BDC
Entrepreneurs first

2015

FIRST QUARTER

FINANCIAL REPORT

June 30, 2014

Canada

EXECUTIVE SUMMARY

During the first quarter of 2014, business investments were lower than expected and government spending also contracted. An anticipated rise in Canadian exports did not materialize, mostly due to the lower performance of energy products, leaving consumer spending as the only driver of the Canadian economy during the first quarter of 2014. As anticipated, the housing market softened and has not contributed to economic growth in 2014. However, the Canadian economy is expected to improve in the latter half of calendar 2014, despite having experienced slower growth than expected since the beginning of the calendar year.

On a positive note, exports increased in May by 3.5% and should continue to grow as the U.S. economy gains momentum. This will be needed to achieve the forecasted goal of 2% economic growth in 2014.

The latest Bank of Canada surveys report further easing in overall business-lending conditions during BDC's first quarter of fiscal 2015. Business credit data are consistent with these results. As of May 2014, total business credit had increased by 10.6% over three months, as short-term credit from chartered banks increased by 23.6% and long-term credit by 2.5%.

As a complementary long-term lender and investor that takes higher risk and offers greater flexibility to clients, BDC works to ensure that small and medium-sized businesses have the opportunity to grow and succeed. Clients of Financing[(1)] accepted $1.2 billion in loans this quarter, similar to the total loans accepted during the same period last year.

As at June 30, 2014, Financing's[(1)] loan portfolio, before allowance for credit losses, stood at $17.9 billion, a 1.0% increase since March 31, 2014.

BDC continued to focus on small loans, while also supporting the growth of medium-sized firms and participating in financial transactions through syndication with other financial institutions. During the quarter, 1,685 clients accepted loans of $250,000 or less for a total of $134.7 million, compared to 1,746 clients and $139.0 million for the same period last year.

During the quarter, BDC launched a new sub-brand, BDC Capital, bringing together Venture Capital and our newly renamed Growth & Transition Capital (formerly known as Subordinate Financing) activities under one umbrella, providing better positioning in the market.

(1) Unless otherwise indicated, Financing excludes Growth & Transition Capital.

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.

Growth & Transition Capital continued to support the growth plans of Canadian entrepreneurs through its diverse product offering, with clients accepting $34.6 million in financing in the first quarter, compared to $35.4 million for the same period last year.

To support innovative Canadian companies and create the conditions for success in the venture capital ecosystem, Venture Capital authorized investments totalling $40.2 million in the first quarter, compared to $18.6 million in the same period last year. Higher activity in funds and a large financing round for one of our direct investments accounted for most of the increase in authorizations.

The Strategic Investments and Partnerships (SIP) team within Venture Capital continued to develop innovative initiatives to reinforce key areas of the venture capital ecosystem. It is making investments in specialized funds that fill gaps, focusing on company creation platforms, niche funds and accelerators. During the quarter, the team announced a collaboration with Accel-Rx Health Sciences Accelerator (Accel-Rx) to provide critical seed funding to new and emerging Canadian health sciences companies. This will extend BDC's unique convertible note program into the health sciences sector.

Notman House, a collaborative hub in Montreal where entrepreneurs building high-tech companies can share knowledge, exchange ideas and build collaborative networks, had its official opening during the quarter. BDC provided sponsorship financing to the OSMO Foundation, which led this initiative, in addition to term lending for the building renovations.

During the quarter, BDC continued to support the deployment of the Venture Capital Action Plan (VCAP), a federal government initiative to invest $400 million to increase private sector venture capital financing for high-potential, innovative Canadian businesses.

Among the highlights in BDC's other lines of business, in late fiscal 2014, Consulting began operating under its new structure organized around three pillars designed to help small and medium-sized enterprises (SMEs) improve their competitiveness by accelerating growth, improving productivity and building organizational capabilities. A 24-month business transformation plan was created, and the first set of changes was launched during the first quarter of fiscal 2015. Revenues were $4.1 million, lower than the $4.8 million recorded for the same period last year, as BDC continued to identify and focus its efforts on offering services that will have the most positive impact on clients and, as a result, discontinued some services.

BDC is maintaining its role in the securitization market, which SMEs access financing for the vehicles and equipment they need to improve productivity. As at June 30, total asset-backed securities (ABS) stood at $359.3 million. For the three-month period ended June 30, 2014, disbursements totalled $56.6 million compared to $57.6 million for the same period last year.

In the first quarter of fiscal 2015, BDC posted consolidated net income of $121.8 million[(2)], compared to $113.8 million[(2)] for the same period last year. The increase was mostly attributable to higher net fair value appreciation of Venture Capital investments, as well as higher net interest and fee income as a result of the growth in Financing's portfolio.

[(2)] Including $0.4 million and $1.7 million in net income attributable to non-controlling interests for fiscal 2015 and 2014, respectively.

EXECUTIVE SUMMARY

For the quarter, consolidated total comprehensive income was $95.0 million, compared to $146.1 million for the same period last year. The decrease was mostly due to actuarial losses on the net defined benefit asset or liability. For the most part, these losses were caused by lower discount rates used to value the net defined benefit asset or liability, partially offset by higher returns on pension plan assets.

In May, BDC received B Corp certification and became the first Canadian financial institution and the 100th Canadian company to join the international B Corp community. To be certified, a company must meet comprehensive standards related to purpose, transparency and accountability that benchmark its economic, social and environmental performance against that of other businesses. B Corp companies seek to use the power of business to solve social and environmental problems.

In June, BDC successfully concluded its Agility and Efficiency (A&E) project, culminating in the implementation of an integrated suite of applications and related business processes, which replaced legacy systems. The A&E project is transforming BDC into a more efficient, flexible and resourceful development bank able to have a greater impact on our clients.

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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 condensed 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 June 30, 2014.

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, 2014, compared to the corresponding period of the prior fiscal year. This analysis also includes comments about significant variances from BDC's fiscal 2015-19 Corporate Plan, when applicable.

BDC reports on six business segments: Financing, Growth & Transition Capital, Venture Capital, Consulting, Securitization and Venture Capital Action Plan (VCAP). All amounts are in Canadian dollars, unless otherwise specified, and are based on unaudited condensed quarterly Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS).

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

Net income

	Three months ended June 30	
($ in millions)	**F2015**	F2014
Financing	**118.9**	106.9
Growth and Transition Capital	**3.2**	11.4
Venture Capital	**5.0**	(2.3)
Consulting	**(5.3)**	(4.0)
Securitization	**1.0**	2.0
Venture Capital Action Plan	**(1.0)**	(0.2)
Net income	**121.8**	113.8
Net income attributable to:		
BDC's shareholder	**121.4**	112.1
Non-controlling interests	**0.4**	1.7
Net income	**121.8**	113.8

Three months ended June 30

BDC reported consolidated net income of $121.8 million for the first quarter ended June 30, 2014, comprising $121.4 million attributable to BDC's shareholder and $0.4 million to non-controlling interests. This compares to $113.8 million in consolidated net income for the first quarter of fiscal 2014, of which $1.7 million was attributable to non-controlling interests.

Net income in the first quarter of fiscal 2015 was higher than in the corresponding period of fiscal 2014 due primarily to higher net income from Financing and Venture Capital, partially offset by a decrease in net income from Growth & Transition Capital. Refer to the Financing, Growth & Transition Capital, and Venture Capital sections of this analysis for further information.

Currently, BDC expects its consolidated net income for fiscal 2015 to meet the Corporate Plan target of $317 million.

Comprehensive income

	Three months ended June 30	
($ in millions)	**F2015**	F2014
Net income	**121.8**	113.8
Other comprehensive income (loss)		
Items that may be reclassified subsequently to net income		
Net change in unrealized gains (losses) on available-for-sale assets	**(0.5)**	(0.9)
Net change in unrealized gains (losses) on cash flow hedges	**(0.5)**	(2.1)
Total items that may be reclassified subsequently to net income	**(1.0)**	(3.0)
Items that will not be reclassified subsequently to net income		
Remeasurements of net defined benefit asset or liability	**(25.8)**	35.3
Other comprehensive income (loss)	**(26.8)**	32.3
Total comprehensive income	**95.0**	146.1
Total comprehensive income attributable to:		
BDC's shareholder	**94.6**	144.4
Non-controlling interests	**0.4**	1.7
Total comprehensive income	**95.0**	146.1

Three months ended June 30

Consolidated total comprehensive income for the first quarter was $95.0 million, comprising $121.8 million in consolidated net income and $26.8 million in other comprehensive loss. Remeasurements of net defined benefit asset or liability of $25.8 million contributed to the decrease in total comprehensive income in the first quarter. For the most part, these losses were caused by lower discount rates used to value the net defined benefit asset or liability, partially offset by higher returns on pension plan assets.

Financing results

	Three months ended June 30	
($ in millions)	**F2015**	F2014
Net interest and fee income	**219.4**	205.9
Impairment reversals (losses) on loans	**(17.4)**	(20.8)
Net gains (losses) on other financial instruments	**(0.7)**	0.2
Income before operating and administrative expenses	**201.3**	185.3
Operating and administrative expenses	**82.4**	78.4
Income from Financing	**118.9**	106.9

	Three months ended June 30	
As % of average portfolio	**F2015**	F2014
Net interest and fee income	**4.9**	4.9
Impairment reversals (losses) on loans	**(0.4)**	(0.5)
Net gains (losses) on other financial instruments	**-**	-
Income before operating and administrative expenses	**4.5**	4.4
Operating and administrative expenses	**1.8**	1.9
Income from Financing	**2.7**	2.5

Three months ended June 30

Financing's income was $118.9 million for the first quarter of fiscal 2015, compared to $106.9 million for the same period last year.

The increase in profitability was mostly due to higher net interest and fee income, which increased by $13.5 million or 6.6%. The net interest and fee income growth was mainly driven by portfolio growth. Also contributing to the increase in profitability was a decrease in individual impairment losses because fewer loans were downgraded, which resulted in lower total impairment losses on loans this quarter compared to the same period last year.

Operating and administrative expenses for the three-month period ended June 30, 2014, were higher than those in the same period last year. This is mainly due to capitalization of project costs incurred in the first quarter of fiscal 2014 relating to BDC's investment in its Agility and Efficiency (A&E) project. As this program is now in effect, no related expenses were capitalized during this quarter. However, as a percentage of the average portfolio, operating and administrative expenses were slightly lower than those in the same period last year.

Growth & Transition Capital results

	Three months ended June 30	
($ in millions)	**F2015**	F2014
Net revenue on investments	**13.8**	18.1
Net change in unrealized appreciation (depreciation) of investments	**(4.0)**	(1.0)
Income before operating and administrative expenses	**9.8**	17.1
Operating and administrative expenses	**6.6**	5.7
Income (loss) from Growth & Transition Capital	**3.2**	11.4
Income (loss) attributable to:		
BDC's shareholder	**2.7**	9.5
Non-controlling interests	**0.5**	1.9
Income (loss) from Growth & Transition Capital	**3.2**	11.4

Three months ended June 30

Growth & Transition Capital's income for the first quarter of fiscal 2015 was $3.2 million, compared to a net income of $11.4 million for the same period last year.

Net revenue on investments of $13.8 million for the first quarter was lower than the $18.1 million recorded last year, mainly due to higher write-offs.

The net change in unrealized depreciation of investments of $4.0 million for the quarter included the following:

- a $5.3 million net fair value depreciation (nil in fiscal 2014); and
- a reversal of net fair value depreciation due to net realized losses totalling $1.3 million (reversal of net fair value appreciation due to net realized gains of $1.0 million in fiscal 2014).

The increase in operating and administrative expenses from last year was mainly due to higher staff levels required to fully support the growth of entrepreneurs.

Venture Capital results

	Three months ended June 30	
($ in millions)	**F2015**	F2014
Net revenue (loss) on investments	**0.6**	13.8
Net change in unrealized appreciation (depreciation) of investments	**10.8**	(12.6)
Net unrealized foreign exchange gains (losses) on investments	**(6.2)**	5.8
Net gains (losses) on other financial instruments	**5.0**	(4.1)
Income (loss) before operating and administrative expenses	**10.2**	2.9
Operating and administrative expenses	**5.2**	5.2
Net income (loss) from Venture Capital	**5.0**	(2.3)
Net income (loss) attributable to:		
BDC's shareholder	**5.1**	(2.1)
Non-controlling interests	**(0.1)**	(0.2)
Net income (loss) from Venture Capital	**5.0**	(2.3)

Three months ended June 30

During the first quarter of fiscal 2015, Venture Capital recorded an income of $5.0 million, compared to a loss of $2.3 million for the same period last year.

Net revenue on investments decreased by $13.2 million, primarily due to the divestiture of an investee company during the first quarter of fiscal 2014.

The net change in unrealized appreciation of investments of $10.8 million was $23.4 million higher than the $12.6 million net change in unrealized depreciation recorded last year and accounted for most of the improvement in Venture Capital results during the first quarter of fiscal 2015. This improvement was mainly attributable to Venture Capital's investments in funds.

The net change in unrealized appreciation of $10.8 million for the quarter included the following:

- a $10.0 million net fair value appreciation of the portfolio ($1.2 million fair value depreciation last year); and
- a reversal of net fair value depreciation on divested investments and write-offs totalling $0.8 million (a reversal of $11.4 million of net fair value appreciation on divested investments and write-offs last year).

Net unrealized foreign exchange gains or losses on investments were due to foreign exchange fluctuations on the U.S. dollar. BDC monitors currency fluctuations and uses foreign exchange contracts to partially hedge U.S. dollar investments. As a result, net gains or losses on other financial instruments partially offset amounts recognized due to currency fluctuations.

Consulting results

	Three months ended June 30	
($ in millions)	**F2015**	F2014
Revenue	**4.1**	4.8
Operating and administrative expenses	**9.4**	8.8
Loss from Consulting	**(5.3)**	(4.0)

Three months ended June 30

Consulting's loss was $5.3 million for the first quarter of fiscal 2015, higher than the $4.0 million loss recorded for the same quarter last year. Although the average mandate size has increased, the number of mandates sold has decreased as compared to the same period last year. Revenues were $4.1 million, lower than the $4.8 million recorded for the same period last year, as BDC continued to identify and focus its efforts on offering services that will have the most positive impact on clients and, as a result, discontinued some services.

These two elements explain the decrease in revenues. Operating and administrative expenses of $9.4 million were $0.6 million higher than those recorded for the first quarter of fiscal 2015, mainly explained by the increased level of staff needed to support the new business strategy and associated transformation program, with the goal of increasing the competitiveness of small and medium-sized businesses.

Securitization results

	Three months ended June 30	
($ in millions)	**F2015**	F2014
Net interest and fee income	**1.4**	2.3
Income before operating and administrative expenses	**1.4**	2.3
Operating and administrative expenses	**0.4**	0.3
Income from Securitization	**1.0**	2.0

Three months ended June 30

Income from Securitization for the first quarter of fiscal 2015 was $1.0 million, compared to $2.0 million for the same period last year.

The decrease in income was due to lower net interest and fee income as a result of a net reduction in the ABS portfolio and a decrease in the yield. The decrease in the ABS portfolio was explained in part by the full repayment in October 2013 of all asset-backed securities issued under the Canadian Secured Credit Facility.

Operating and administrative expenses for the three-month period ended June 30, 2014, were slightly higher than those reported for the same period last year.

Venture Capital Action Plan results

	Three months ended June 30	
($ in millions)	**F2015**	F2014
Net revenue (loss) on investments	**0.1**	-
Net change in unrealized appreciation (depreciation) of investments	**(0.9)**	-
Income (loss) before operating and administrative expenses	**(0.8)**	-
Operating and administrative expenses	**0.2**	0.2
Loss from Venture Capital Action Plan	**(1.0)**	(0.2)

Three months ended June 30

During the first quarter of fiscal 2015, Venture Capital Action Plan recorded a loss of $1.0 million, mostly as a result of a net change in unrealized depreciation of investments of $0.9 million.

Operating and administrative expenses for the three-month period ended June 30, 2014 were the same as those reported for the same period last year.

Consolidated Statement of Financial Position and Cash Flows

As at June 30, 2014, total BDC assets amounted to $19.8 billion, an increase of $0.2 billion from March 31, 2014, mainly due to the increase in loans.

At $17.4 billion, the loan portfolio represented BDC's largest asset ($17.9 billion in gross portfolio and a $0.5 billion allowance for credit losses). The gross loan portfolio grew by 1.0% in the three months after March 31, 2014.

As for BDC's investment portfolios, the Subordinate Financing portfolio stood at $573.8 million, compared to $576.7 million as at March 31, 2014. Write-offs and net fair value depreciation accounted for most of the decrease of this portfolio; however, this was partially offset by net investment disbursements. The Venture Capital portfolio was $527.4 million at June 30, 2014, compared to $495.1 million as at March 31, 2014. The increase in this portfolio was mainly due to investment disbursements and to higher net change in unrealized appreciation, partially offset by losses on conversion of the U.S. dollar portfolio. The Venture Capital Action Plan portfolio stood at $4.9 million, compared to $5.2 million as at March 31, 2014.

The asset-backed securities (ABS) portfolio stood at $359.3 million, compared to $336.5 million at March 31, 2014. The increase in the portfolio is due to net disbursements of securities purchased under the Funding Platform for Independent Lenders (F-PIL) program.

Derivative assets of $60.1 million and derivative liabilities of $8.1 million reflected the fair value of derivative financial instruments as at June 30, 2014. Net derivative fair value increased by $8.2 million, compared to the fair value at March 31, 2014, primarily as the result of an increase in the fair value of foreign exchange contracts.

As at June 30, 2014, BDC recorded a net defined benefit asset of $77.4 million related to the registered pension plan, and a net defined benefit liability of $200.3 million for the other plans, for a total net defined benefit liability of $122.9 million. This represents an increase of $18.2 million compared to the total net defined benefit liability as at March 31, 2014, primarily as the result of re-measurement losses on the net defined benefit liability recorded during the three-month period ended June 30, 2014. Refer to page 8 of this report for further information on remeasurements of net defined benefit asset or liability.

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 $684.2 million at June 30, 2014, compared to $676.5 million at March 31, 2014. For the three-month period ended June 30, 2014, cash flow used by investing activities amounted to $59.8 million as a result of net disbursements of subordinate financing and venture capital investments, and asset-backed securities. Financing activities provided $80.9 million in cash flow, mainly as a result of the issuance of short-term notes, partially offset by the repayment of long-term notes, while operating activities used $13.5 million, mainly due to the increase in the loans portfolio.

At June 30, 2014, BDC funded its portfolios and liquidities with borrowings of $15.0 billion and total equity of $4.4 billion. Borrowings comprised $14.3 billion in short-term notes and $0.7 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
July 30, 2014

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(unaudited)

(in thousands of Canadian dollars)	Notes	June 30, 2014	March 31, 2014
ASSETS			
Cash and cash equivalents		**684,169**	676,529
Derivative assets		**60,100**	54,501
Loans and investments			
Asset-backed securities	7	**359,269**	336,477
Loans	8	**17,383,265**	17,241,064
Subordinate financing investments	9	**573,794**	576,677
Venture capital investments	10	**527,354**	495,096
Venture capital action plan investments	11	**4,874**	5,169
Total loans and investments		**18,848,556**	18,654,483
Property and equipment		**24,967**	26,418
Intangible assets		**57,071**	58,280
Net defined benefit asset		**77,358**	83,527
Other assets		**20,636**	16,219
Total assets		**19,772,857**	19,569,957
LIABILITIES AND EQUITY			
Liabilities			
Accounts payable and accrued liabilities		**115,375**	106,027
Derivative liabilities		**8,146**	10,706
Borrowings			
Short-term notes		**14,297,961**	14,056,623
Long-term notes		**685,453**	775,340
Total borrowings		**14,983,414**	14,831,963
Net defined benefit liability		**200,302**	188,221
Other liabilities		**44,805**	42,991
Total liabilities		**15,352,042**	15,179,908
Equity			
Share capital	12	**2,138,400**	2,138,400
Contributed surplus		**27,778**	27,778
Retained earnings		**2,208,245**	2,167,279
Accumulated other comprehensive income		**4,447**	5,453
Equity attributable to BDC's shareholder		**4,378,870**	4,338,910
Non-controlling interests		**41,945**	51,139
Total equity		**4,420,815**	4,390,049
Total liabilities and equity		**19,772,857**	19,569,957

Guarantees (Note 14)

Commitments (Note 15)

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

CONSOLIDATED STATEMENT OF INCOME

(unaudited)

(in thousands of Canadian dollars)	Three months ended June 30 2014	2013
Interest income	**263,905**	250,153
Interest expense	**33,009**	33,351
Net interest income	**230,896**	216,802
Net realized gains (losses) on investments	**(6,084)**	13,903
Consulting revenue	**4,118**	4,796
Fee and other income	**10,565**	9,429
Net realized gains (losses) on other financial instruments	**(962)**	(1,819)
Net revenue	**238,533**	243,111
Impairment reversals (losses) on loans	**(17,406)**	(20,761)
Net change in unrealized appreciation (depreciation) of investments	**5,945**	(13,631)
Net unrealized foreign exchange gains (losses) on investments	**(6,175)**	5,778
Net unrealized gains (losses) on other financial instruments	**5,206**	(1,991)
Income before operating and administrative expenses	**226,103**	212,506
Salaries and benefits	**72,027**	69,601
Premises and equipment	**10,651**	10,029
Other expenses	**21,654**	19,109
Operating and administrative expenses	**104,332**	98,739
Net income	**121,771**	113,767
Net income attributable to:		
BDC's shareholder	**121,419**	112,104
Non-controlling interests	**352**	1,663
Net income	**121,771**	113,767

The accompanying notes are an integral part of these Consolidated Financial Statements and Note 13 provides additional information on segmented net income.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(unaudited)

	Three months ended June 30	
(in thousands of Canadian dollars)	**2014**	2013
Net income	**121,771**	113,767
Other comprehensive income (loss)		
Items that may be reclassified subsequently to net income		
Net change in unrealized gains (losses) on available-for-sale assets	**(457)**	(893)
Net unrealized gains (losses) on cash flow hedges	**(430)**	(1,671)
Reclassification to net income of losses (gains) on cash flow hedges	**(119)**	(402)
Net change in unrealized gains (losses) on cash flow hedges	**(549)**	(2,073)
Total items that may be reclassified subsequently to net income	**(1,006)**	(2,966)
Items that will not be reclassified to net income		
Remeasurements of net defined benefit asset or liability	**(25,840)**	35,256
Other comprehensive income (loss)	**(26,846)**	32,290
Total comprehensive income	**94,925**	146,057
Total comprehensive income attributable to:		
BDC's shareholder	**94,573**	144,394
Non-controlling interests	**352**	1,663
Total comprehensive income	**94,925**	146,057

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

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	Accumulated other comprehensive income (loss) Available-for-sale assets	Cash flow hedges	Total	Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
Balance at March 31, 2014	**2,138,400**	**27,778**	**2,167,279**	**2,207**	**3,246**	**5,453**	**4,338,910**	**51,139**	**4,390,049**
Total comprehensive income									
Net income			**121,419**				**121,419**	**352**	**121,771**
Other comprehensive income (loss)									
Net change in unrealized gains (losses) on available-for-sale assets				**(457)**		**(457)**	**(457)**		**(457)**
Net change in unrealized gains (losses) on cash flow hedges					**(549)**	**(549)**	**(549)**		**(549)**
Remeasurements of net defined benefit asset or liability			**(25,840)**				**(25,840)**		**(25,840)**
Other comprehensive income (loss)	**-**	**-**	**(25,840)**	**(457)**	**(549)**	**(1,006)**	**(26,846)**	**-**	**(26,846)**
Total comprehensive income	**-**	**-**	**95,579**	**(457)**	**(549)**	**(1,006)**	**94,573**	**352**	**94,925**
Dividends on common shares			**(54,613)**				**(54,613)**		**(54,613)**
Distributions to non-controlling interests								**(9,638)**	**(9,638)**
Capital injections from non-controlling interests								**92**	**92**
Transactions with owner, recorded directly in equity	**-**	**-**	**(54,613)**	**-**	**-**	**-**	**(54,613)**	**(9,546)**	**(64,159)**
Balance as at June 30, 2014	**2,138,400**	**27,778**	**2,208,245**	**1,750**	**2,697**	**4,447**	**4,378,870**	**41,945**	**4,420,815**

(in thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss) Available-for-sale assets	Cash flow hedges	Total	Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
Balance at 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									
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 defined benefit asset or 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 as 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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

(unaudited)

(in thousands of Canadian dollars)	Three months ended June 30 2014	2013
Operating activities		
Net income	**121,771**	113,767
Adjustments to determine net cash flows		
Interest income	**(263,905)**	(250,153)
Interest expense	**33,009**	33,351
Net realized losses (gains) on investments	**6,084**	(13,903)
Impairment losses (reversals) on loans	**17,406**	20,761
Net change in unrealized depreciation (appreciation) on investments	**(5,945)**	13,631
Net unrealized foreign exchange losses (gains) on investments	**6,175**	(5,778)
Net unrealized losses (gains) on other financial instruments	**(5,206)**	1,991
Defined benefits funding in excess of amounts expensed	**(7,590)**	(13,080)
Depreciation of property and equipment, and amortization of intangible assets	**3,617**	2,957
Loss (gain) on disposal of property and equipment	**9**	-
Other	**2,640**	(1,882)
Interest expense paid	**(28,572)**	(28,321)
Interest income received	**258,539**	247,724
Disbursements for loans	**(871,201)**	(1,185,935)
Repayments of loans	**712,963**	693,728
Changes in operating assets and liabilities		
Net change in accounts payable and accrued liabilities	**9,348**	7,074
Net change in other assets and other liabilities	**(2,603)**	(6,118)
Net cash flows provided (used) by operating activities	**(13,461)**	(370,186)
Investing activities		
Disbursements for asset-backed securities	**(56,591)**	(57,580)
Repayments and proceeds on sale of asset-backed securities	**33,348**	113,349
Disbursements for subordinate financing investments	**(45,626)**	(28,633)
Repayments of subordinate financing investments	**38,092**	20,079
Disbursements for venture capital investments	**(38,764)**	(32,147)
Proceeds on sale of venture capital investments	**11,245**	49,032
Disbursements for venture capital action plan investments	**(565)**	-
Acquisition of property and equipment	**(498)**	(2,756)
Proceeds from disposal of property and equipment	**1**	-
Acquisition of intangible assets	**(469)**	(7,886)
Net cash flows provided (used) by investing activities	**(59,827)**	53,458
Financing activities		
Net change in short-term notes	**240,850**	421,736
Issue of long-term notes	**39,400**	74,535
Repayment of long-term notes	**(135,163)**	(37,982)
Distributions to non-controlling interests	**(9,638)**	(10,917)
Capital injections from non-controlling interests	**92**	1,040
Dividends paid on common shares	**(54,613)**	(59,593)
Net cash flows provided (used) by financing activities	**80,928**	388,819
Net increase (decrease) in cash and cash equivalents	**7,640**	72,091
Cash and cash equivalents at beginning of period	**676,529**	701,678
Cash and cash equivalents at end of period	**684,169**	773,769

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. The Business Development Bank of Canada 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 30, 2014.

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

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

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, 2014, and March 31, 2014. The financial statements of the subsidiaries are prepared using uniform accounting policies and valuation methods for similar transactions.

Subsidiaries

For financial reporting purposes, subsidiaries are defined as entities controlled by BDC. BDC controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Control is presumed when BDC directly or indirectly holds the majority of the voting rights. The existence and effect of potential voting rights are considered when assessing whether BDC controls another entity.

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

Subsidiaries are fully consolidated from the date that control begins until the date that control ceases. No subsidiary has been acquired or disposed of during the reporting periods. Intercompany 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

Go Capital L.P.

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

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

AlterInvest II Fund L.P.

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

As at June 30, 2014, the total fair value of investments transferred to AlterInvest II Fund L.P. was $5.6 million (cost $7.7 million) calculated as per the fair value methodology described in Note 6—*Fair Value of Financial Instruments*. These transactions were non-cash and had no impact on profit or loss.

Non-controlling interests

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

Associates

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

(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, 2014, and March 31, 2014.

June 30, 2014

		Measured at fair value				Measured at amortized cost		
		FVTPL[1]						
	Note	Held-for-trading	Designated as FVTPL	Available-for-sale	Cash flow hedges	Loans and receivables	Financial liabilities	Total
Financial assets								
Cash and cash equivalents						**684,169**		**684,169**
Derivative assets		**57,880**			**2,220**			**60,100**
Asset-backed securities	7		**4,850**	**354,419**				**359,269**
Loans	8					**17,383,265**		**17,383,265**
Subordinate financing investments	9		**573,794**					**573,794**
Venture capital investments	10		**527,354**					**527,354**
Venture capital action plan investments	11		**4,874**					**4,874**
Other assets[2]						**12,119**		**12,119**
Total financial assets		**57,880**	**1,110,872**	**354,419**	**2,220**	**18,079,553**	**-**	**19,604,944**
Financial liabilities								
Accounts payable and accrued liabilities							**115,375**	**115,375**
Derivative liabilities		**8,146**						**8,146**
Short-term notes							**14,297,961**	**14,297,961**
Long-term notes			**475,252**				**210,201**	**685,453**
Other liabilities[2]							**32,183**	**32,183**
Total financial liabilities		**8,146**	**475,252**	**-**	**-**	**-**	**14,655,720**	**15,139,118**

March 31, 2014

		Measured at fair value				Measured at amortized cost		
		FVTPL[1]						
	Note	Held-for-trading	Designated as FVTPL	Available-for-sale	Cash flow hedges	Loans and receivables	Financial liabilities	Total
Financial assets								
Cash and cash equivalents						676,529		676,529
Derivative assets		51,717			2,784			54,501
Asset-backed securities	7		4,750	331,727				336,477
Loans	8					17,241,064		17,241,064
Subordinate financing investments	9		576,677					576,677
Venture capital investments	10		495,096					495,096
Venture capital action plan investments	11		5,169					5,169
Other assets[2]						9,265		9,265
Total financial assets		51,717	1,081,692	331,727	2,784	17,926,858	-	19,394,778
Financial liabilities								
Accounts payable and accrued liabilities							106,027	106,027
Derivative liabilities		10,706						10,706
Short-term notes							14,056,623	14,056,623
Long-term notes			500,794				274,546	775,340
Other liabilities[2]							31,617	31,617
Total financial liabilities		10,706	500,794	-	-	-	14,468,813	14,980,313

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

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

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

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

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

Available-for-sale assets

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

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

Cash flow hedges

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

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

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

Loans and receivables

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

Financial liabilities measured at amortized cost

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

Major types of financial instruments

Cash equivalents

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

Cash equivalents have been classified as loans and receivables.

Asset-backed securities

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

Investment-grade senior ABS are classified as available-for-sale assets and subordinated ABS notes are designated at 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

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

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

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

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

Loans for which an individual allowance has not been established are then included in groups of assets having similar credit risk characteristics and collectively assessed for any impairment that has been incurred but not yet identified.

Refer to Note 5—*Significant Accounting Judgements, Estimates and Assumptions*, for more information regarding the criteria used to determine the amount of the allowance.

Subordinate financing, venture capital and venture capital action plan investments

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

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

Borrowings

Short-term notes are measured at amortized cost.

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

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

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

Derivatives

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

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

Embedded derivatives that are not closely related to the host contract must be separated and classified as held-for-trading financial instruments, unless the hybrid instrument is designated as fair value through profit or loss. As at June 30, 2014, and March 31, 2014, 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 the premises and equipment expense in the Consolidated Statement of Income.

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

These assets are also reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Irrespective of whether there is any indication of impairment, an impairment test is also performed annually for projects in progress related to intangible assets. When impairment tests indicate that the carrying amount of an asset (or group of assets) is greater than its estimated recoverable amount, the carrying amount is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

Net defined benefit asset or liability

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

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

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

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

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

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

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 AOCI 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 AOCI until such time as the hedged forecasted cash flows are reclassified to net income.

Retained earnings include all current and prior periods' net income and remeasurements of net defined benefit asset or liability, net of dividends paid.

Translation of foreign currencies

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

Segmented information

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

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

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

4. FUTURE ACCOUNTING CHANGES

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

IFRS 9, *Financial instruments*

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

BDC is currently assessing the impact of the adoption of IFRS 9. The application of all phases of this standard is expected to be retrospective.

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 regularly. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future period affected.

Information about the significant judgements, estimates and assumptions that have the most significant effect on the amounts recognized in the Consolidated Financial Statements are summarized below.

Estimates and Assumptions

Allowance for credit losses

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

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.

Qualifying hedge relationships

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

Net defined benefit asset or liability

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

Judgements

Impairment of available-for-sale assets

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

Consolidation

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

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.

(unaudited, in thousands of Canadian dollars)

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

	Fair value measurements using			June 30, 2014 Total fair value
	Level 1	Level 2	Level 3	
Assets				
Derivative assets		**60,100**		**60,100**
Asset-backed securities		**359,269**		**359,269**
Subordinate financing investments	**684**		**573,110**	**573,794**
Venture capital investments	**4,305**		**523,049**	**527,354**
Venture capital action plan investments	**-**		**4,874**	**4,874**
	4,989	**419,369**	**1,101,033**	**1,525,391**
Liabilities				
Derivative liabilities		**8,146**		**8,146**
Long-term notes designated as FVTPL[1]		**475,252**		**475,252**
	-	**483,398**	**-**	**483,398**

[1] Fair value through profit or loss.

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

[1] Fair value through profit or loss.

(unaudited, in thousands of Canadian dollars)

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

				June 30, 2014
	Subordinate financing investments	**Venture capital investments**	**Venture capital action plan investments**	**Total**
Fair value at April 1, 2014	**575,993**	**489,038**	**5,169**	**1,070,200**
Net realized gains (losses) on investments	**(6,219)**	**15**	**-**	**(6,204)**
Net change in unrealized appreciation (depreciation) of investments	**(3,952)**	**11,545**	**(860)**	**6,733**
Net unrealized foreign exchange gains (losses) on investments	**-**	**(6,047)**	**-**	**(6,047)**
Disbursements for investments	**45,626**	**38,764**	**565**	**84,955**
Repayments of investments and other	**(38,338)**	**(10,266)**	**-**	**(48,604)**
Transfers from level 3 to level 1	**-**	**-**	**-**	**-**
Fair value at June 30, 2014	**573,110**	**523,049**	**4,874**	**1,101,033**

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

(unaudited, in thousands of Canadian dollars)

7. ASSET-BACKED SECURITIES

	June 30, 2014	March 31, 2014
Available-for-sale		
Principal amount	**352,669**	329,521
Cumulative fair value appreciation (depreciation)	**1,750**	2,206
Carrying value	**354,419**	331,727
Yield	**2.19%**	2.24%
Fair value through profit or loss		
Principal amount	**4,754**	4,651
Cumulative fair value appreciation (depreciation)	**96**	99
Carrying value	**4,850**	4,750
Yield	**7.89%**	8.06%
Asset-backed securities	**359,269**	336,477

No asset-backed securities were impaired as at June 30 or March 31, 2014.

8. LOANS

The following table provides loans outstanding by contractual 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	**185,217**	**1,857,396**	**15,387,356**	**17,429,969**	**(340,000)**	**-**	**(340,000)**	**17,089,969**
Impaired	**8,390**	**50,411**	**406,979**	**465,780**	**-**	**(172,484)**	**(172,484)**	**293,296**
Loans as at June 30, 2014	**193,607**	**1,907,807**	**15,794,335**	**17,895,749**	**(340,000)**	**(172,484)**	**(512,484)**	**17,383,265**

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

Allowance for Credit Losses

	June 30, 2014	March 31, 2014
Balance at beginning of period	**508,250**	538,338
Write-offs	**(12,575)**	(103,258)
Effect of discounting	**(3,217)**	(12,485)
Recoveries and other	**2,620**	12,774
	495,078	435,369
Impairment losses (reversals) on loans	**17,406**	72,881
Balance at end of period	**512,484**	508,250

(unaudited, in thousands of Canadian dollars)

Concentrations of Total Loans Outstanding

Geographic distribution	June 30, 2014	March 31, 2014
Newfoundland and Labrador	**754,324**	741,843
Prince Edward Island	**48,171**	44,517
Nova Scotia	**463,237**	447,837
New Brunswick	**479,118**	486,006
Quebec	**5,982,360**	5,977,771
Ontario	**4,706,880**	4,681,243
Manitoba	**509,483**	502,059
Saskatchewan	**547,781**	532,345
Alberta	**2,361,953**	2,325,621
British Columbia	**1,915,827**	1,881,972
Yukon	**96,581**	97,598
Northwest Territories and Nunavut	**30,034**	30,502
Total loans outstanding	**17,895,749**	17,749,314

Industry sector	June 30, 2014	March 31, 2014
Manufacturing	**4,013,227**	4,025,056
Wholesale and retail trade	**3,602,864**	3,578,289
Tourism	**2,339,386**	2,305,724
Service industries	**2,309,926**	2,278,685
Commercial properties	**2,076,863**	2,050,634
Construction	**1,506,883**	1,478,046
Transportation and storage	**1,046,826**	1,023,372
Other	**999,774**	1,009,508
Total loans outstanding	**17,895,749**	17,749,314

(unaudited, in thousands of Canadian dollars)

9. SUBORDINATE FINANCING INVESTMENTS

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

	Within 1 year	1 to 5 years	Over 5 years	Total cost	Total fair value
As at June 30, 2014	**79,999**	**446,264**	**76,165**	**602,428**	**573,794**
As at March 31, 2014	77,268	442,633	81,477	601,378	576,677

Concentrations of Total Subordinate Financing Investments

		June 30, 2014		March 31, 2014
Geographic distribution	**Fair value**	**Cost**	Fair value	Cost
Newfoundland and Labrador	**7,322**	**6,705**	8,033	6,697
Nova Scotia	**13,044**	**13,676**	13,297	14,636
New Brunswick	**13,078**	**13,128**	11,756	11,806
Quebec	**241,568**	**268,932**	249,660	271,927
Ontario	**183,724**	**186,081**	182,588	186,901
Manitoba	**7,530**	**6,047**	8,050	6,062
Saskatchewan	**4,613**	**3,598**	5,108	3,659
Alberta	**76,438**	**77,310**	72,071	73,103
British Columbia	**22,537**	**22,782**	22,173	22,417
Yukon	**2,714**	**2,914**	2,715	2,915
Northwest Territories and Nunavut	**1,226**	**1,255**	1,226	1,255
Subordinate financing investments	**573,794**	**602,428**	576,677	601,378

		June 30, 2014		March 31, 2014
Industry sector	**Fair value**	**Cost**	Fair value	Cost
Manufacturing	**213,068**	**215,870**	204,022	205,280
Business services	**111,775**	**127,025**	114,686	129,493
Wholesale and retail trade	**96,877**	**103,922**	97,007	99,523
Construction	**43,715**	**42,959**	44,004	46,798
Mining, and oil and gas extraction	**35,649**	**36,288**	34,524	35,346
Information industries	**23,680**	**25,149**	21,079	22,552
Tourism	**12,411**	**11,487**	12,808	11,882
Transportation and storage	**9,229**	**9,941**	9,426	10,138
Educational services	**4,122**	**4,062**	7,130	7,674
Real estate, and rental and leasing	**1,853**	**1,890**	8,918	8,539
Other	**21,415**	**23,835**	23,073	24,153
Subordinate financing investments	**573,794**	**602,428**	576,677	601,378

(unaudited, in thousands of Canadian dollars)

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 having promising positions in their respective marketplaces and strong growth potential. The concentrations and investment types of venture capital investments are listed below.

	June 30, 2014		March 31, 2014	
Industry sector	**Fair value**	**Cost**	Fair value	Cost
Information technology	**122,193**	**130,581**	106,228	114,000
Electronics	**75,850**	**78,391**	77,976	78,241
Biotechnology and pharmacology	**56,695**	**66,898**	53,383	62,834
Medical and health	**32,013**	**40,706**	33,765	42,485
Communications	**24,238**	**24,062**	25,872	24,282
Energy	**10,275**	**18,205**	8,259	16,065
Industrial	**9,690**	**13,892**	9,690	14,042
Other	**500**	**500**	500	500
Total direct investments	**331,454**	**373,235**	315,673	352,449
Funds	**195,900**	**189,060**	179,423	182,173
Venture capital investments	**527,354**	**562,295**	495,096	534,622

	June 30, 2014		March 31, 2014	
Investment type	**Fair value**	**Cost**	Fair value	Cost
Common shares	**30,434**	**70,845**	29,340	68,745
Preferred shares	**261,015**	**259,571**	248,090	243,132
Debentures	**40,005**	**42,819**	38,243	40,572
Total direct investments	**331,454**	**373,235**	315,673	352,449
Funds	**195,900**	**189,060**	179,423	182,173
Venture capital investments	**527,354**	**562,295**	495,096	534,622

11. VENTURE CAPITAL ACTION PLAN INVESTMENTS

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

At June 30, 2014, the fair value of venture capital action plan investments stood at $4,874 ($5,169 at March 31, 2014), and their cost was $6,267 ($5,702 at March 31, 2014).

12. SHARE CAPITAL

An unlimited number of common shares, having a par value of $100 each, is authorized. As at June 30 and March 31, 2014, there were 21,384,000 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, 2014, and March 31, 2014, 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, 2014, and for the fiscal year ended March 31, 2014, 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.
> **Growth & Transition Capital** provides flexible debt with or without convertible features and equity-type financing.
> **Venture Capital** provides investments to cover every stage of a technology-based company's development cycle, from seed funding to expansion. BDC also makes indirect investments via venture capital investment funds.
> **Consulting** provides consulting services, group programs and other services related to business activities.
> **Securitization** purchases investments in asset-backed securities through the Funding Platform for Independent Lenders (F-PIL, formerly known as the Multi-Seller Platform for Small Originators) and until October 2013 managed the Canadian Secured Credit Facility investment portfolio. These securities are backed by vehicle and equipment loans and leases, as well as dealer floor plan loans.
> **Venture Capital Action Plan** supports the creation of large private sector-led funds of funds and also assists existing high-performing funds in partnership with institutional investors, corporate strategic investors and interested provinces.

The assumptions and methodologies used in BDC's reporting framework are periodically reviewed by management to ensure they remain valid. 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, 2014

	BDC	Financing	Growth & Transition Capital	Venture Capital	Consulting	Securitization	Venture Capital Action Plan
Interest income	263,905	246,281	15,662	-	-	1,962	-
Interest expense	33,009	30,602	1,896	-	-	511	-
Net interest income	**230,896**	**215,679**	**13,766**	**-**	**-**	**1,451**	**-**
Net realized gains (losses) on investments	(6,084)	-	(6,219)	135	-	-	-
Consulting revenue	4,118	-	-	-	4,118	-	-
Fee and other income	10,565	3,700	6,250	511	-	1	103
Net realized gains (losses) on other financial instruments	(962)	(363)	-	(599)	-	-	-
Net revenue (loss)	**238,533**	**219,016**	**13,797**	**47**	**4,118**	**1,452**	**103**
Impairment reversals (losses) on loans	(17,406)	(17,406)	-	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	5,945	-	(3,952)	10,760	-	(3)	(860)
Net unrealized foreign exchange gains (losses) on investments	(6,175)	-	-	(6,175)	-	-	-
Net unrealized gains (losses) on other financial instruments	5,206	(360)	-	5,566	-	-	-
Income (loss) before operating and administrative expenses	**226,103**	**201,250**	**9,845**	**10,198**	**4,118**	**1,449**	**(757)**
Salaries and benefits	72,027	56,320	5,584	3,675	5,930	349	169
Premises and equipment	10,651	9,335	339	409	534	19	15
Other expenses	21,654	16,713	690	1,102	3,027	73	49
Operating and administrative expenses	**104,332**	**82,368**	**6,613**	**5,186**	**9,491**	**441**	**233**
Net income (loss)	**121,771**	**118,882**	**3,232**	**5,012**	**(5,373)**	**1,008**	**(990)**
Net income (loss) attributable to:							
BDC's shareholder	121,419	118,882	2,742	5,150	(5,373)	1,008	(990)
Non-controlling interests	352	-	490	(138)	-	-	-
Net income (loss)	**121,771**	**118,882**	**3,232**	**5,012**	**(5,373)**	**1,008**	**(990)**
Business segment portfolio at end of period	**18,848,556**	**17,383,265**	**573,794**	**527,354**	**-**	**359,269**	**4,874**

Three months ended June 30, 2013

	BDC	Financing	Growth & Transition Capital	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	**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**	**-**

(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 $26.1 million as at June 30, 2014 ($27.6 million at March 31, 2014).

15. COMMITMENTS

Loans

The undisbursed amount of authorized loans was $2,247,088 at June 30, 2014 ($332,197 fixed rate; $1,914,891 floating rate) and is expected to be disbursed within the next 12 months. The weighted average effective interest rate was 4.69% on loan commitments (4.78% at March 31, 2014). The following tables present undisbursed amounts of authorized loans, by location and industry.

Commitments, by geographic distribution	**June 30, 2014**	March 31, 2014
Newfoundland and Labrador	**84,450**	64,956
Prince Edward Island	**1,920**	4,448
Nova Scotia	**59,025**	60,085
New Brunswick	**24,352**	19,685
Quebec	**581,807**	547,558
Ontario	**684,678**	500,665
Manitoba	**68,520**	56,729
Saskatchewan	**122,624**	96,904
Alberta	**420,680**	352,070
British Columbia	**195,167**	191,288
Yukon	**3,465**	1,834
Northwest Territories and Nunavut	**400**	400
Total	**2,247,088**	1,896,622

Commitments, by industry sector	**June 30, 2014**	March 31, 2014
Manufacturing	**471,144**	404,133
Tourism	**351,215**	263,457
Wholesale and retail trade	**303,523**	259,707
Construction	**273,894**	247,274
Service industries	**236,483**	228,533
Commercial properties	**139,468**	130,645
Transportation and storage	**135,916**	121,206
Other	**335,445**	241,667
Total	**2,247,088**	1,896,622

(unaudited, in thousands of Canadian dollars)

Subordinate Financing

The undisbursed amount of authorized investments was $44,796 at June 30, 2014 ($29,388 fixed rate; $15,408 floating rate) and is expected to be disbursed within the next 12 months. The weighted average effective interest rate (excluding non-interest returns) was 10.47% on investment commitments (8.83% at March 31, 2014). The following tables present undisbursed amounts of authorized investments, by location and industry.

Commitments, by geographic distribution	June 30, 2014	March 31, 2014
Nova Scotia	168	3,554
New Brunswick	250	1,750
Quebec	11,150	13,600
Ontario	26,253	24,442
Saskatchewan	625	625
Alberta	3,750	6,100
British Columbia	2,600	3,650
Total	**44,796**	53,721

Commitments, by industry sector	June 30, 2014	March 31, 2014
Business services	13,523	10,549
Manufacturing	11,713	22,408
Wholesale and retail trade	6,125	11,859
Information industries	2,935	695
Construction	2,900	1,100
Mining, and oil and gas extraction	1,500	2,500
Educational services	900	-
Tourism	400	800
Transportation and storage	300	300
Other	4,500	3,510
Total	**44,796**	53,721

Venture Capital

The undisbursed amount of authorized venture capital investments was $328,724 at June 30, 2014, and was related to the following industry sectors.

Industry sector	June 30, 2014	March 31, 2014
Information technology	9,510	9,238
Biotechnology and pharmacology	2,902	7,112
Energy	2,180	320
Electronics	630	639
Industrial	583	583
Communications	401	-
Total direct investments	16,206	17,892
External funds	312,518	309,367
Venture capital investments	**328,724**	327,259

Venture Capital Action Plan

The undisbursed amount of authorized venture capital action plan investments was $203,733 at June 30, 2014 ($204,298 at March 31, 2014)

Asset-Backed Securities

The undisbursed amount of authorized asset-backed securities was $272,900 at June 30, 2014 ($196,000 at March 31, 2014).

Leases

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

16. RELATED PARTY TRANSACTIONS

As at June 30, 2014, BDC had $14,288.0 million outstanding in short-term notes and $209.7 million outstanding in long-term notes (excluding accrued interest) with Her Majesty the Queen in Right of Canada acting through the Minister of Finance ($14,046.0 million in short-term notes and $273.8 million in long-term notes at March 31, 2014).

Accrued interest on borrowings included $5.6 million payable to the Minister of Finance as at June 30, 2014 ($5.3 million at March 31, 2014).

BDC recorded $32.3 million in interest expense, related to the borrowings from the Minister of Finance, for the first quarter ended June 30, 2014. Last year’s figure for the same period was $32.4 million.

In addition, certain borrowings with the Minister of Finance were repurchased in the first quarter of fiscal 2015. This resulted in a net realized loss of $0.5 million for the three-month period (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.

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