Entrepreneurs first

2014

THIRD QUARTER

FINANCIAL REPORT

December 31, 2013

Canada

EXECUTIVE SUMMARY

The Canadian economy continues to grow at a modest pace, supported by consumer spending but still awaiting a boost from stronger exports. Elevated household debt is limiting growth in consumer spending and the housing market, which softened in 2013, is not expected to contribute to economic growth in 2014.

Business investment was flat in 2013 mainly due to a decrease in the resource sectors. Both non-residential and machinery and equipment spending should increase in 2014.

An anticipated increase in exports has been slow to materialize, explaining the modest growth in the Canadian economy in 2013. As the U.S. economy gains momentum and the Canadian dollar weakens, exports should spur the economy to faster growth in 2014.

Business credit continued to expand in 2013. As of November, total business credit had increased by 7.0% over 12 months, with short-term credit increasing by 8.8% and long-term credit by 6.3%.[1] BDC's lending activity also increased in line with this trend, but to a lesser extent than that of the chartered banks as a result of BDC's continued focus on complementarity.

Clients of BDC Financing[2] accepted $1.0 billion in loans this quarter versus $1.1 billion for the same period last year. For the nine months ended December 31, they accepted a total of $3.2 billion in loans, compared to $3.3 billion last year.

As at December 31, BDC Financing's[2] loan portfolio, before allowance for credit losses, stood at $17.4 billion, a 6.4% increase since March 31.

As a result of BDC's continued focus on small loans, 1,621 clients accepted loans of $250,000 or less for a total of $122.7 million this quarter, compared to 1,517 clients and $114.5 million for the same period last year. For the nine months ended December 31, 2013, 5,088 clients accepted loans of $250,000 or less for a total of $394.5 million, compared to 3,483 clients for $262.8 million last year.

During the quarter, BDC Subordinate Financing continued to play an important role in supporting the growth plans of entrepreneurs through its specialized products. Clients of BDC Subordinate Financing accepted $40.9 million in financing in the third quarter, for a total of $145.0 million for the nine-month period, compared to $33.3 million and $145.5 million, respectively, for the same period last year.

To support innovative Canadian companies and create the conditions for success in the venture capital ecosystem, BDC Venture Capital authorized investments totalling $37.6 million in the third quarter, compared to $53.7 million in the same period last year. For the nine-month period ended December 31, a total of $70.2 million was authorized, compared to $104.8 million in the same period last year. The decreased activity during the first nine months reflects smaller-than-expected follow-on investments and lower indirect investments.

BDC continues to support entrepreneurs with its strategic initiatives program to foster entrepreneurial development and act as a venture capital industry facilitator.

(1) Source: Bank of Canada.

(2) 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

BDC is providing support and advice to the federal government as it implements the Venture Capital Action Plan (VCAP), a comprehensive strategy for deploying $400 million in new capital to increase private sector venture capital financing for high-potential, innovative Canadian businesses. During the quarter, $50.0 million in investments was authorized as part of VCAP for a total of $100.0 million as at December 31, 2013.

Among the highlights in BDC's other lines of business, BDC Consulting initiated 716 new mandates during the quarter for a total of 1,993 mandates for the nine-month period. This compares to 586 and 1,542, respectively, for the same periods last year.

BDC Consulting plays an important role in our efforts to make Canadian entrepreneurs competitive. During the quarter, we finalized the framework for a new consulting model. In coming quarters, we will be implementing this strategy to better help entrepreneurs build more resilient, productive and growth-oriented companies.

BDC is maintaining its role in the securitization market, which helps small and medium-sized enterprises (SMEs) access financing for the vehicles and equipment they need to improve productivity. As at December 31, total asset-backed securities (ABS) stood at $318.3 million. For the nine- month period ended December 31, 2013, disbursements totalled $154.8 million compared to $144.4 million for the same period last year. All ABS issued under the Canadian Secured Credit Facility (CSCF) program were fully repaid during the quarter.

In the third quarter of fiscal 2014, BDC posted consolidated net income of $118.1 million,(3) compared to $100.4 million(3) for the same period last year. The increase was mostly attributable to lower net fair value depreciation of BDC Venture Capital investments, as well as higher net interest and fee income as a result of the growth in BDC Financing's portfolio. Net income for the nine-month period was $318.3 million,(4) $50.6 million lower than the $368.9 million(4) recorded last year.

For the quarter, consolidated total comprehensive income was $191.9 million, compared to $119.7 million for the same period last year. The increase was mostly due to remeasurement gains on net post-employment benefits. For the most part, these gains were caused by higher returns on pension plan assets and higher discount rates used to value the post-employment benefit liability. For the nine-month period, total comprehensive income was $476.7 million, compared to $292.5 million for the same period last year.

BDC's Small Business Week – our national celebration of entrepreneurship – took place from October 20 to 26. The theme for the 2013 edition was *Success Ahead! Map your future growth.* For 34 years, BDC has been organizing Small Business Week to highlight the achievements of entrepreneurs and their contribution to Canadian prosperity.

---

(3) Including $0.4 million and $1.4 million in net income attributable to non-controlling interests for fiscal 2014 and 2013, respectively.

(4) Including $4.2 million and $4.0 million in net income attributable to non-controlling interests for fiscal 2014 and 2013, respectively.

TABLE OF CONTENTS

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

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

CONTEXT OF THE QUARTERLY FINANCIAL REPORT

The *Financial Administration Act* requires that all departments and parent Crown corporations prepare and make public a quarterly financial report. 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 sound practices of enterprise risk management (ERM).

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 Credit and Risk Committee review quarterly ERM reports and monitor the effectiveness of BDC’s ERM practices. In each line of business, management ensures that governance activities, controls, processes and procedures are consistent with BDC’s sound ERM practices.

No significant changes were made to BDC’s ERM practices and no new risks were identified during the quarter ended December 31, 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 nine-month period ended December 31, 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 six business segments: Financing, Subordinate Financing, Venture Capital, Consulting, Securitization and Venture Capital Action Plan (VCAP). 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 and the audited annual Consolidated Financial Statements in the fiscal 2013 Annual Report.

Net Income

	Three months ended December 31		Nine months ended December 31	
($ in millions)	**F2014**	F2013	**F2014**	F2013
Financing	**116.9**	110.8	**323.2**	367.9
Subordinate Financing	**6.9**	9.0	**12.9**	35.2
Venture Capital	**(3.0)**	(19.2)	**(10.5)**	(34.2)
Consulting	**(3.8)**	(2.8)	**(11.5)**	(9.1)
Securitization	**1.3**	2.6	**5.0**	9.1
Venture Capital Action Plan	**(0.2)**	-	**(0.8)**	-
Net income	**118.1**	100.4	**318.3**	368.9
Net income attributable to:				
BDC's shareholder	**117.7**	99.0	**314.1**	364.9
Non-controlling interests	**0.4**	1.4	**4.2**	4.0
Net income	**118.1**	100.4	**318.3**	368.9

Three Months Ended December 31

BDC reported consolidated net income of $118.1 million for the third quarter ended December 31, 2013, comprising $117.7 million attributable to BDC's shareholder and $0.4 million to non-controlling interests. This compares to $100.4 million in consolidated net income for the third quarter of fiscal 2013, of which $1.4 million was attributable to non-controlling interests.

Net income in the third quarter of fiscal 2014 was higher than in the corresponding period of fiscal 2013 due primarily to higher net interest and fee income as a result of the growth in BDC Financing's portfolio and lower net fair value depreciation of BDC Venture Capital investments. Refer to the BDC Financing and BDC Venture Capital sections of this analysis for further information.

Nine Months Ended December 31

BDC consolidated net income was $318.3 million for the nine months ended December 31, 2013, lower than the $368.9 million recorded for the same period last year as a result of lower net income in BDC Financing and BDC Subordinate Financing, offset by a decrease in losses in BDC Venture Capital. Refer to the BDC Financing, BDC Subordinate Financing and BDC Venture Capital sections of this analysis for further information.

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

Comprehensive Income

	Three months ended December 31		Nine months ended December 31	
($ in millions)	**F2014**	F2013	**F2014**	F2013
Net income	**118.1**	100.4	**318.3**	368.9
Other comprehensive income (loss)				
Items that may be reclassified subsequently to net income				
Net change in unrealized gains (losses) on available-for-sale assets	**0.6**	(0.9)	**(0.3)**	(3.9)
Net change in unrealized gains (losses) on cash flow hedges	**(0.3)**	(1.4)	**(2.8)**	(1.8)
Total items that may be reclassified subsequently to net income	**0.3**	(2.3)	**(3.1)**	(5.7)
Items that will not be reclassified subsequently to net income				
Remeasurements of net post-employment benefit asset or liability	**73.5**	21.6	**161.5**	(70.7)
Other comprehensive income (loss)	**73.8**	19.3	**158.4**	(76.4)
Total comprehensive income	**191.9**	119.7	**476.7**	292.5
Total comprehensive income attributable to:				
BDC's shareholder	**191.5**	118.3	**472.5**	288.5
Non-controlling interests	**0.4**	1.4	**4.2**	4.0
Total comprehensive income	**191.9**	119.7	**476.7**	292.5

Three and Nine Months Ended December 31

Consolidated total comprehensive income for the third quarter was $191.9 million, comprising $118.1 million in consolidated net income and $73.8 million in other comprehensive income. For the nine-month period ended December 31, 2013, BDC reported total comprehensive income of $476.7 million, comprising $318.3 million in consolidated net income and $158.4 million in other comprehensive income.

BDC recorded other comprehensive income of $73.8 million and $158.4 million, respectively, for the third quarter and the nine-month period ended December 31, 2013, compared to other comprehensive income of $19.3 million and other comprehensive loss of $76.4 million for the same periods last year. Remeasurement gains of $73.5 million on the net post-employment benefits contributed to the increase in total comprehensive income in the third quarter. These gains were caused by higher returns on pension plan assets and higher discount rates used to value the post-employment benefit liability.

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 nine-month period ended December 31, 2013. For additional details of the impact of these amendments, refer to Note 4—*Application of New and Amended International Financial Reporting Standards* to the quarterly Consolidated Financial Statements.

BDC Financing Results

	Three months ended December 31		Nine months ended December 31	
($ in millions)	**F2014**	F2013	**F2014**	F2013
Net interest and fee income	**214.5**	201.4	**627.7**	597.7
Impairment reversals (losses) on loans	**(12.6)**	(9.9)	**(60.6)**	11.4
Net gains (losses) on other financial instruments	**(0.1)**	4.4	**0.1**	3.7
Income before operating and administrative expenses	**201.8**	195.9	**567.2**	612.8
Operating and administrative expenses	**84.9**	85.1	**244.0**	244.9
Income from Financing	**116.9**	110.8	**323.2**	367.9

	Three months ended December 31		Nine months ended December 31	
As % of average portfolio	**F2014**	F2013	**F2014**	F2013
Net interest and fee income	**4.9**	5.0	**4.9**	5.0
Impairment reversals (losses) on loans	**(0.3)**	(0.2)	**(0.5)**	0.1
Net gains (losses) on other financial instruments	**-**	0.1	**-**	-
Income before operating and administrative expenses	**4.6**	4.9	**4.4**	5.1
Operating and administrative expenses	**1.9**	2.1	**1.9**	2.1
Income from Financing	**2.7**	2.8	**2.5**	3.0

Three Months Ended December 31

BDC Financing's income was $116.9 million for the third quarter of fiscal 2014, compared to $110.8 million for the same period last year.

Net interest and fee income increased by $13.1 million or 6.5%. The net interest and fee income growth was mainly driven by portfolio growth, offset in part by lower interest rates. An increase in individual impairment losses resulted in higher total impairment losses on loans this quarter compared to the same period last year. BDC Financing recorded net unrealized losses on other financial instruments of $0.1 million in the third quarter compared to a gain of $4.4 million for the same period last year, as a result of interest and foreign exchange rate movements.

Nine Months Ended December 31

Income from BDC Financing was $323.2 million for the nine-month period ended December 31, 2013, $44.7 million lower than for the same period last year. An increase in net interest and fee income of $30.0 million was offset by an increase in impairment losses on loans. For the nine-month period ended December 31, 2013, BDC Financing recorded a total impairment loss on loans of $60.6 million, comprising individual impairment losses of $70.6 million and collective impairment reversals of $10.0 million (individual impairment losses of $38.6 million and collective impairment reversals of $50.0 million for the same period last year). Despite the increase in impairment losses, the level of losses is low. The loan portfolio is continuing to perform positively.

Operating and administrative expenses for the nine-month period ended December 31, 2013, were slightly lower than last year mainly as a result of capitalization of project costs related to BDC investments in its Agility and Efficiency (A&E) Program.

BDC Subordinate Financing Results

	Three months ended December 31		Nine months ended December 31	
($ in millions)	**F2014**	F2013	**F2014**	F2013
Net revenue on investments	**10.8**	14.5	**54.5**	43.7
Net change in unrealized appreciation (depreciation) of investments	**3.0**	0.8	**(23.1)**	7.8
Income before operating and administrative expenses	**13.8**	15.3	**31.4**	51.5
Operating and administrative expenses	**6.9**	6.3	**18.5**	16.3
Income (loss) from Subordinate Financing	**6.9**	9.0	**12.9**	35.2
Income (loss) attributable to:				
BDC's shareholder	**6.5**	7.1	**8.4**	28.4
Non-controlling interests	**0.4**	1.9	**4.5**	6.8
Income (loss) from Subordinate Financing	**6.9**	9.0	**12.9**	35.2

Three Months Ended December 31

BDC Subordinate Financing's income for the third quarter of fiscal 2014 was $6.9 million, compared to a net income of $9.0 million for the same period last year.

Net revenue on investments of $10.8 million for the third quarter was lower than the $14.5 million recorded last year, mainly due to lower fee and other income.

The net change in unrealized appreciation of investments of $3.0 million for the quarter included:

> a $1.7 million net fair value depreciation ($2.1 million net fair value depreciation in fiscal 2013); and
> a reversal of net fair value depreciation due to net realized losses totalling $4.7 million (reversal of net fair value depreciation due to net realized losses of $2.9 million in fiscal 2013).

Nine Months Ended December 31

For the nine months ended December 31, 2013, BDC Subordinate Financing recorded income of $12.9 million, down $22.3 million from the same period last year. Income included $4.5 million attributable to non-controlling interests in fiscal 2014 and $6.8 million in fiscal 2013.

Net revenue on investments was $10.8 million higher than in the same period last year, due to higher net interest income as a result of portfolio growth ($2.6 million), higher fee and other income ($1.4 million), and lower realized losses ($6.8 million).

The net change in unrealized depreciation of investments of $23.1 million for the nine months ended December 31, 2013, represented an increase in depreciation of $30.9 million as compared to the same period last year, and included:

> a $21.3 million net fair value depreciation ($4.1 million net fair value appreciation in fiscal 2013); and
> a reversal of net fair value appreciation due to net realized gains totalling $1.8 million (reversal of $3.7 million net fair value depreciation due to net realized losses in fiscal 2013).

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

BDC Venture Capital Results

	Three months ended December 31		Nine months ended December 31	
($ in millions)	**F2014**	F2013	**F2014**	F2013
Net revenue (loss) on investments	**(7.2)**	(5.3)	**(4.2)**	(24.7)
Net change in unrealized appreciation (depreciation) of investments	**8.1**	(9.6)	**6.7**	4.2
Net unrealized foreign exchange gains (losses) on investments	**4.4**	1.7	**7.3**	(0.4)
Net gains (losses) on other financial instruments	**(3.2)**	(1.1)	**(5.0)**	1.0
Income (loss) before operating and administrative expenses	**2.1**	(14.3)	**4.8**	(19.9)
Operating and administrative expenses	**5.1**	4.9	**15.3**	14.3
Loss from Venture Capital	**(3.0)**	(19.2)	**(10.5)**	(34.2)
Loss attributable to:				
BDC's shareholder	**(3.0)**	(18.7)	**(10.2)**	(31.4)
Non-controlling interests	**-**	(0.5)	**(0.3)**	(2.8)
Loss from Venture Capital	**(3.0)**	(19.2)	**(10.5)**	(34.2)

Three Months Ended December 31

During the third quarter of fiscal 2014, BDC Venture Capital recorded a $3.0 million loss, compared to a loss of $19.2 million for the same period last year.

The net change in unrealized appreciation of investments of $8.1 million was $17.7 million higher than the $9.6 million net change in unrealized depreciation recorded last year and accounted for most of the improvement in BDC Venture Capital results during the third quarter of fiscal 2014.

The net change in unrealized appreciation of $8.1 million for the quarter included the following:

- a $2.0 million net fair value depreciation of the portfolio ($15.1 million depreciation last year); and
- a reversal of net fair value depreciation on divested investments and write-offs totalling $10.1 million (a reversal of $5.5 million of net fair value depreciation last year).

Nine Months Ended December 31

For the nine months ended December 31, 2013, BDC Venture Capital recorded a $10.5 million loss, compared to a loss of $34.2 million for the same period last year. The results included a loss of $0.3 million and a loss of $2.8 million attributable to non-controlling interests, respectively.

Net loss on investments was $4.2 million for the nine months ended December 31, 2013, compared to $24.7 million for the same period last year. This improvement was a result of the divestiture of an investee company, offset by an increase in write-offs.

The net change in unrealized appreciation of investments of $6.7 million for the nine-month period ended December 31, 2013, included the following:

- a $3.4 million net fair value appreciation of the portfolio ($24.8 million depreciation last year); and
- a reversal of net fair value depreciation on divested investments and write-offs totalling $3.3 million (a reversal of $29.0 million of net fair value depreciation and write-offs 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.

As part of its objective to enhance the VC ecosystem at the early and seed stages, BDC Venture Capital is working with the Department of Foreign Affairs, Trade and Development (DFATD) to expand the Canadian Technology Accelerator program to help bolster Canadian businesses' activities in the U.S. Costs associated with BDC Venture Capital's partnership with DFATD have thus partly contributed to the increase in operating and administrative expenses.

BDC Consulting Results

	Three months ended December 31		Nine months ended December 31	
($ in millions)	**F2014**	F2013	**F2014**	F2013
Revenue	**5.3**	6.0	**15.8**	17.6
Operating and administrative expenses	**9.1**	8.8	**27.3**	26.7
Loss from Consulting	**(3.8)**	(2.8)	**(11.5)**	(9.1)

Three and Nine Months Ended December 31

BDC Consulting's loss was $3.8 million for the third quarter of fiscal 2014, higher than the $2.8 million loss recorded for the same quarter last year. The cumulative loss for the nine-month period ended December 31, 2013, was $11.5 million, compared to $9.1 million for the same period last year. On a year-to-date basis, operating and administrative expenses in fiscal 2014 were slightly higher than those recorded for the same period last year.

BDC is completing a review of its consulting model to refine and enhance its approach to providing value-added advisory services that have maximum impact on entrepreneurs. During the quarter, BDC finalized the framework for a new consulting model and started the execution phase of the transition. During the transition, higher losses are anticipated in BDC Consulting.

BDC Securitization Results

	Three months ended December 31		Nine months ended December 31	
($ in millions)	**F2014**	F2013	**F2014**	F2013
Net interest and fee income	**1.6**	3.1	**6.1**	10.4
Net gains (losses) on other financial instruments	**-**	(0.1)	**-**	(0.1)
Income before operating and administrative expenses	**1.6**	3.0	**6.1**	10.3
Operating and administrative expenses	**0.3**	0.4	**1.1**	1.2
Income from Securitization	**1.3**	2.6	**5.0**	9.1

Three and Nine Months Ended December 31

Income from BDC Securitization for the third quarter of fiscal 2014 was $1.3 million, for a total of $5.0 million for the nine-month period ended December 31, 2013. This compares to income from BDC Securitization of $2.6 million and $9.1 million, respectively, for the same periods 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 net repayments. During the quarter, all asset-backed securities issued under the Canadian Secured Credit Facility program were fully repaid.

Operating and administrative expenses for the nine-month period ended December 31, 2013, were slightly lower than those reported for the same period last year.

BDC Venture Capital Action Plan Results

Three and Nine Months Ended December 31

In Budget 2012, the federal government indicated it would invest $400.0 million to increase private sector venture capital financing for high-potential, innovative Canadian businesses. In January 2013, the Prime Minister announced the Venture Capital Action Plan (VCAP), a comprehensive strategy for deploying new capital. The government has requested BDC's support and advice in the deployment of VCAP.

BDC allocated resources to support the operations of this new business line. For the nine months ended December 31, 2013, $0.8 million in operating and administrative expenses were incurred, mostly for salaries and benefits.

Consolidated Statement of Financial Position and Cash Flows

As at December 31, 2013, total BDC assets amounted to $19.3 billion, an increase of $1.1 billion from March 31, 2013, mainly due to the increase in loans.

At $16.9 billion, the loan portfolio represented BDC's largest asset ($17.4 billion in gross portfolio and a $0.5 billion allowance for credit losses). The gross loan portfolio grew by 6.4% in the nine months after March 31, 2013.

As for BDC's investment portfolios, the BDC Subordinate Financing portfolio stood at $559.9 million, compared to $557.8 million as at March 31, 2013. Net investment disbursements accounted for most of the increase; however, this was offset by a net fair value depreciation of the portfolio. The BDC Venture Capital portfolio was $468.2 million at December 31, 2013, compared to $456.7 million as at March 31, 2013. The increase in this portfolio was mainly due to investment disbursements, partially offset by the divestiture of an investee company during the first quarter and write-offs. The BDC Venture Capital Action Plan portfolio stood at $1.6 million, as the first disbursements for this portfolio were made during the third quarter of fiscal 2014.

The asset-backed securities (ABS) portfolio stood at $318.3 million, compared to $437.5 million at March 31, 2013. This portfolio consists mainly of implied investment-grade securities purchased under the Funding Platform for Independent Lenders (F-PIL) program. The decline of the portfolio is due to net repayments of ABS.

Derivative assets of $47.8 million and derivative liabilities of $11.7 million reflected the fair value of derivative financial instruments as at December 31, 2013. Net derivative fair value decreased by $29.9 million, compared to the fair value at March 31, 2013, primarily as the result of a decrease in the fair value of interest rate swaps.

As at December 31, 2013, BDC recorded a post-employment benefit asset of $158.5 million related to the registered pension plan, and a post-employment benefit liability of $158.4 million for the other plans, for a total net post-employment benefit asset of $0.1 million. This represents an increase of $191.3 million compared to the net post-employment benefit liability as at March 31, 2013. This significant increase was primarily the result of remeasurement gains on post-employment benefits recorded during the nine-month period ended December 31, 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 8 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 $670.5 million at December 31, 2013, compared to $701.7 million at March 31, 2013. For the nine-month period ended December 31, 2013, cash flow provided by investing activities amounted to $58.6 million, as a result of net repayments of asset-backed securities offset by net disbursements for subordinate financing and venture capital investments. Financing activities provided $667.8 million in cash flow, mainly as a result of the issuance of short-term notes, offset by the repayment of long-term notes, while operating activities used $757.6 million, mainly due to the increase in the loans portfolio.

At December 31, 2013, BDC funded its portfolios and liquidities with borrowings of $14.6 billion and total equity of $4.3 billion. Borrowings comprised $13.8 billion in short-term notes and $0.8 billion in long-term notes.

CONSOLIDATED FINANCIAL STATEMENTS

(unaudited, in thousands of Canadian dollars)

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

Management is responsible for the preparation and fair presentation of these condensed 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 condensed 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 condensed 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 condensed 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
February 12, 2014

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(unaudited)

(in thousands of Canadian dollars)	Notes	December 31, 2013	March 31, 2013	April 1, 2012[1]
ASSETS				
Cash and cash equivalents		**670,521**	701,678	740,667
Derivative assets		**47,793**	82,159	87,681
Loans and investments				
Asset-backed securities	8	**318,267**	437,453	763,200
Loans	9	**16,927,387**	15,871,635	14,739,271
Subordinate financing investments	10	**559,884**	557,840	457,369
Venture capital investments	11	**468,189**	456,708	358,951
Venture capital action plan investments		**1,601**	-	-
Total loans and investments		**18,275,328**	17,323,636	16,318,791
Property and equipment		**26,491**	25,671	25,171
Intangible assets		**54,631**	35,314	32,094
Post-employment benefit asset		**158,457**	-	-
Other assets		**19,982**	15,447	15,478
Total assets		**19,253,203**	18,183,905	17,219,882
LIABILITIES AND EQUITY				
Liabilities				
Accounts payable and accrued liabilities		**88,728**	106,440	89,229
Derivative liabilities		**11,700**	16,212	17,244
Borrowings				
Short-term notes		**13,794,538**	12,731,629	11,214,813
Long-term notes		**812,642**	1,136,267	2,008,943
Total borrowings		**14,607,180**	13,867,896	13,223,756
Post-employment benefit liability		**158,440**	191,245	218,378
Other liabilities		**47,933**	46,437	44,223
Total liabilities		**14,913,981**	14,228,230	13,592,830
Equity				
Share capital	12	**2,088,400**	2,088,400	2,088,400
Contributed surplus		**27,778**	27,778	27,778
Retained earnings		**2,164,086**	1,748,156	1,380,408
Accumulated other comprehensive income		**5,537**	8,568	15,185
Equity attributable to BDC's shareholder		**4,285,801**	3,872,902	3,511,771
Non-controlling interests		**53,421**	82,773	115,281
Total equity		**4,339,222**	3,955,675	3,627,052
Total liabilities and equity		**19,253,203**	18,183,905	17,219,882

Guarantees (Note 14)

Commitments (Note 15)

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 December 31 2013	Three months ended December 31 2012[1]	Nine months ended December 31 2013	Nine months ended December 31 2012[1]
Interest income	**259,301**	245,509	**763,248**	725,593
Interest expense	**33,934**	31,798	**102,614**	93,227
Net interest income	**225,367**	213,711	**660,634**	632,366
Net realized gains (losses) on investments	**(15,394)**	(11,413)	**(8,359)**	(35,994)
Consulting revenue	**5,320**	6,049	**15,843**	17,577
Fee and other income	**9,824**	11,252	**31,709**	30,606
Net realized gains (losses) on other financial instruments	**(394)**	2,450	**(3,814)**	5,089
Net revenue	**224,723**	222,049	**696,013**	649,644
Impairment reversals (losses) on loans	**(12,558)**	(9,907)	**(60,574)**	11,415
Net change in unrealized appreciation (depreciation) of investments	**11,072**	(8,687)	**(16,283)**	12,115
Net unrealized foreign exchange gains (losses) on investments	**4,400**	1,653	**7,288**	(360)
Net unrealized gains (losses) on other financial instruments	**(2,956)**	784	**(1,057)**	(459)
Income before operating and administrative expenses	**224,681**	205,892	**625,387**	672,355
Salaries and benefits	**71,007**	68,246	**212,193**	203,103
Premises and equipment	**10,202**	9,369	**30,074**	28,162
Other expenses	**25,320**	27,864	**64,810**	72,191
Operating and administrative expenses	**106,529**	105,479	**307,077**	303,456
Net income	**118,152**	100,413	**318,310**	368,899
Net income attributable to:				
BDC's shareholder	**117,716**	99,033	**314,053**	364,838
Non-controlling interests	**436**	1,380	**4,257**	4,061
Net income	**118,152**	100,413	**318,310**	368,899

The accompanying notes are an integral part of these Consolidated Financial Statements and Note 13 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 December 31 2013	Three months ended December 31 2012[1]	Nine months ended December 31 2013	Nine months ended December 31 2012[1]
Net income	**118,152**	100,413	**318,310**	368,899
Other comprehensive income (loss)				
Items that may be reclassified subsequently to net income				
Net change in unrealized gains (losses) on available-for-sale assets	**624**	(897)	**(309)**	(3,922)
Net change in unrealized gains (losses) on cash flow hedges	**(299)**	(1,368)	**(2,722)**	(1,836)
Total items that may be reclassified subsequently to net income	**325**	(2,265)	**(3,031)**	(5,758)
Items that will not be reclassified to net income				
Remeasurements of net post-employment benefit asset or liability	**73,474**	21,555	**161,470**	(70,714)
Other comprehensive income (loss)	**73,799**	19,290	**158,439**	(76,472)
Total comprehensive income	**191,951**	119,703	**476,749**	292,427
Total comprehensive income attributable to:				
BDC's shareholder	**191,515**	118,323	**472,492**	288,366
Non-controlling interests	**436**	1,380	**4,257**	4,061
Total comprehensive income	**191,951**	119,703	**476,749**	292,427

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 December 31
(unaudited)

(in thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss) Available-for-sale assets	Accumulated other comprehensive income (loss) Cash flow hedges	Accumulated other comprehensive income (loss) Total	Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
Balance at September 30, 2013	**2,088,400**	**27,778**	**1,972,896**	**984**	**4,228**	**5,212**	**4,094,286**	**59,901**	**4,154,187**
Total comprehensive income									
Net income			**117,716**				**117,716**	**436**	**118,152**
Other comprehensive income (loss)									
Net change in unrealized gains (losses) on available-for-sale assets				**624**		**624**	**624**		**624**
Net change in unrealized gains (losses) on cash flow hedges					**(299)**	**(299)**	**(299)**		**(299)**
Remeasurements of net post-employment benefit asset or liability			**73,474**				**73,474**		**73,474**
Other comprehensive income (loss)	**-**	**-**	**73,474**	**624**	**(299)**	**325**	**73,799**	**-**	**73,799**
Total comprehensive income	**-**	**-**	**191,190**	**624**	**(299)**	**325**	**191,515**	**436**	**191,951**
Dividends on common shares			**-**				**-**		**-**
Distributions to non-controlling interests								**(7,524)**	**(7,524)**
Capital injections from non-controlling interests								**608**	**608**
Transactions with owner, recorded directly in equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(6,916)**	**(6,916)**
Balance at December 31, 2013	**2,088,400**	**27,778**	**2,164,086**	**1,608**	**3,929**	**5,537**	**4,285,801**	**53,421**	**4,339,222**

(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 September 30, 2012	2,088,400	27,778	1,485,320	3,326	8,366	11,692	3,613,190	101,203	3,714,393
Total comprehensive income									
Net income			99,033				99,033	1,380	100,413
Other comprehensive income (loss)									
Net change in unrealized gains (losses) on available-for-sale assets				(897)		(897)	(897)		(897)
Net change in unrealized gains (losses) on cash flow hedges					(1,368)	(1,368)	(1,368)		(1,368)
Remeasurements of net post-employment benefit asset or liability			21,555				21,555		21,555
Other comprehensive income (loss)	-	-	21,555	(897)	(1,368)	(2,265)	19,290	-	19,290
Total comprehensive income	-	-	120,588	(897)	(1,368)	(2,265)	118,323	1,380	119,703
Dividends on common shares			-				-		-
Distributions to non-controlling interests								(13,241)	(13,241)
Capital injections from non-controlling interests								1,302	1,302
Transactions with owner, recorded directly in equity	-	-	-	-	-	-	-	(11,939)	(11,939)
Balance at December 31, 2012	2,088,400	27,778	1,605,908	2,429	6,998	9,427	3,731,513	90,644	3,822,157

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 nine-month period ended December 31
(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			**314,053**				**314,053**	**4,257**	**318,310**
Other comprehensive income (loss)									
Net change in unrealized gains (losses) on available-for-sale assets				**(309)**		**(309)**	**(309)**		**(309)**
Net change in unrealized gains (losses) on cash flow hedges					**(2,722)**	**(2,722)**	**(2,722)**		**(2,722)**
Remeasurements of net post-employment benefit asset or liability			**161,470**				**161,470**		**161,470**
Other comprehensive income (loss)	-	-	**161,470**	**(309)**	**(2,722)**	**(3,031)**	**158,439**	-	**158,439**
Total comprehensive income	-	-	**475,523**	**(309)**	**(2,722)**	**(3,031)**	**472,492**	**4,257**	**476,749**
Dividends on common shares			**(59,593)**				**(59,593)**		**(59,593)**
Distributions to non-controlling interests								**(35,905)**	**(35,905)**
Capital injections from non-controlling interests								**2,296**	**2,296**
Transactions with owner, recorded directly in equity	-	-	**(59,593)**	-	-	-	**(59,593)**	**(33,609)**	**(93,202)**
Balance at December 31, 2013	**2,088,400**	**27,778**	**2,164,086**	**1,608**	**3,929**	**5,537**	**4,285,801**	**53,421**	**4,339,222**

(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			364,838				364,838	4,061	368,899
Other comprehensive income									
Net change in unrealized gains (losses) on available-for-sale assets				(3,922)		(3,922)	(3,922)		(3,922)
Net change in unrealized gains (losses) on cash flow hedges					(1,836)	(1,836)	(1,836)		(1,836)
Remeasurements of net post-employment benefit asset or liability			(70,714)				(70,714)		(70,714)
Other comprehensive income (loss)	-	-	(70,714)	(3,922)	(1,836)	(5,758)	(76,472)	-	(76,472)
Total comprehensive income	-	-	294,124	(3,922)	(1,836)	(5,758)	288,366	4,061	292,427
Dividends on common shares			(68,624)				(68,624)		(68,624)
Distributions to non-controlling interests								(31,278)	(31,278)
Capital injections from non-controlling interests								2,580	2,580
Transactions with owner, recorded directly in equity	-	-	(68,624)	-	-	-	(68,624)	(28,698)	(97,322)
Balance at December 31, 2012	2,088,400	27,778	1,605,908	2,429	6,998	9,427	3,731,513	90,644	3,822,157

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 December 31		Nine months ended December 31	
	2013	2012[1]	**2013**	2012[1]
Operating activities				
Net income	**118,152**	100,413	**318,310**	368,899
Adjustments to determine net cash flows				
Interest income	**(259,301)**	(245,509)	**(763,248)**	(725,593)
Interest expense	**33,934**	31,798	**102,614**	93,227
Net realized losses (gains) on investments	**15,394**	11,413	**8,359**	35,994
Impairment losses (reversals) on loans	**12,558**	9,907	**60,574**	(11,415)
Net change in unrealized depreciation (appreciation) on investments	**(11,072)**	8,687	**16,283**	(12,115)
Net unrealized foreign exchange losses (gains) on investments	**(4,400)**	(1,653)	**(7,288)**	360
Net unrealized losses (gains) on other financial instruments	**2,956**	(784)	**1,057**	459
Post-employment benefits funding in excess of amounts expensed	**(7,227)**	(10,230)	**(29,793)**	(38,275)
Depreciation of property and equipment, and amortization of intangible assets	**3,172**	2,656	**8,918**	7,946
Other	**(4,439)**	(1,668)	**(8,645)**	(1,518)
Interest expense paid	**(28,941)**	(28,077)	**(97,944)**	(88,398)
Interest income received	**253,226**	244,864	**757,338**	724,106
Disbursements for loans	**(996,111)**	(1,110,398)	**(3,127,017)**	(2,875,067)
Repayments of loans	**696,971**	688,024	**2,023,675**	2,003,763
Changes in operating assets and liabilities				
Net change in accounts payable and accrued liabilities	**6,654**	17,468	**(17,712)**	(8,236)
Net change in other assets and other liabilities	**(5,073)**	(76)	**(3,039)**	(1,736)
Net cash flows provided (used) by operating activities	**(173,547)**	(283,165)	**(757,558)**	(527,599)
Investing activities				
Disbursements for asset-backed securities	**(63,872)**	(42,182)	**(154,831)**	(144,406)
Repayments and proceeds on sale of asset-backed securities	**94,207**	124,713	**273,678**	405,108
Disbursements for subordinate financing investments	**(29,267)**	(34,941)	**(120,708)**	(149,755)
Repayments of subordinate financing investments	**29,392**	33,271	**94,742**	65,648
Disbursements for venture capital investments	**(27,700)**	(32,143)	**(90,040)**	(91,039)
Proceeds on sale of venture capital investments	**10,314**	5,364	**86,423**	24,437
Disbursements for venture capital action plan investments	**(1,601)**	-	**(1,601)**	-
Acquisition of property and equipment	**(1,546)**	(2,008)	**(6,149)**	(3,878)
Acquisition of intangible assets	**(6,858)**	(2,896)	**(22,905)**	(7,832)
Net cash flows provided (used) by investing activities	**3,069**	49,178	**58,609**	98,283
Financing activities				
Net change in short-term notes	**412,320**	1,003,188	**1,063,117**	1,355,800
Issuance of long-term notes	**49,200**	9,030	**156,635**	109,030
Repayment of long-term notes	**(385,391)**	(768,123)	**(458,758)**	(998,286)
Distributions to non-controlling interests	**(7,524)**	(13,241)	**(35,905)**	(31,278)
Capital injections from non-controlling interests	**608**	1,302	**2,296**	2,580
Dividends paid on common shares	**-**	-	**(59,593)**	(68,624)
Net cash flows provided (used) by financing activities	**69,213**	232,156	**667,792**	369,222
Net increase (decrease) in cash and cash equivalents	**(101,265)**	(1,831)	**(31,157)**	(60,094)
Cash and cash equivalents at beginning of period	**771,786**	682,404	**701,678**	740,667
Cash and cash equivalents at end of period	**670,521**	680,573	**670,521**	680,573

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*.

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

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.

BDC's condensed quarterly Consolidated Financial Statements follow the same basis of preparation as our audited Consolidated Financial Statements for the year ended March 31, 2013. For complete information on the basis of preparation, refer to page 77 of our 2013 Annual Report.

These condensed quarterly Consolidated Financial Statements have been prepared using International Financial Reporting Standards (IFRS). The condensed quarterly Consolidated Financial Statements have also been prepared in accordance with the accounting policies BDC expects to use in its annual Consolidated Financial Statements for the year ending March 31, 2014. If BDC changes the application of these policies, it may result in a restatement of these condensed quarterly Consolidated Financial Statements.

These condensed quarterly Consolidated Financial Statements were approved for issue by the Board of Directors on February 12, 2014.

3. SIGNIFICANT ACCOUNTING POLICIES

BDC's condensed quarterly Consolidated Financial Statements follow the same accounting policies as our audited Consolidated Financial Statements for the year ended March 31, 2013, except for those described in Note 4—*Application of New and Amended International Financial Reporting Standards*. 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.

These condensed quarterly Consolidated Financial Statements must be read in conjunction with BDC's 2013 Annual Report and the accompanying notes, as set out on pages 77 to 127.

4. APPLICATION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Certain pronouncements have been 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 1, *Presentation of Financial Statements*;
- IAS 27, *Separate Financial Statements*; and
- IAS 28, *Investments in Associates and Joint Ventures*.

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.

(unaudited, in thousands of Canadian dollars)

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

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 December 31, 2012**	**As previously reported**	**Amended IAS 19 effects**	**Restated**
Operating and administrative expenses	102,940	2,539	105,479
Net income	102,952	(2,539)	100,413
Remeasurements of net post-employment benefit liability	16,597	4,958	21,555
Other comprehensive income (loss)	14,332	4,958	19,290
Comprehensive income	117,284	2,419	119,703

Consolidated Statement of Comprehensive Income **Nine months ended December 31, 2012**	**As previously reported**	**Amended IAS 19 effects**	**Restated**
Operating and administrative expenses	295,839	7,617	303,456
Net income	376,516	(7,617)	368,899
Remeasurements of net post-employment benefit liability	(85,588)	14,874	(70,714)
Other comprehensive income (loss)	(91,346)	14,874	(76,472)
Comprehensive income	285,170	7,257	292,427

IFRS 13, *Fair Value Measurement*

IFRS 13 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 needed upon adoption (refer to Note 7—*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 condensed 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.

For information about the significant judgements, estimates and assumptions that have the most significant effect on the amounts recognized in the condensed quarterly Consolidated Financial Statements, refer to page 88 of our 2013 Annual Report.

(unaudited, in thousands of Canadian dollars)

6. CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

December 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						**670,521**		**670,521**
Derivative assets		**44,461**			**3,332**			**47,793**
Asset-backed securities	8		**4,288**	**313,979**				**318,267**
Loans	9					**16,927,387**		**16,927,387**
Subordinate financing investments	10		**559,884**					**559,884**
Venture capital investments	11		**468,189**					**468,189**
Venture capital action plan investments			**1,601**					**1,601**
Other assets[2]						**11,792**		**11,792**
Total financial assets		**44,461**	**1,033,962**	**313,979**	**3,332**	**17,609,700**	**-**	**19,005,434**
Financial liabilities								
Accounts payable and accrued liabilities							**88,728**	**88,728**
Derivative liabilities		**11,700**			**-**			**11,700**
Short-term notes							**13,794,538**	**13,794,538**
Long-term notes			**554,403**				**258,239**	**812,642**
Other liabilities[2]							**34,886**	**34,886**
Total financial liabilities		**11,700**	**554,403**	**-**	**-**	**-**	**14,176,391**	**14,742,494**

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	8		3,725	433,728				437,453
Loans	9					15,871,635		15,871,635
Subordinate financing investments	10		557,840					557,840
Venture capital investments	11		456,708					456,708
Venture capital action plan investments			-					-
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.

(unaudited, in thousands of Canadian dollars)

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

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.

				December 31, 2013
	Fair value measurements using			Total
	Level 1	Level 2	Level 3	fair value
Assets				
Derivative assets		47,793		47,793
Asset-backed securities		318,267		318,267
Subordinate financing investments	2,484		557,400	559,884
Venture capital investments	10,664		457,525	468,189
Venture capital action plan investments	-		1,601	1,601
	13,148	366,060	1,016,526	1,395,734
Liabilities				
Derivative liabilities		11,700		11,700
Long-term notes designated as FVTPL[1]		554,403		554,403
	-	566,103	-	566,103

[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
Venture capital action plan investments	-		-	-
	34,470	519,612	980,078	1,534,160
Liabilities				
Derivative liabilities		16,212		16,212
Long-term notes designated as 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	Venture capital action plan investments	December 31, 2013 Total
Fair value at April 1, 2013	**556,031**	**424,047**	**-**	**980,078**
Net realized gains (losses) on investments	**(493)**	**(9,088)**	**-**	**(9,581)**
Net change in unrealized appreciation (depreciation) of investments	**(23,853)**	**7,490**	**-**	**(16,363)**
Net unrealized foreign exchange gains (losses) on investments	**-**	**6,441**	**-**	**6,441**
Disbursements for investments	**120,708**	**90,040**	**1,601**	**212,349**
Repayments of investments and other	**(94,993)**	**(57,651)**	**-**	**(152,644)**
Transfers from level 3 to level 1	**-**	**(3,754)**	**-**	**(3,754)**
Fair value at December 31, 2013	**557,400**	**457,525**	**1,601**	**1,016,526**

(unaudited, in thousands of Canadian dollars)

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

8. ASSET-BACKED SECURITIES

	December 31, 2013	March 31, 2013
Available-for-sale		
Principal amount	**312,372**	431,853
Unamortized loss on initial recognition	**-**	(41)
Cumulative fair value appreciation (depreciation)	**1,607**	1,916
Carrying value	**313,979**	433,728
Yield	**2.29%**	2.64%
Fair value through profit or loss		
Principal amount	**4,187**	3,680
Cumulative fair value appreciation (depreciation)	**101**	45
Carrying value	**4,288**	3,725
Yield	**8.34%**	9.20%
Asset-backed securities	**318,267**	437,453

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

(unaudited, in thousands of Canadian dollars)

9. 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	**159,208**	**1,854,314**	**14,945,908**	**16,959,430**	**(340,000)**	**-**	**(340,000)**	**16,619,430**
Impaired	**9,887**	**50,826**	**440,860**	**501,573**	**-**	**(193,616)**	**(193,616)**	**307,957**
Loans as at December 31, 2013	**169,095**	**1,905,140**	**15,386,768**	**17,461,003**	**(340,000)**	**(193,616)**	**(533,616)**	**16,927,387**

	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

	December 31, 2013	March 31, 2013
Balance at beginning of period	**538,338**	610,167
Write-offs	**(65,588)**	(90,558)
Effect of discounting	**(9,305)**	(12,876)
Recoveries and other	**9,597**	12,529
	473,042	519,262
Impairment losses (reversals) on loans	**60,574**	19,076
Balance at end of period	**533,616**	538,338

Concentrations of Total Loans Outstanding

Geographic distribution	December 31, 2013	March 31, 2013
Newfoundland and Labrador	**713,269**	664,217
Prince Edward Island	**46,086**	48,014
Nova Scotia	**416,897**	380,785
New Brunswick	**482,625**	470,993
Quebec	**5,903,362**	5,584,253
Ontario	**4,648,846**	4,511,112
Manitoba	**486,955**	449,771
Saskatchewan	**506,955**	429,878
Alberta	**2,268,305**	1,984,704
British Columbia	**1,859,738**	1,760,439
Yukon	**98,857**	98,955
Northwest Territories and Nunavut	**29,108**	26,852
Loans outstanding	**17,461,003**	16,409,973

(unaudited, in thousands of Canadian dollars)

Industry sector	December 31, 2013	March 31, 2013
Manufacturing	**4,230,206**	4,042,442
Wholesale and retail trade	**3,661,669**	3,513,350
Tourism	**2,232,838**	2,035,027
Commercial properties	**2,229,487**	2,211,238
Construction	**1,592,190**	1,397,565
Transportation and storage	**1,044,443**	998,243
Business services	**827,066**	762,816
Other	**1,643,104**	1,449,292
Loans outstanding	**17,461,003**	16,409,973

10. 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 December 31, 2013	**81,162**	**428,643**	**81,260**	**591,065**	**559,884**
As at March 31, 2013	78,598	377,602	109,834	566,034	557,840

Concentrations of Total Subordinate Financing Investments

	December 31, 2013		March 31, 2013	
Geographic distribution	**Fair value**	**Cost**	Fair value	Cost
Newfoundland and Labrador	**7,612**	**10,239**	12,818	14,283
Nova Scotia	**14,577**	**15,119**	13,175	13,257
New Brunswick	**12,001**	**13,474**	10,238	10,021
Quebec	**240,173**	**264,978**	253,416	265,001
Ontario	**183,048**	**184,606**	177,129	176,260
Manitoba	**7,388**	**6,160**	9,601	8,198
Saskatchewan	**4,736**	**3,795**	3,888	3,899
Alberta	**66,361**	**68,042**	51,792	48,868
British Columbia	**19,954**	**20,482**	22,521	22,729
Yukon	**2,779**	**2,915**	3,262	3,518
Northwest Territories and Nunavut	**1,255**	**1,255**	-	-
Subordinate financing investments	**559,884**	**591,065**	557,840	566,034

(unaudited, in thousands of Canadian dollars)

	December 31, 2013		March 31, 2013	
Industry sector	**Fair value**	**Cost**	Fair value	Cost
Manufacturing	**203,544**	**210,060**	199,833	201,329
Business services	**105,486**	**123,333**	119,468	128,518
Wholesale and retail trade	**92,896**	**93,252**	98,297	96,070
Construction	**47,227**	**46,746**	34,400	33,321
Mining, and oil and gas extraction	**34,900**	**35,509**	25,084	23,141
Information industries	**22,425**	**23,829**	19,758	18,831
Transportation and storage	**8,710**	**10,864**	12,267	13,405
Real estate, and rental and leasing	**8,085**	**7,818**	7,934	7,924
Educational services	**7,182**	**8,225**	10,230	10,488
Tourism	**6,759**	**6,136**	6,538	5,685
Other	**22,670**	**25,293**	24,031	27,322
Subordinate financing investments	**559,884**	**591,065**	557,840	566,034

11. 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.

	December 31, 2013		March 31, 2013	
Industry sector	**Fair value**	**Cost**	Fair value	Cost
Information technology	**102,177**	**108,693**	113,289	101,279
Electronics	**66,485**	**72,451**	53,490	66,992
Biotechnology and pharmacology	**65,077**	**77,735**	80,995	94,701
Medical and health	**34,146**	**44,281**	40,257	51,230
Communications	**28,319**	**31,652**	29,509	46,092
Industrial	**10,350**	**13,975**	6,049	15,715
Other	**5,818**	**6,759**	6,336	6,044
Total direct investments	**312,372**	**355,546**	329,925	382,053
Funds	**155,817**	**172,994**	126,783	149,050
Venture capital investments	**468,189**	**528,540**	456,708	531,103

	December 31, 2013		March 31, 2013	
Investment type	**Fair value**	**Cost**	Fair value	Cost
Common shares	**38,113**	**72,937**	61,266	99,668
Preferred shares	**235,986**	**242,101**	224,238	234,816
Debentures	**38,273**	**40,508**	44,421	47,569
Total direct investments	**312,372**	**355,546**	329,925	382,053
Funds	**155,817**	**172,994**	126,783	149,050
Venture capital investments	**468,189**	**528,540**	456,708	531,103

12. SHARE CAPITAL

An unlimited number of common shares, having a par value of $100 each, is authorized. As at December 31 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 December 31, 2013, and March 31, 2013, and during the nine-month period ended December 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 nine-month period ended December 31, 2013, and for the fiscal year ended March 31, 2013, BDC complied with its capital adequacy guidelines.

13. 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 consulting services, group programs and other services related to business activities.
> **Securitization** purchases investments in asset-backed securities through the Funding Platform for Independent Lenders (F-PIL, formerly known as the Multi-Seller Platform for Small Originators) and 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 and 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 December 31, 2013

	BDC	Financing	Subordinate Financing	Venture Capital	Consulting	Securitization	Venture Capital Action Plan
Interest income	259,301	242,193	14,701	-	-	2,407	-
Interest expense	33,934	31,123	2,012	-	-	799	-
Net interest income	**225,367**	**211,070**	**12,689**	**-**	**-**	**1,608**	**-**
Net realized gains (losses) on investments	(15,394)	-	(6,277)	(9,117)	-	-	-
Consulting revenue	5,320	-	-	-	5,320	-	-
Fee and other income	9,824	3,465	4,406	1,942	-	11	-
Net realized gains (losses) on other financial instruments	(394)	246	-	(640)	-	-	-
Net revenue (loss)	**224,723**	**214,781**	**10,818**	**(7,815)**	**5,320**	**1,619**	**-**
Impairment reversals (losses) on loans	(12,558)	(12,558)	-	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	11,072	-	2,955	8,108	-	9	-
Net unrealized foreign exchange gains (losses) on investments	4,400	-	-	4,400	-	-	-
Net unrealized gains (losses) on other financial instruments	(2,956)	(388)	-	(2,568)	-	-	-
Income (loss) before operating and administrative expenses	**224,681**	**201,835**	**13,773**	**2,125**	**5,320**	**1,628**	**-**
Salaries and benefits	71,007	55,838	6,002	3,595	5,095	311	166
Premises and equipment	10,202	9,003	311	395	475	18	-
Other expenses	25,320	20,042	595	1,095	3,500	37	51
Operating and administrative expenses	**106,529**	**84,883**	**6,908**	**5,085**	**9,070**	**366**	**217**
Net income (loss)	**118,152**	**116,952**	**6,865**	**(2,960)**	**(3,750)**	**1,262**	**(217)**
Net income (loss) attributable to:							
BDC's shareholder	117,716	116,952	6,408	(2,939)	(3,750)	1,262	(217)
Non-controlling interests	436	-	457	(21)	-	-	-
Net income (loss)	**118,152**	**116,952**	**6,865**	**(2,960)**	**(3,750)**	**1,262**	**(217)**
Business segment portfolio at end of period	**18,275,328**	**16,927,387**	**559,884**	**468,189**	**-**	**318,267**	**1,601**

Three months ended December 31, 2012

	BDC	Financing	Subordinate Financing	Venture Capital	Consulting	Securitization	Venture Capital Action Plan
Interest income	245,509	226,708	14,934	-	-	3,867	-
Interest expense	31,798	28,873	2,036	-	-	889	-
Net interest income	**213,711**	**197,835**	**12,898**	**-**	**-**	**2,978**	**-**
Net realized gains (losses) on investments	(11,413)	-	(5,255)	(6,158)	-	-	-
Consulting revenue	6,049	-	-	-	6,049	-	-
Fee and other income	11,252	3,562	6,801	810	-	79	-
Net realized gains (losses) on other financial instruments	2,450	402	-	2,132	-	(84)	-
Net revenue (loss)	**222,049**	**201,799**	**14,444**	**(3,216)**	**6,049**	**2,973**	**-**
Impairment reversals (losses) on loans	(9,907)	(9,907)	-	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	(8,687)	-	825	(9,551)	-	39	-
Net unrealized foreign exchange gains (losses) on investments	1,653	-	-	1,653	-	-	-
Net unrealized gains (losses) on other financial instruments	784	4,044	-	(3,260)	-	-	-
Income (loss) before operating and administrative expenses	**205,892**	**195,936**	**15,269**	**(14,374)**	**6,049**	**3,012**	**-**
Salaries and benefits	68,246	54,114	5,594	3,322	4,932	284	-
Premises and equipment	9,369	8,342	221	445	337	24	-
Other expenses	27,864	22,632	472	1,116	3,574	70	-
Operating and administrative expenses	**105,479**	**85,088**	**6,287**	**4,883**	**8,843**	**378**	**-**
Net income (loss)	**100,413**	**110,848**	**8,982**	**(19,257)**	**(2,794)**	**2,634**	**-**
Net income (loss) attributable to:							
BDC's shareholder	99,033	110,848	7,084	(18,739)	(2,794)	2,634	-
Non-controlling interests	1,380	-	1,898	(518)	-	-	-
Net income (loss)	**100,413**	**110,848**	**8,982**	**(19,257)**	**(2,794)**	**2,634**	**-**
Business segment portfolio at end of period	**17,067,048**	**15,624,449**	**541,920**	**402,164**	**-**	**498,515**	**-**

(unaudited, in thousands of Canadian dollars)

Nine months ended December 31, 2013

	BDC	Financing	Subordinate Financing	Venture Capital	Consulting	Securitization	Venture Capital Action Plan
Interest income	763,248	711,923	43,992	-	-	7,333	-
Interest expense	102,614	95,199	6,019	-	-	1,396	-
Net interest income	**660,634**	**616,724**	**37,973**	**-**	**-**	**5,937**	**-**
Net realized gains (losses) on investments	(8,359)	-	(490)	(7,869)	-	-	-
Consulting revenue	15,843	-	-	-	15,843	-	-
Fee and other income	31,709	10,870	17,082	3,635	-	122	-
Net realized gains (losses) on other financial instruments	(3,814)	1,015	-	(4,829)	-	-	-
Net revenue (loss)	**696,013**	**628,609**	**54,565**	**(9,063)**	**15,843**	**6,059**	**-**
Impairment reversals (losses) on loans	(60,574)	(60,574)	-	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	(16,283)	-	(23,096)	6,757	-	56	-
Net unrealized foreign exchange gains (losses) on investments	7,288	-	-	7,288	-	-	-
Net unrealized gains (losses) on other financial instruments	(1,057)	(894)	-	(163)	-	-	-
Income (loss) before operating and administrative expenses	**625,387**	**567,141**	**31,469**	**4,819**	**15,843**	**6,115**	**-**
Salaries and benefits	212,193	168,315	15,760	10,639	15,958	923	598
Premises and equipment	30,074	26,479	935	1,185	1,419	56	-
Other expenses	64,810	49,160	1,836	3,472	10,021	121	200
Operating and administrative expenses	**307,077**	**243,954**	**18,531**	**15,296**	**27,398**	**1,100**	**798**
Net income (loss)	**318,310**	**323,187**	**12,938**	**(10,477)**	**(11,555)**	**5,015**	**(798)**
Net income (loss) attributable to:							
BDC's shareholder	314,053	323,187	8,417	(10,213)	(11,555)	5,015	(798)
Non-controlling interests	4,257	-	4,521	(264)	-	-	-
Net income (loss)	**318,310**	**323,187**	**12,938**	**(10,477)**	**(11,555)**	**5,015**	**(798)**
Business segment portfolio at end of period	**18,275,328**	**16,927,387**	**559,884**	**468,189**	**-**	**318,267**	**1,601**

Nine months ended December 31, 2012

	BDC	Financing	Subordinate Financing	Venture Capital	Consulting	Securitization	Venture Capital Action Plan
Interest income	725,593	670,552	41,306	-	-	13,735	-
Interest expense	93,227	83,654	5,936	-	-	3,637	-
Net interest income	**632,366**	**586,898**	**35,370**	**-**	**-**	**10,098**	**-**
Net realized gains (losses) on investments	(35,994)	-	(7,384)	(28,610)	-	-	-
Consulting revenue	17,577	-	-	-	17,577	-	-
Fee and other income	30,606	10,785	15,669	3,905	-	247	-
Net realized gains (losses) on other financial instruments	5,089	1,086	-	4,087	-	(84)	-
Net revenue (loss)	**649,644**	**598,769**	**43,655**	**(20,618)**	**17,577**	**10,261**	**-**
Impairment reversals (losses) on loans	11,415	11,415	-	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	12,115	-	7,835	4,208	-	72	-
Net unrealized foreign exchange gains (losses) on investments	(360)	-	-	(360)	-	-	-
Net unrealized gains (losses) on other financial instruments	(459)	2,631	-	(3,090)	-	-	-
Income (loss) before operating and administrative expenses	**672,355**	**612,815**	**51,490**	**(19,860)**	**17,577**	**10,333**	**-**
Salaries and benefits	203,103	162,823	14,195	9,957	15,207	921	-
Premises and equipment	28,162	25,066	664	1,347	1,017	68	-
Other expenses	72,191	57,065	1,448	3,036	10,440	202	-
Operating and administrative expenses	**303,456**	**244,954**	**16,307**	**14,340**	**26,664**	**1,191**	**-**
Net income (loss)	**368,899**	**367,861**	**35,183**	**(34,200)**	**(9,087)**	**9,142**	**-**
Net income (loss) attributable to:							
BDC's shareholder	364,838	367,861	28,359	(31,437)	(9,087)	9,142	-
Non-controlling interests	4,061	-	6,824	(2,763)	-	-	-
Net income (loss)	**368,899**	**367,861**	**35,183**	**(34,200)**	**(9,087)**	**9,142**	**-**
Business segment portfolio at end of period	**17,067,048**	**15,624,449**	**541,920**	**402,164**	**-**	**498,515**	**-**

(unaudited, in thousands of Canadian dollars)

14. 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 $27.1 million as at December 31, 2013 ($25.4 million at March 31, 2013).

15. COMMITMENTS

Loans

The undisbursed amount of authorized loans was $1,809,541 at December 31, 2013 ($241,130 fixed rate; $1,568,411 floating rate) and is expected to be disbursed within the next 12 months. The weighted average effective interest rate was 4.87% 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	**December 31, 2013**	March 31, 2013
Newfoundland and Labrador	**81,148**	73,891
Prince Edward Island	**1,455**	636
Nova Scotia	**55,670**	70,179
New Brunswick	**21,652**	21,059
Quebec	**591,419**	570,122
Ontario	**414,635**	478,959
Manitoba	**59,567**	37,610
Saskatchewan	**91,817**	83,533
Alberta	**332,251**	361,516
British Columbia	**157,475**	143,813
Yukon	**2,452**	8,592
Northwest Territories and Nunavut	**-**	1,218
Total	**1,809,541**	1,851,128

Commitments, by industry sector	**December 31, 2013**	March 31, 2013
Manufacturing	**413,244**	424,501
Tourism	**299,629**	253,476
Wholesale and retail trade	**212,975**	271,055
Commercial properties	**173,939**	211,738
Construction	**165,123**	186,028
Transportation and storage	**160,630**	138,526
Business services	**105,489**	84,171
Other	**278,512**	281,633
Total	**1,809,541**	1,851,128

(unaudited, in thousands of Canadian dollars)

Subordinate Financing

The undisbursed amount of authorized investments was $56,821 at December 31, 2013 ($36,635 fixed rate; $20,186 floating rate) and is expected to be disbursed within the next 12 months. The weighted average effective interest rate (excluding non-interest returns) was 10.06% on investment commitments (10.30% at March 31, 2013). The following tables present undisbursed amounts of authorized investments, by location and industry.

Commitments, by geographic distribution	December 31, 2013	March 31, 2013
Newfoundland and Labrador	**4,000**	500
Nova Scotia	**2,000**	-
New Brunswick	**-**	1,000
Quebec	**18,705**	9,595
Ontario	**17,391**	15,459
Saskatchewan	**625**	-
Alberta	**8,750**	8,703
British Columbia	**5,350**	4,250
Total	**56,821**	39,507

Commitments, by industry sector	December 31, 2013	March 31, 2013
Wholesale and retail trade	**15,675**	3,986
Manufacturing	**13,355**	22,035
Business services	**12,959**	7,733
Tourism	**6,000**	100
Construction	**4,250**	250
Transportation and storage	**1,700**	300
Information industries	**1,650**	1,400
Real estate, and rental and leasing	**750**	-
Mining, and oil and gas extraction	**-**	3,703
Other	**482**	-
Total	**56,821**	39,507

Venture Capital

The undisbursed amount of authorized venture capital investments was $270,926 at December 31, 2013, and was related to the following industry sectors.

Industry sector	December 31, 2013	March 31, 2013
Information technology	**7,187**	4,175
Biotechnology and pharmacology	**6,547**	12,728
Electronics	**1,486**	2,916
Medical and health	**1,204**	2,674
Industrial	**250**	300
Communications	**-**	308
Other	**320**	381
Total direct investments	**16,994**	23,482
External funds	**253,932**	267,297
Venture capital investments	**270,926**	290,779

Asset-Backed Securities

The undisbursed amount of authorized asset-backed securities was $413,700 at December 31, 2013 ($472,000 at March 31, 2013).

Venture Capital Action Plan

The undisbursed amount of authorized venture capital action plan investments was $98,399 at December 31, 2013 (no undisbursed amount at March 31, 2013)

Leases

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

16. RELATED PARTY TRANSACTIONS

As at December 31, 2013, BDC had $13,783.0 million outstanding in short-term notes and $257.6 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 $6.0 million payable to the Minister of Finance as at December 31, 2013 ($6.0 million at March 31, 2013).

BDC recorded $32.6 million in interest expense, related to the borrowings from the Minister of Finance, for the third quarter and $99.5 million for the nine months ended December 31, 2013. Last year's figures for the same periods were $30.6 million and $89.7 million, respectively.

In addition, no borrowings from the Minister of Finance were repurchased in the first nine months of fiscal 2014 ($0.1 million net realized loss for the same period last year).

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

17. COMPARATIVE FIGURES

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

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

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