
Real estate, and rental and leasing	**7,896**	**7,886**	7,934	7,924
Tourism	**6,491**	**5,638**	6,538	5,685
Other	**23,743**	**27,049**	24,031	27,322
Subordinate financing investments	**566,190**	**575,462**	557,840	566,034

10. VENTURE CAPITAL INVESTMENTS

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

	June 30, 2013		March 31, 2013	
Industry sector	**Fair value**	**Cost**	Fair value	Cost
Information technology	**89,998**	**99,305**	113,289	101,279
Biotechnology and pharmacology	**82,322**	**95,398**	80,995	94,701
Electronics	**58,390**	**70,525**	53,490	66,992
Medical and health	**42,522**	**52,911**	40,257	51,230
Communications	**18,172**	**26,884**	29,509	46,092
Industrial	**7,293**	**15,203**	6,049	15,715
Other	**6,257**	**6,044**	6,336	6,044
Total direct investments	**304,954**	**366,270**	329,925	382,053
Funds	**141,187**	**161,100**	126,783	149,050
Venture capital investments	**446,141**	**527,370**	456,708	531,103

	June 30, 2013		March 31, 2013	
Investment type	**Fair value**	**Cost**	Fair value	Cost
Common shares	**58,985**	**96,603**	61,266	99,668
Preferred shares	**199,001**	**219,557**	224,238	234,816
Debentures	**46,968**	**50,110**	44,421	47,569
Total direct investments	**304,954**	**366,270**	329,925	382,053
Funds	**141,187**	**161,100**	126,783	149,050
Venture capital investments	**446,141**	**527,370**	456,708	531,103

11. SHARE CAPITAL

An unlimited number of common shares, having a par value of $100 each, is authorized. As at June 30 and March 31, 2013, there were 20,884,000 common shares outstanding.

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 June 30, 2013, and March 31, 2013, 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 allowance for credit losses sufficient to ensure that BDC can withstand unfavourable economic circumstances without requiring additional government funding. During the three-month period ended June 30, 2013, and for the fiscal year ended March 31, 2013, BDC complied with its capital adequacy guidelines.

12. SEGMENTED INFORMATION

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

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

Financing provides secured, partially secured and unsecured loans with a focus on small and medium-sized enterprises across Canada.
Subordinate Financing provides flexible debt with or without convertible features and equity-type financing.
Venture Capital provides investments to cover every stage of a technology-based company's development cycle, from seed funding to expansion. BDC also makes indirect investments via venture capital investment funds.
Consulting provides customized consulting services related to business activities.
Securitization purchases investments in asset-backed securities through the Funding Platform for Independent Lenders (F-PIL, formerly known as Multi-Seller Platform for Small Originators) and manages the Canadian Secured Credit Facility investment portfolio. These securities are backed by vehicle and equipment loans and leases, as well as dealer floor plan loans.
Venture Capital Action Plan supports the creation of large private sector-led funds of funds and will also assist existing high-performing funds in partnership with institutional investors, corporate strategic investors, as well as interested provinces.

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

Interest expense is allocated to each operating segment based on its business portfolio and the capital attributed to the segment. The attribution of capital to BDC's business segments is maintained in accordance with the capital adequacy ratios provided by Treasury Board of Canada Secretariat and is consistently aligned with the economic risks of each specific business segment.

Operating and administrative expenses include costs 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 June 30, 2013

	BDC	Financing	Subordinate Financing	Venture Capital	Consulting	Securitization	Venture Capital Action Plan
Interest income	250,153	233,323	14,194	-	-	2,636	-
Interest expense	33,351	30,990	2,013	-	-	348	-
Net interest income (expense)	**216,802**	**202,333**	**12,181**	**-**	**-**	**2,288**	**-**
Net realized gains (losses) on investments	13,903	-	989	12,914	-	-	-
Consulting revenue	4,796	-	-	-	4,796	-	-
Fee and other income	9,429	3,539	4,962	870	-	58	-
Net realized gains (losses) on other financial instruments	(1,819)	402	-	(2,221)	-	-	-
Net revenue (loss)	**243,111**	**206,274**	**18,132**	**11,563**	**4,796**	**2,346**	**-**
Impairment reversals (losses) on loans	(20,761)	(20,761)	-	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	(13,631)	-	(1,077)	(12,612)	-	58	-
Net unrealized foreign exchange gains (losses) on investments	5,778	-	-	5,778	-	-	-
Net unrealized gains (losses) on other financial instruments	(1,991)	(166)	-	(1,825)	-	-	-
Income (loss) before operating and administrative expenses	**212,506**	**185,347**	**17,055**	**2,904**	**4,796**	**2,404**	**-**
Salaries and benefits	69,601	55,766	4,715	3,461	5,205	343	111
Premises and equipment	10,029	8,828	315	395	472	19	-
Other expenses	19,109	13,836	655	1,373	3,136	36	73
Operating and administrative expenses	**98,739**	**78,430**	**5,685**	**5,229**	**8,813**	**398**	**184**
Net income (loss)	**113,767**	**106,917**	**11,370**	**(2,325)**	**(4,017)**	**2,006**	**(184)**
Net income (loss) attributable to:							
BDC's shareholder	112,104	106,917	9,485	(2,103)	(4,017)	2,006	(184)
Non-controlling interests	1,663	-	1,885	(222)	-	-	-
Net income (loss)	**113,767**	**106,917**	**11,370**	**(2,325)**	**(4,017)**	**2,006**	**(184)**
Business segment portfolio at end of period	**17,743,247**	**16,350,104**	**566,190**	**446,141**	**-**	**380,812**	**-**

Three months ended June 30, 2012

	BDC	Financing	Subordinate Financing	Venture Capital	Consulting	Securitization	Venture Capital Action Plan
Interest income	238,094	220,391	12,421	-	-	5,282	-
Interest expense	30,315	26,895	1,882	-	-	1,538	-
Net interest income (expense)	**207,779**	**193,496**	**10,539**	**-**	**-**	**3,744**	**-**
Net realized gains (losses) on investments	(3,376)	-	(1,540)	(1,836)	-	-	-
Consulting revenue	5,988	-	-	-	5,988	-	-
Fee and other income	9,224	3,399	4,688	1,058	-	79	-
Net realized gains (losses) on other financial instruments	2,067	283	-	1,784	-	-	-
Net revenue (loss)	**221,682**	**197,178**	**13,687**	**1,006**	**5,988**	**3,823**	**-**
Impairment reversals (losses) on loans	(15,522)	(15,522)	-	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	371	-	(3,075)	3,411	-	35	-
Net unrealized foreign exchange gains (losses) on investments	2,243	-	-	2,243	-	-	-
Net unrealized gains (losses) on other financial instruments	(3,447)	(119)	-	(3,328)	-	-	-
Income (loss) before operating and administrative expenses	**205,327**	**181,537**	**10,612**	**3,332**	**5,988**	**3,858**	**-**
Salaries and benefits	67,487	54,576	4,265	3,248	5,064	334	-
Premises and equipment	9,380	8,333	222	460	343	22	-
Other expenses	20,553	15,270	499	940	3,780	64	-
Operating and administrative expenses	**97,420**	**78,179**	**4,986**	**4,648**	**9,187**	**420**	**-**
Net income (loss)	**107,907**	**103,358**	**5,626**	**(1,316)**	**(3,199)**	**3,438**	**-**
Net income (loss) attributable to:							
BDC's shareholder	107,723	103,358	5,318	(1,192)	(3,199)	3,438	-
Non-controlling interests	184	-	308	(124)	-	-	-
Net income (loss)	**107,907**	**103,358**	**5,626**	**(1,316)**	**(3,199)**	**3,438**	**-**
Business segment portfolio at end of period	**16,530,488**	**14,973,189**	**495,760**	**389,440**	**-**	**672,099**	**-**

(unaudited, in thousands of Canadian dollars)

13. GUARANTEES

BDC issues "letters of credit and loan guarantees" (guarantees) to support businesses. Those guarantees represent BDC's obligation to make payments to third parties if clients are unable to meet their contractual commitments. The maximum amount payable under the guarantees totalled $26.2 million as at June 30, 2013 ($25.4 million at March 31, 2013).

14. COMMITMENTS

Loans

The undisbursed amount of authorized loans was $1,844,928 at June 30, 2013 ($277,329 fixed rate; $1,567,599 floating rate) and is expected to be disbursed within the next 12 months. The weighted average effective interest rate was 4.98% on loan commitments (5.01% at March 31, 2013). The following tables present undisbursed amounts of authorized loans by location and industry.

Commitments, by geographic distribution	**June 30, 2013**		March 31, 2013	
Newfoundland and Labrador	**79,379**	**4.3%**	73,891	4.0%
Prince Edward Island	**581**	**0.1%**	636	0.1%
Nova Scotia	**58,380**	**3.2%**	70,179	3.8%
New Brunswick	**22,579**	**1.2%**	21,059	1.1%
Quebec	**607,449**	**32.8%**	570,122	30.8%
Ontario	**399,545**	**21.7%**	478,959	25.9%
Manitoba	**32,926**	**1.8%**	37,610	2.0%
Saskatchewan	**103,800**	**5.6%**	83,533	4.5%
Alberta	**357,581**	**19.4%**	361,516	19.5%
British Columbia	**172,163**	**9.3%**	143,813	7.8%
Yukon	**6,739**	**0.4%**	8,592	0.4%
Northwest Territories and Nunavut	**3,806**	**0.2%**	1,218	0.1%
Total	**1,844,928**	**100.0%**	1,851,128	100.0%

(unaudited, in thousands of Canadian dollars)

Commitments, by industry distribution	June 30, 2013		March 31, 2013	
Manufacturing	**389,713**	**21.1%**	424,501	22.9%
Tourism	**281,670**	**15.3%**	253,476	13.7%
Wholesale and retail trade	**250,741**	**13.6%**	271,055	14.7%
Construction	**195,032**	**10.6%**	186,028	10.0%
Commercial properties	**168,182**	**9.1%**	211,738	11.4%
Transportation and storage	**150,259**	**8.1%**	138,526	7.5%
Business services	**100,972**	**5.5%**	84,171	4.5%
Other	**308,359**	**16.7%**	281,633	15.3%
Total	**1,844,928**	**100.0%**	1,851,128	100.0%

Subordinate financing

The undisbursed amount of authorized loans was $52,948 at June 30, 2013 ($43,223 fixed rate; $9,725 floating rate) and is expected to be disbursed within the next 12 months. The weighted average effective interest rate was 10.83% on loan commitments (10.30% at March 31, 2013). The following tables present undisbursed amounts of authorized loans by location and industry.

Commitments, by geographic distribution	June 30, 2013		March 31, 2013	
Newfoundland and Labrador	**200**	**0.4%**	500	1.3%
New Brunswick	**1,250**	**2.4%**	1,000	2.5%
Quebec	**17,859**	**33.7%**	9,595	24.3%
Ontario	**18,111**	**34.1%**	15,459	39.1%
Saskatchewan	**625**	**1.2%**	-	-
Alberta	**8,453**	**16.0%**	8,703	22.0%
British Columbia	**5,200**	**9.8%**	4,250	10.8%
Northwest Territories and Nunavut	**1,250**	**2.4%**	-	-
Total	**52,948**	**100.0%**	39,507	100.0%

Commitments, by industry distribution	June 30, 2013		March 31, 2013	
Manufacturing	**10,264**	**19.3%**	22,035	55.7%
Construction	**9,750**	**18.4%**	250	0.6%
Business services	**9,620**	**18.2%**	7,733	19.6%
Wholesale and retail trade	**9,311**	**17.6%**	3,986	10.1%
Information industries	**7,150**	**13.5%**	1,400	3.5%
Mining, and oil and gas extraction	**4,453**	**8.4%**	3,703	9.4%
Transportation and storage	**300**	**0.6%**	300	0.8%
Tourism	**100**	**0.2%**	100	0.3%
Other	**2,000**	**3.8%**	-	-
Total	**52,948**	**100.0%**	39,507	100.0%

(unaudited, in thousands of Canadian dollars)

Venture capital

The undisbursed amount of authorized venture capital investments was $277,261 at June 30, 2013, and was related to the following industry sectors.

Industry sector		June 30, 2013		March 31, 2013
Biotechnology and pharmacology	**11,035**	**4.0%**	12,728	4.5%
Information technology	**4,987**	**1.8%**	4,175	1.4%
Electronics	**2,316**	**0.9%**	2,916	1.0%
Medical and health	**1,454**	**0.5%**	2,674	0.9%
Communications	**308**	**0.1%**	308	0.1%
Industrial	**-**	**-**	300	0.1%
Other	**381**	**0.1%**	381	0.1%
Total direct investments	**20,481**	**7.4%**	23,482	8.1%
Funds	**256,780**	**92.6%**	267,297	91.9%
Venture capital investments	**277,261**	**100.0%**	290,779	100.0%

Asset-backed securities

The undisbursed amount of authorized asset-backed securities was $435,000 at June 30, 2013 ($472,000 at March 31, 2013).

Leases

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

15. RELATED PARTY TRANSACTIONS

As at June 30, 2013, BDC had $13,130.6 million outstanding in short-term notes and $543.1 million outstanding in long-term notes (excluding accrued interest) with Her Majesty the Queen in Right of Canada acting through the Minister of Finance ($12,708.6 million in short-term notes and $505.7 million in long-term notes at March 31, 2013).

Accrued interest on borrowings included $6.5 million payable to the Minister of Finance as at June 30, 2013 ($6.0 million at March 31, 2013).

BDC recorded $32.4 million in interest expense, related to the borrowings with the Minister of Finance, for the first quarter ended June 30, 2013. Last year's figure for the same period was $29.2 million.

In addition, no borrowings with the Minister of Finance were repurchased in the first quarter of fiscal 2014 (no borrowings were repurchased during 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.

16. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current quarter's presentation.

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