BDC
Entrepreneurs first

2013

FIRST QUARTER

FINANCIAL REPORT

June 30, 2012

Canada

EXECUTIVE SUMMARY

The global economy has weakened during the quarter. The eurozone is in recession and is still struggling to solve its debt crisis. China and other emerging economies are experiencing lower economic growth, while the United States' economy continues to expand but at a slower pace. Although the state of the global economy is restraining Canadian economic activity, consumption and business investments are supporting a moderate growth in Canada.

In this environment, credit conditions for Canadian businesses have remained favorable. Growth in business credit, especially short-term credit, has been solid in the last months, which is consistent with the trend of ongoing growth in business investment in Canada. Investment in commercial building construction rose by 2.3% during the quarter, while industrial investment increased by 6.2%. Investments in machinery and equipment are also expected to increase during the period.

In the first quarter of fiscal 2013, BDC posted consolidated net income of $111 million(1) compared to $176 million(1) for the same period last year. Taking into account last year's collective impairment reversal on loans of $65 million, net income for the quarter was similar to that in the previous year.

For the quarter, consolidated total comprehensive income totalled $40 million, compared to a consolidated total comprehensive income of $128 million for the same period last year. The decrease was mostly due to a collective impairment reversal on loans, as explained above, and to higher actuarial losses on post-employment benefits.

Based on fiscal 2012 performance, BDC made a payment of $68.6 million in dividends on common shares to its sole shareholder, the Government of Canada, in the first quarter.

The need to support small and medium-sized enterprises continued to be strong, as reflected by BDC Financing's higher level of activity, with clients accepting $1.0 billion in loans this quarter versus $831 million for the same period last year.

As at June 30, 2012, BDC Financing's(2) loan portfolio, before allowance for credit losses, stood at $15.6 billion, a 1.5% increase compared to March 31, 2012.

To address some of Canada's productivity issues, BDC has made it easier for small and medium sized enterprises (SMEs) to obtain the equipment they need. BDC introduced a new pre-approved Equipment Line, which gives clients the flexibility to make equipment purchases over a 12-month period with guaranteed terms and conditions. Clients can receive a high percentage of financing for the cost of new or used equipment and the possibility of additional financing for related expenses, such as shipping, installation and training.

(1) Including $0.2 million and $1.8 million in net income attributable to non-controlling interests for fiscal 2013 and 2012, respectively.

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

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

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

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

Among the highlights in our other lines of business, BDC Subordinate Financing supported more businesses in the quarter, as clients accepted $53.6 million in financing in the first quarter of fiscal 2013, a 63% increase compared to the $32.8 million recorded for the same period last year, reflecting a broader offering aimed at addressing market gaps.

BDC Venture Capital investment authorizations reached $35.4 million in the first quarter, compared to $19.4 million in the same period last year. This substantial increase reflects the need for BDC to be active in this market as a result of the shortage of capital.

BDC Venture Capital dedicated $6 million to new Canadian tech entrepreneurs by issuing convertible notes over two years to graduates of FounderFuel, a Montreal-based start-up accelerator program. Some 40 young enterprises from across the country that are active in the web, mobile, software as a service (SaaS), and gaming fields, will each be eligible for a $150,000 BDC convertible note upon their successful completion of FounderFuel's 12-week mentor-driven business boot camp. This investment is part of BDC Venture Capital's larger commitment toward accelerators across the country, a key element in its strategy to support tech enterprises in their early, most fragile, stage.

BDC Consulting initiated 507 new mandates during the first quarter. This compares with 520 for the same period last year. BDC strives to deliver affordable advice to help entrepreneurs make their businesses more competitive. To further enhance these services, a review is currently under way to determine what consulting services entrepreneurs need most and how to increase the quality and efficiency of our services. This review should be completed by the end of fiscal 2013.

As at June 30, 2012, total asset-backed securities stood at $672 million compared to $763 million as at March 31, 2012. The decrease was mainly due to repayments of $143 million, offset by purchases of $54 million of asset-backed securities investments.

The impact of Information and Communications Technology (ICT) on the productivity, capacity to innovate and competitiveness of SMEs is attracting more attention. Access to funding remains the most significant obstacle to entrepreneurs in using more ICT because they typically have to rely on short-term financing, thus reducing their company's working capital. To help companies invest in ICT, BDC recently teamed up with the *Community Futures Development Corporations (CFDCs) and Community Business Development Corporations (CBDCs)* to offer a new financing product that will allow entrepreneurs to pay back loans over the medium term, freeing up working capital and allowing them to address other financial obligations.

During the quarter, BDC held its first online Young Entrepreneur Award contest. The public voted to select the winner of the $100,000 Grand Prize for Innovation from among eight finalists. The winning innovation project was submitted by *Two If By Sea Café.* The Nova Scotia company received more than 50,000 online votes. *Lee's Music* of Kamloops, B.C., received the second highest number of votes and won a $25,000 customized Internet strategy provided by BDC Consulting.

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

RISK MANAGEMENT

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

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

No significant changes were made to BDC's ERM framework and no new risks were identified during the quarter ended June 30, 2012.

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, 2012, compared to the corresponding period of the prior fiscal year.

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

Net Income

	Three months ended June 30	
($ in millions)	**F2013**	F2012
Financing	**105.5**	157.7
Subordinate Financing	**5.7**	6.9
Venture Capital	**(1.2)**	(4.4)
Consulting	**(3.0)**	(3.1)
Securitization	**3.5**	18.5
Net income	**110.5**	175.6
Net income attributable to:		
BDC's shareholder	**110.3**	173.8
Non-controlling interests	**0.2**	1.8
Net income	**110.5**	175.6

Three months ended June 30

BDC reported consolidated net income of $110.5 million for the first quarter ended June 30, 2012, comprising $110.3 million attributable to BDC's shareholder and $0.2 million to non-controlling interests. This compares with $175.6 million in consolidated net income for the first quarter of fiscal 2012, of which $1.8 million was attributable to non-controlling interests.

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

Consolidated net income for the first quarter of fiscal 2013 is comparable to the first quarter of last year when excluding the $65 million collective impairment reversals on loans recorded in the first quarter of fiscal 2012. Refer to the BDC Financing section of this analysis for further information.

Comprehensive Income

	Three months ended June 30	
($ in millions)	**F2013**	F2012
Net income	**110.5**	175.6
Other comprehensive income (loss)		
Net change in unrealized gains (losses) on available-for-sale assets	**(1.7)**	(12.3)
Net change in unrealized gains (losses) on cash flow hedges	**1.1**	6.7
Actuarial gains (losses) on post-employment benefits	**(69.9)**	(42.2)
Other comprehensive income (loss)	**(70.5)**	(47.8)
Total comprehensive income	**40.0**	127.8
Total comprehensive income attributable to:		
BDC's shareholder	**39.8**	126.0
Non-controlling interests	**0.2**	1.8
Total comprehensive income	**40.0**	127.8

Three months ended June 30

Consolidated total comprehensive income for the first quarter was $40.0 million, down $87.8 million from the $127.8 million recorded for the same period last year. Consolidated total comprehensive income for the first quarter comprised $110.5 million in consolidated net income and $70.5 million in other comprehensive loss (OCI). OCI for the first quarter was again affected by significant actuarial losses on post-employment benefits of $69.9 million, partially offset by a lower net change in unrealized losses on available-for-sale assets.

Net change in unrealized gains or losses on available-for-sale assets relates mostly to fluctuations in the fair value of asset-backed securities (ABS).

Actuarial gains or losses are affected mainly by the actual return on plan assets and the discount rate used to determine defined benefit obligations. Losses recorded in the first quarter of fiscal 2013 were the result of a lower-than-expected return on plan assets combined with a reduction in the discount rate used to value the defined benefit obligations.

The following table presents the estimated year-end impact of changing the key economic assumptions on OCI and retained earnings used in measuring the net periodic pension and other post-employment benefits. The results are not usually consistently linear.

Sensitivity ($M)	Impact of	Increase (positive impact)	Decrease (negative impact)
Return of plan assets	+5%	37	
	-5%		-37
Discount rate	+1%	145	
	-1%		-189
Health care cost trend rate	+1%		-16
	-1%	13	
		195	**-242**

BDC Financing Results

	Three months ended June 30	
($ in millions)	**F2013**	F2012
Net interest and fee income	**196.9**	189.2
Impairment reversal (losses) on loans	**(15.5)**	37.7
Net gains (losses) on other financial instruments	**0.2**	3.2
Income before operating and administrative expenses	**181.6**	230.1
Operating and administrative expenses	**76.1**	72.4
Income from Financing	**105.5**	157.7

	Three months ended June 30	
As % of average portfolio	**F2013**	F2012
Net interest and fee income	**5.1**	5.2
Impairment reversal (losses) on loans	**(0.4)**	1.0
Net gains (losses) on other financial instruments	**-**	0.1
Income before operating and administrative expenses	**4.7**	6.3
Operating and administrative expenses	**2.0**	2.0
Income from Financing	**2.7**	4.3

Three months ended June 30

BDC Financing's income was $105.5 million for the first quarter of fiscal 2013. This compares with last year's income of $157.7 million for the quarter.

The decrease in profitability was mostly the result of impairment reversals recorded in net income in the first quarter of fiscal 2012. The continued improvement in loan portfolio credit quality allowed BDC Financing to record impairment reversals of $37.7 million last year, comprised of $27.3 million in individual impairment losses and $65.0 million collective impairment reversal.

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

Business growth and higher pension costs, largely driven by lower discount rates, contributed to the increase in operating and administrative expenses. Overall, operating and administrative expenses, expressed as a percentage of the average portfolio, remained at the same level as last year.

BDC Subordinate Financing Results

	Three months ended June 30	
($ in millions)	**F2013**	F2012
Net revenue on investments	**13.7**	10.6
Net change in unrealized appreciation (depreciation) of investments	**(3.1)**	0.1
Income before operating and administrative expenses	**10.6**	10.7
Operating and administrative expenses	**4.9**	3.8
Income from Subordinate Financing	**5.7**	6.9
Income attributable to:		
BDC's shareholder	**5.4**	4.9
Non-controlling interests	**0.3**	2.0
Income from Subordinate Financing	**5.7**	6.9

Three months ended June 30

Income from BDC Subordinate Financing for the first quarter of fiscal 2013 was $5.7 million, down $1.2 million from last year. Income included $0.3 million attributable to non-controlling interests in fiscal 2013 and $2.0 million in fiscal 2012.

Net revenue on investments was $3.1 million higher than last year due to higher net interest income as a result of portfolio growth ($0.9 million), higher fee and other income ($0.9 million), and lower net realized losses ($1.3 million).

The net change in unrealized depreciation of $3.1 million for the quarter included:

- a $3.8 million net fair value depreciation of the portfolio; and
- a reversal of net fair value depreciation due to net realized losses totalling $0.7 million.

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

BDC Venture Capital Results

	Three months ended June 30	
($ in millions)	**F2013**	F2012
Net revenue (loss) on investments	**(0.8)**	17.9
Net change in unrealized appreciation (depreciation) of investments	**3.4**	(16.4)
Net unrealized foreign exchange gains (losses) on investments	**2.2**	(1.4)
Net gains (losses) on other financial instruments	**(1.5)**	0.8
Income (loss) before operating and administrative expenses	**3.3**	0.9
Operating and administrative expenses	**4.5**	5.3
Loss from Venture Capital	**(1.2)**	(4.4)
Loss attributable to:		
BDC's shareholder	**(1.1)**	(4.2)
Non-controlling interests	**(0.1)**	(0.2)
Loss from Venture Capital	**(1.2)**	(4.4)

Three months ended June 30

During the first quarter of fiscal 2013, BDC Venture Capital recorded a $1.2 million loss, compared to a loss of $4.4 million for the same period last year. Results included losses of $0.1 million in fiscal 2013 and $0.2 million in fiscal 2012 attributable to non-controlling interests.

Net loss on investments for the first quarter of this fiscal year was $0.8 million compared to net revenue of $17.9 million recorded last year. During the first quarter of fiscal 2012, one of our investee companies was acquired, generating an excellent return.

The net change in unrealized appreciation of $3.4 million for the quarter included the following:

- a $1.1 million net fair value appreciation of the portfolio ($3.5 million depreciation last year); and
- a reversal of net fair value depreciation on divested investments and write-offs totalling $2.3 million (a reversal of $12.9 million of net fair value appreciation last year).

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

Operating and administrative expenses amounted to $4.5 million for the quarter, lower than the $5.3 million recorded last year due to a decrease in provisions for long-term incentives.

BDC Consulting Results

	Three months ended June 30	
($ in millions)	**F2013**	F2012
Revenue	**6.0**	5.8
Operating and administrative expenses	**9.0**	8.9
Loss from Consulting	**(3.0)**	(3.1)

Three months ended June 30

The loss from BDC Consulting was $3.0 million for the first quarter of fiscal 2013, $0.1 million lower than the $3.1 million loss recorded for the same quarter last year. Revenue was slightly up, as were operating and administrative expenses. BDC is currently reviewing its consulting services to entrepreneurs in order to further enhance their quality and efficiency.

BDC Securitization Results

	Three months ended June 30	
($ in millions)	**F2013**	F2012
Net interest and fee income	**3.9**	19.0
Net gains (losses) on other financial instruments	**-**	(0.1)
Income before operating and administrative expenses	**3.9**	18.9
Operating and administrative expenses	**0.4**	0.4
Income from Securitization	**3.5**	18.5

Three months ended June 30

BDC Securitization income for the first quarter was $3.5 million, compared to $18.5 million for the same period last year. The decrease is due to lower net interest income as a result of the decline of the portfolio because of prepayments.

The Multi-Seller Platform for Small Originators (MSPSO), launched during the first quarter of fiscal 2012, is geared toward the purchase of term ABS supported by loans and leases on vehicles and equipment. For the quarter ended June 30, 2012, total disbursements were $54.0 million.

Operating and administrative expenses for the three months ended June 30, 2012, totalled $0.4 million, unchanged from last year.

Consolidated Statement of Financial Position and Cash Flows

As at June 30, 2012, total BDC assets amounted to $17.4 billion, an increase of $182.0 million from March 31, 2012, mainly due to the increase in loans.

The ABS portfolio stood at $672.1 million, compared to $763.2 million at March 31, 2012. This portfolio consists mainly of AAA-rated term securities purchased under the Canadian Secured Credit Facility (CSCF). The decline of the portfolio is mainly due to repayments of asset-backed securities.

At $15.0 billion, the loan portfolio (net of allowance for credit losses) represented BDC's largest asset ($15.6 billion in gross portfolio and a $0.6 billion allowance for credit losses). Portfolio growth was 1.5% since March 31, 2012.

As for BDC's investment portfolios, the BDC Subordinate Financing portfolio stood at $495.8 million, representing an 8.4% growth since March 31, 2012. The BDC Venture Capital portfolio was $389.4 million at June 30, 2012, compared to $359.0 million at March 31, 2012. Investment disbursements accounted for most of the increase.

Derivative assets of $94.9 million and derivative liabilities of $16.8 million reflect the fair value of derivative financial instruments as at June 30, 2012. Net derivative fair value increased by $7.6 million compared to the value at March 31, 2012, as a result of interest rate decreases and foreign exchange revaluation on swaps used to economically hedge BDC's structured long-term notes.

Post-employment benefit liability amounted to $279.9 million at June 30, 2012, representing an increase of $59.7 million compared to the March 31, 2012, amount of $220.2 million. This significant increase was the result of actuarial losses recorded during the three-month period ended June 30, 2012. Refer to page 7 of this report for further information on actuarial gains and losses on post-employment benefits.

BDC holds cash and cash equivalents in accordance with its Treasury Risk Policy. The Bank's liquidities, which ensure funds are available to meet BDC's cash outflows, totalled $701.8 million at June 30, 2012, compared to $740.7 million at March 31, 2012. For the three-month period ended June 30, 2012, cash flow provided by investing activities amounted to $14.1 million as a result of net repayments of asset-backed securities offset by disbursements for Subordinate Financing and Venture Capital investments. Financing activities provided $67.4 million in cash flow, as a result of the issuance of short-term notes offset by the payment of dividends on common shares, while operating activities used $120.3 million, mainly due to the increase of the loans portfolio.

At June 30, 2012, BDC funded its portfolios and liquidities with borrowings of $13.4 billion and total equity of $3.6 billion. Borrowings comprised $11.4 billion in short-term notes and $2.0 billion in long-term notes. Short-term notes increased by $162 million as a result of growth in the loan portfolio.

CONSOLIDATED FINANCIAL STATEMENTS

(unaudited, in thousands of Canadian dollars)

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

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

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

Jean-René Halde
President and Chief Executive Officer

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

Montreal, Canada
August 1, 2012

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(unaudited)

(in thousands of Canadian dollars)	Notes	June 30, 2012	March 31, 2012
ASSETS			
Cash and cash equivalents		**701,837**	740,667
Derivative assets		**94,872**	87,681
Loans and investments			
Asset-backed securities	5	**672,099**	763,200
Loans	6	**14,973,189**	14,739,271
Subordinate financing investments	7	**495,760**	457,369
Venture capital investments	8	**389,440**	358,951
		16,530,488	16,318,791
Property and equipment		**24,434**	25,171
Intangible assets		**35,753**	32,094
Other assets		**14,463**	15,478
Total assets		**17,401,847**	17,219,882
LIABILITIES AND EQUITY			
Liabilities			
Accounts payable and accrued liabilities		**91,370**	89,229
Derivative liabilities		**16,838**	17,244
Borrowings			
Short-term notes		**11,377,125**	11,214,813
Long-term notes		**2,005,200**	2,008,943
		13,382,325	13,223,756
Post-employment benefit liability		**279,861**	220,169
Other liabilities		**42,496**	44,223
Total liabilities		**13,812,890**	13,594,621
Equity			
Share capital	9	**2,088,400**	2,088,400
Contributed surplus		**27,778**	27,778
Retained earnings		**1,350,365**	1,378,617
Accumulated other comprehensive income		**14,605**	15,185
Equity attributable to BDC's shareholder		**3,481,148**	3,509,980
Non-controlling interests		**107,809**	115,281
Total equity		**3,588,957**	3,625,261
Total liabilities and equity		**17,401,847**	17,219,882

Commitments (Note 11)

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 2012	2011
Interest income	**238,094**	248,689
Interest expense	**30,315**	34,644
Net interest income	**207,779**	214,045
Net realized gains (losses) on investments	**(3,376)**	14,886
Consulting revenue	**5,988**	5,816
Fee and other income	**9,224**	7,850
Net realized gains (losses) on other financial instruments	**2,067**	2,146
Net revenue	**221,682**	244,743
Impairment reversal (losses) on loans	**(15,522)**	37,734
Net change in unrealized appreciation (depreciation) of investments	**371**	(16,350)
Net unrealized foreign exchange gains (losses) on investments	**2,243**	(1,374)
Net unrealized gains (losses) on other financial instruments	**(3,447)**	1,706
Income before operating and administrative expenses	**205,327**	266,459
Salaries and benefits	**64,784**	60,786
Premises and equipment	**9,380**	8,883
Other expenses	**20,717**	21,150
Operating and administrative expenses	**94,881**	90,819
Net income	**110,446**	175,640
Net income attributable to:		
BDC's shareholder	**110,262**	173,860
Non-controlling interests	**184**	1,780
Net income	**110,446**	175,640

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(unaudited)

	Three months ended June 30	
(in thousands of Canadian dollars)	**2012**	2011
Net income	**110,446**	175,640
Other comprehensive income (loss)		
Net change in unrealized gains (losses) on available-for-sale assets	**(1,658)**	(12,331)
Net change in unrealized gains (losses) on cash flow hedges	**1,078**	6,725
Actuarial gains (losses) on post-employment benefits	**(69,890)**	(42,201)
Other comprehensive income (loss)	**(70,470)**	(47,807)
Total comprehensive income	**39,976**	127,833
Total comprehensive income attributable to:		
BDC's shareholder	**39,792**	126,053
Non-controlling interests	**184**	1,780
Total comprehensive income	**39,976**	127,833

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	attributable to BDC's shareholder	Non-controlling interests	Total equity
Balance at March 31, 2012	2,088,400	27,778	1,378,617	6,351	8,834	15,185	3,509,980	115,281	3,625,261
Total comprehensive income									
Net income			110,262				110,262	184	110,446
Other comprehensive income									
Net change in unrealized gains (losses) on available-for-sale assets				(1,658)		(1,658)	(1,658)		(1,658)
Net change in unrealized gains (losses) on cash flow hedges					1,078	1,078	1,078		1,078
Actuarial gains (losses) on post-employment benefits			(69,890)				(69,890)		(69,890)
Other comprehensive income	-	-	(69,890)	(1,658)	1,078	(580)	(70,470)	-	(70,470)
Total comprehensive income	-	-	40,372	(1,658)	1,078	(580)	39,792	184	39,976
Dividends on common shares			(68,624)				(68,624)		(68,624)
Distributions to non-controlling interests								(8,396)	(8,396)
Capital injections from non-controlling interests								740	740
Balance at June30, 2012	2,088,400	27,778	1,350,365	4,693	9,912	14,605	3,481,148	107,809	3,588,957

(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, 2011	2,514,400	27,778	1,046,431	26,170	(1,577)	24,593	3,613,202	146,645	3,759,847
Total comprehensive income									
Net income			173,860				173,860	1,780	175,640
Other comprehensive income									
Net change in unrealized gains (losses) on available-for-sale assets				(12,331)		(12,331)	(12,331)		(12,331)
Net change in unrealized gains (losses) on cash flow hedges					6,725	6,725	6,725		6,725
Actuarial gains (losses) on post-employment benefits			(42,201)				(42,201)		(42,201)
Other comprehensive income	-	-	(42,201)	(12,331)	6,725	(5,606)	(47,807)	-	(47,807)
Total comprehensive income	-	-	131,659	(12,331)	6,725	(5,606)	126,053	1,780	127,833
Dividends on common shares			(45,071)				(45,071)		(45,071)
Distributions to non-controlling interests, net of capital injections								(13,787)	(13,787)
Capital injections from non-controlling interests								1,065	1,065
Balance at June30, 2011	2,514,400	27,778	1,133,019	13,839	5,148	18,987	3,694,184	135,703	3,829,887

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 2012	2011
Operating activities		
Net income	**110,446**	175,640
Adjustments to determine net cash flows		
Interest income	**(238,094)**	(248,689)
Interest expense	**30,315**	34,644
Net realized losses (gains) on investments	**3,376**	(14,886)
Impairment losses (reversal) on loans	**15,522**	(37,734)
Net change in unrealized depreciation (appreciation) on investments	**(371)**	16,350
Net unrealized foreign exchange losses (gains) on investments	**(2,243)**	1,374
Net unrealized losses (gains) on other financial instruments	**3,447**	(1,706)
Post-employment benefits funding in excess of amounts expensed	**(10,199)**	(5,728)
Amortization of property and equipment, and intangible assets	**2,643**	2,656
Other	**(5,094)**	(3,876)
Interest expense paid	**(25,281)**	(27,415)
Interest income received	**241,621**	247,985
Disbursements for loans	**(884,336)**	(649,046)
Repayments of loans	**636,492**	545,145
Changes in operating assets and liabilities		
Net change in accounts payable and accrued liabilities	**2,141**	1,357
Net change in other assets and other liabilities	**(713)**	(7,435)
Net cash flows provided (used) by operating activities	**(120,328)**	28,636
Investing activities		
Disbursements for asset-backed securities	**(53,949)**	(18,658)
Repayments and proceeds on sale of asset-backed securities	**143,305**	387,976
Disbursements for subordinate financing investments	**(55,018)**	(37,819)
Repayments of subordinate financing investments	**12,012**	21,757
Disbursements for venture capital investments	**(37,559)**	(33,416)
Proceeds on sale of venture capital investments	**10,905**	52,297
Acquisition of property and equipment	**(853)**	(901)
Acquisition of intangible assets	**(4,711)**	(4,210)
Net cash flows provided (used) by investing activities	**14,132**	367,026
Financing activities		
Net change in short-term notes	**162,151**	77,092
Issue of long-term notes	**100,000**	6,587
Repayment of long-term notes	**(118,505)**	(360,794)
Distributions to non-controlling interests	**(8,396)**	(13,787)
Capital injections from non-controlling interests	**740**	1,065
Dividends paid on common shares	**(68,624)**	(45,071)
Dividends paid on preferred shares	**-**	(5,012)
Net cash flows provided (used) by financing activities	**67,366**	(339,920)
Net increase (decrease) in cash and cash equivalents	**(38,830)**	55,742
Cash and cash equivalents at beginning of period	**740,667**	653,231
Cash and cash equivalents at end of period	**701,837**	708,973

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

1. BDC GENERAL DESCRIPTION

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

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

2. BASIS OF PREPARATION

BDC's condensed quarterly Consolidated Financial Statements are in compliance with the Standard on Quarterly Financial Reports for Crown Corporations, as required by the *Financial Administration Act* and issued by the Treasury Board of Canada Secretariat.

These quarterly Consolidated Financial Statements have been prepared using International Financial Reporting Standards (IFRS). The quarterly Consolidated Financial Statements have also been prepared in accordance with the accounting policies BDC expects to use in its annual Consolidated Financial Statements for the year ending March 31, 2013. Refer to Note 3, *Significant accounting policies*, for a description of these policies. If BDC changes the application of these policies, it may result in a restatement of these quarterly Consolidated Financial Statements.

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

Basis of presentation and measurement

The 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;
> the liability or asset in respect to post-employment benefits has been recognized at the present value of the defined benefit obligation less the fair value of the plans' assets, together with adjustments for unrecognized past service costs.

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

Basis of consolidation

BDC conducts business through a variety of entities, including a wholly owned subsidiary and several investment funds and other entities that are considered to be subsidiaries for financial purposes.

The Consolidated Financial Statements of BDC comprise the financial statements of the parent entity and the consolidated accounts of the subsidiaries as of June 30, 2012, and March 31, 2012. The financial statements of the subsidiaries are prepared using uniform accounting and valuation methods for similar transactions.

Subsidiaries

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

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

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

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

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

Non-controlling interests

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

Associates

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

Financial instruments

Recognition and measurement of financial instruments

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

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

Financial instruments are recognized and derecognized using settlement date accounting.

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

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

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

(unaudited, in thousands of Canadian dollars)

Classification of financial instruments

The following table summarizes the classification of BDC's financial instruments as at June 30 and March 31, 2012.

June 30, 2012

		Measured at fair value				Measured at amortized cost		
		FVTPL[1]						
	Note	Held-for-trading	Designated as FVTPL	Available-for-sale	Cash flow hedges	Loans and receivables	Other financial liabilities	Total
Financial assets								
Cash and cash equivalents						**701,837**		**701,837**
Derivative assets		**87,353**			**7,519**			**94,872**
Asset-backed securities	5		**2,808**	**669,291**				**672,099**
Loans	6					**14,973,189**		**14,973,189**
Subordinate financing investments	7		**495,760**					**495,760**
Venture capital investments	8		**389,440**					**389,440**
Other assets[2]						**9,336**		**9,336**
Total financial assets		**87,353**	**888,008**	**669,291**	**7,519**	**15,684,362**	-	**17,336,533**
Financial liabilities								
Accounts payable and accrued liabilities							**91,370**	**91,370**
Derivative liabilities		**16,621**			**217**			**16,838**
Short-term notes							**11,377,125**	**11,377,125**
Long-term notes			**656,015**				**1,349,185**	**2,005,200**
Other liabilities[2]							**26,169**	**26,169**
Total financial liabilities		**16,621**	**656,015**	**-**	**217**	**-**	**12,843,849**	**13,516,702**

March 31, 2012

		Measured at fair value				Measured at amortized cost		
		FVTPL[1]						
	Note	Held-for-trading	Designated as FVTPL	Available-for-sale	Cash flow hedges	Loans and receivables	Other financial liabilities	Total
Financial assets								
Cash and cash equivalents						740,667		740,667
Derivative assets		78,165			9,516			87,681
Asset-backed securities	5		2,502	760,698				763,200
Loans	6					14,739,271		14,739,271
Subordinate financing investments	7		457,369					457,369
Venture capital investments	8		358,951					358,951
Other assets[2]						11,003		11,003
Total financial assets		78,165	818,822	760,698	9,516	15,490,941	-	17,158,142
Financial liabilities								
Accounts payable and accrued liabilities							89,229	89,229
Derivative liabilities		16,656			588			17,244
Short-term notes							11,214,813	11,214,813
Long-term notes			644,735				1,364,208	2,008,943
Other liabilities[2]							28,752	28,752
Total financial liabilities		16,656	644,735	-	588	-	12,697,002	13,358,981

[1] Fair value through profit or loss.

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

Fair value through profit or loss

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

FINANCIAL INSTRUMENTS CLASSIFIED AS HELD-FOR-TRADING

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

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

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

FINANCIAL INSTRUMENTS DESIGNATED AS FAIR VALUE THROUGH PROFIT OR LOSS

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

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

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

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

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

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

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

Available-for-sale financial assets

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

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

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

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

Cash flow hedges

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

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

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

Loans and receivables

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

Other liabilities measured at amortized cost

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

Major types of financial instruments

Cash equivalents

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

Cash equivalents have been classified as loans and receivables.

Asset-backed securities

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

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

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

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

IMPAIRMENT OF ASSET-BACKED SECURITIES

BDC reviews ABS classified as available-for-sale for possible impairment or reversal of previously recognized impairments at each reporting date. BDC determines that ABS are impaired when there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and when that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Refer to Note 4 – *Significant Accounting judgements, Estimates and Assumptions,* for more information regarding the criteria used to determine if 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 reversals of impairment is identified.

Loans

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

ALLOWANCE FOR CREDIT LOSSES

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

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

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

The carrying amounts of impaired loans are first reduced through the use of an allowance account, and then written off if and when all collection efforts have been exhausted and no further prospect of recovery is likely. The amounts of the initial impairment losses, as well as any subsequent increases or reversals of these impairment losses, are recognized in impairment losses or reversal 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 4 – *Accounting judgements, Estimates and Assumptions,* for more information regarding the criteria used to determine the amount of the allowance.

Subordinate financing and Venture capital investments

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

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

Borrowings

Short-term notes are measured at amortized cost.

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

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

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

Derivatives

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

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

Embedded derivatives that are not closely related to the host contract must be separated and classified as held-for-trading financial instruments, unless the hybrid instrument is designated as fair value through profit or loss. As at June 30 and March 31, 2012, BDC had no embedded derivatives that must 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 are carried at cost less accumulated depreciation and accumulated impairment losses, if any.

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

Property and equipment are 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, which averages approximately 6 years

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 operating and administrative expenses 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 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 on an annual basis for projects in process related to intangible assets.

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

Post-employment benefits

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

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

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

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

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

Equity attributable to BDC's shareholder

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

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

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

Translation of foreign currencies

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

Segmented information

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

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. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Preparation of the quarterly Consolidated Financial Statements using IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Significant changes in the underlying assumptions could result in significant changes to these estimates. Consequently, management reviews these assumptions on a regular basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future period affected.

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

Allowance for credit losses

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

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

Loans that have been assessed individually and found not to be impaired and all other loans are then collectively assessed for any impairment that has been incurred but not yet identified. In assessing collective impairment, BDC uses statistical modelling of historical portfolio trends, such as default rates and loss rates, adjusted for 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 6 – *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 of valuation techniques used for each type of financial instrument.

Impairment of available-for-sale assets

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

Qualifying hedge relationships

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

Post-employment benefit asset and liability

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

(unaudited, in thousands of Canadian dollars)

Consolidation

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

5. ASSET-BACKED SECURITIES

	June 30, 2012	March 31, 2012
Available-for-sale		
Principal amount	**664,748**	754,548
Unamortized loss on initial recognition	**(149)**	(200)
Cumulative fair value appreciation (depreciation)	**4,692**	6,350
Carrying value	**669,291**	760,698
Yield	**2.89%**	2.96%
Fair value through profit or loss		
Principal amount	**2,783**	2,512
Cumulative fair value appreciation (depreciation)	**25**	(10)
Carrying value	**2,808**	2,502
Yield	**9.24%**	9.31%
Asset-backed securities	**672,099**	763,200

No asset-backed securities were impaired as at June 30 or March 31, 2012.

6. LOANS

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

	Within 1 year	1 to 5 years	Over 5 years	Total gross amount	Collective allowance	Individual allowance	Total allowance	Total net amount
Performing	**760,741**	**3,119,690**	**11,169,329**	**15,049,760**	**(400,000)**	**-**	**(400,000)**	**14,649,760**
Impaired	**44,379**	**103,177**	**381,965**	**529,521**	**-**	**(206,092)**	**(206,092)**	**323,429**
Loans as at June 30, 2012	**805,120**	**3,222,867**	**11,551,294**	**15,579,281**	**(400,000)**	**(206,092)**	**(606,092)**	**14,973,189**

	Within 1 year	1 to 5 years	Over 5 years	Total gross amount	Collective allowance	Individual allowance	Total allowance	Total net amount
Performing	810,970	3,006,795	10,980,890	14,798,655	(400,000)	-	(400,000)	14,398,655
Impaired	35,425	104,084	411,274	550,783	-	(210,167)	(210,167)	340,616
Loans as at March 31, 2012	846,395	3,110,879	11,392,164	15,349,438	(400,000)	(210,167)	(610,167)	14,739,271

(unaudited, in thousands of Canadian dollars)

Allowance for credit losses

	June 30, 2012	March 31, 2012
Balance at beginning of period	**610,167**	774,676
Write-offs	**(20,950)**	(134,609)
Effect of discounting	**(3,357)**	(13,482)
Recoveries and other	**4,710**	21,817
	590,570	648,402
Impairment losses (reversal) on loans	**15,522**	(38,235)
Balance at end of period	**606,092**	610,167

Concentrations of total loans outstanding

Geographic distribution		June 30, 2012		March 31, 2012
Newfoundland and Labrador	**620,425**	**4.0%**	606,044	3.9%
Prince Edward Island	**45,041**	**0.3%**	44,778	0.3%
Nova Scotia	**395,601**	**2.5%**	404,124	2.6%
New Brunswick	**491,728**	**3.2%**	486,004	3.2%
Quebec	**5,269,137**	**33.8%**	5,142,378	33.5%
Ontario	**4,360,393**	**28.0%**	4,350,568	28.3%
Manitoba	**392,854**	**2.5%**	387,297	2.5%
Saskatchewan	**388,424**	**2.5%**	376,466	2.5%
Alberta	**1,756,738**	**11.3%**	1,691,419	11.0%
British Columbia	**1,745,822**	**11.2%**	1,751,039	11.5%
Yukon	**83,643**	**0.5%**	78,866	0.5%
Northwest Territories and Nunavut	**29,475**	**0.2%**	30,455	0.2%
Loans outstanding	**15,579,281**	**100.0%**	15,349,438	100.0%

Industry sector		June 30, 2012		March 31, 2012
Manufacturing	**3,837,673**	**24.6%**	3,866,503	25.2%
Wholesale and retail trade	**3,337,252**	**21.4%**	3,318,302	21.6%
Tourism	**1,894,991**	**12.2%**	1,864,383	12.1%
Commercial properties	**1,707,752**	**11.0%**	1,568,489	10.2%
Construction	**1,209,565**	**7.8%**	1,175,223	7.7%
Transportation and storage	**910,163**	**5.8%**	900,074	5.9%
Business services	**669,444**	**4.3%**	649,964	4.2%
Other	**2,012,441**	**12.9%**	2,006,500	13.1%
Loans outstanding	**15,579,281**	**100.0%**	15,349,438	100.0%

(unaudited, in thousands of Canadian dollars)

7. SUBORDINATE FINANCING INVESTMENTS

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

	Within 1 year	1 to 5 years	Over 5 years	Total cost	Total fair value
As at June 30, 2012	**78,943**	**363,241**	**67,781**	**509,965**	**495,760**
As at March 31, 2012	77,091	329,875	61,555	468,521	457,369

Concentrations of total subordinate financing investments

	June 30, 2012		March 31, 2012	
Geographic distribution	**Fair value**	**Cost**	Fair value	Cost
Newfoundland and Labrador	**16,492**	**14,767**	16,502	14,777
Nova Scotia	**10,709**	**10,465**	10,772	10,846
New Brunswick	**8,417**	**9,261**	8,688	9,533
Quebec	**219,361**	**235,825**	213,914	227,810
Ontario	**152,292**	**151,417**	129,839	128,273
Manitoba	**8,545**	**7,972**	8,578	8,005
Saskatchewan	**492**	**483**	555	546
Alberta	**51,598**	**51,833**	41,107	41,342
British Columbia	**24,337**	**24,425**	23,912	23,887
Yukon Territory	**3,517**	**3,517**	3,502	3,502
Subordinate financing investments	**495,760**	**509,965**	457,369	468,521

	June 30, 2012		March 31, 2012	
Industry sector	**Fair value**	**Cost**	Fair value	Cost
Manufacturing	**188,260**	**189,874**	171,567	172,538
Business services	**98,715**	**109,379**	92,202	101,061
Wholesale and retail trade	**80,483**	**77,012**	77,746	74,037
Construction	**28,154**	**28,696**	29,176	29,038
Transportation and storage	**17,548**	**17,640**	13,395	13,487
Tourism	**5,826**	**5,275**	4,998	4,446
Technologies	**3,983**	**6,381**	3,691	6,563
Biotechnology	**1,522**	**1,215**	1,521	1,215
Industrial Technologies	**1,123**	**1,625**	1,123	1,625
Other	**70,146**	**72,868**	61,950	64,511
Subordinate financing investments	**495,760**	**509,965**	457,369	468,521

(unaudited, in thousands of Canadian dollars)

8. VENTURE CAPITAL INVESTMENTS

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

		June 30, 2012		March 31, 2012
Industry sector	**Fair value**	**Cost**	Fair value	Cost
Information technology	**71,367**	**87,950**	71,844	89,426
Biotechnology and Pharmacology	**58,963**	**94,481**	55,257	90,354
Electronics	**57,492**	**65,598**	52,578	59,876
Medical and Health	**39,046**	**54,739**	33,434	50,019
Communications	**35,189**	**44,760**	31,684	41,199
Industrial	**8,837**	**18,115**	8,870	17,765
Other	**5,460**	**5,173**	5,414	5,173
Total direct investments	**276,354**	**370,816**	259,081	353,812
Funds	**113,086**	**128,369**	99,870	120,539
Venture capital investments	**389,440**	**499,185**	358,951	474,351

		June 30, 2012		March 31, 2012
Investment type	**Fair value**	**Cost**	Fair value	Cost
Common shares	**50,468**	**82,004**	49,112	81,223
Preferred shares	**174,932**	**230,531**	166,063	222,426
Debt instruments	**50,954**	**58,281**	43,906	50,163
Total direct investments	**276,354**	**370,816**	259,081	353,812
Funds	**113,086**	**128,369**	99,870	120,539
Venture capital investments	**389,440**	**499,185**	358,951	474,351

9. SHARE CAPITAL

An unlimited number of common shares, having a par value of $100 each are authorized. As at June 30 and March 31, 2012, there were 20,884,000 common shares outstanding.

Statutory limitations

As per the BDC Act, the debt-to-equity ratio cannot exceed 12:1. In addition, the paid-in capital, the contributed surplus and any proceeds that have been prescribed as equity (such as hybrid capital instruments) must not exceed $3.0 billion. As at June 30, 2012, and March 31, 2012, and during the three-month period ended June 30, 2012, BDC met both of these statutory limitation requirements.

Capital adequacy

Treasury Board of Canada Secretariat provides guidelines to BDC on its capital adequacy ratios. BDC must maintain overall capital and loss provisions sufficient to ensure that BDC can withstand unfavourable economic circumstances without requiring additional government funding. During the three-month period ended June 30, 2012, BDC complied with its capital adequacy guidelines.

10. SEGMENTED INFORMATION

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

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

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

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

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

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

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

(unaudited, in thousands of Canadian dollars)

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

Three months ended June 30, 2012

	BDC	Financing	Subordinate Financing	Venture Capital	Consulting	Securitization
Interest income	238,094	220,391	12,421	-	-	5,282
Interest expense	30,315	26,895	1,882	-	-	1,538
Net interest income (expense)	**207,779**	**193,496**	**10,539**	**-**	**-**	**3,744**
Net realized gains (losses) on investments	(3,376)	-	(1,540)	(1,836)	-	-
Consulting revenue	5,988	-	-	-	5,988	-
Fee and other income	9,224	3,399	4,688	1,058	-	79
Net realized gains (losses) on other financial instruments	2,067	283	-	1,784	-	-
Net revenue (loss)	**221,682**	**197,178**	**13,687**	**1,006**	**5,988**	**3,823**
Impairment reversal (losses) on loans	(15,522)	(15,522)	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	371	-	(3,075)	3,411	-	35
Net unrealized foreign exchange gains (losses) on investments	2,243	-	-	2,243	-	-
Net unrealized gains (losses) on other financial instruments	(3,447)	(119)	-	(3,328)	-	-
Income (loss) before operating and administrative expenses	**205,327**	**181,537**	**10,612**	**3,332**	**5,988**	**3,858**
Salaries and benefits	64,784	52,353	4,145	3,104	4,860	322
Premises and equipment	9,380	8,333	222	460	343	22
Other expenses	20,717	15,395	502	974	3,782	64
Operating and administrative expenses	**94,881**	**76,081**	**4,869**	**4,538**	**8,985**	**408**
Net income (loss)	**110,446**	**105,456**	**5,743**	**(1,206)**	**(2,997)**	**3,450**
Net income (loss) attributable to:						
BDC's shareholder	110,262	105,456	5,435	(1,082)	(2,997)	3,450
Non-controlling interests	184	-	308	(124)	-	-
Net income (loss)	**110,446**	**105,456**	**5,743**	**(1,206)**	**(2,997)**	**3,450**
Business segment portfolio at end of period	**16,530,488**	**14,973,189**	**495,760**	**389,440**	**-**	**672,099**

Three months ended June 30, 2011

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

(unaudited, in thousands of Canadian dollars)

11. COMMITMENTS

Undisbursed amounts of authorized loans and Subordinate financing investments were $1,796,385 at June 30, 2012 ($302,794 fixed rate; $1,493,591 floating rate) and are expected to be disbursed within the next 12 months. The weighted average effective interest rate is 4.81% on loan commitments (4.96% at March 31, 2012) and 11.13% on Subordinate financing commitments (10.77% at March 31, 2012), excluding non-interest return. The following tables present undisbursed amounts of authorized loans and Subordinate financing investments, by location and industry.

Commitments, by geographic distribution		**June 30, 2012**		March 31, 2012
Newfoundland and Labrador	**69,173**	**3.8%**	69,501	4.3%
Prince Edward Island	**3,243**	**0.2%**	2,001	0.1%
Nova Scotia	**43,642**	**2.4%**	55,462	3.4%
New Brunswick	**28,094**	**1.6%**	31,576	1.9%
Quebec	**528,277**	**29.4%**	539,088	33.1%
Ontario	**468,612**	**26.1%**	432,113	26.5%
Manitoba	**42,693**	**2.4%**	30,346	1.9%
Saskatchewan	**59,743**	**3.3%**	28,825	1.8%
Alberta	**340,702**	**19.0%**	283,532	17.4%
British Columbia	**208,533**	**11.6%**	149,251	9.2%
Yukon	**2,505**	**0.1%**	4,532	0.3%
Northwest Territories and Nunavut	**1,168**	**0.1%**	1,863	0.1%
Total	**1,796,385**	**100.0%**	1,628,090	100.0%

Commitments, by industry distribution		**June 30, 2012**		March 31, 2012
Manufacturing	**409,533**	**22.8%**	406,462	25.0%
Wholesale and retail trade	**267,202**	**14.9%**	252,503	15.5%
Tourism	**238,693**	**13.3%**	231,847	14.2%
Construction	**183,108**	**10.2%**	164,553	10.1%
Commercial properties	**140,346**	**7.8%**	131,969	8.1%
Services	**255,742**	**14.2%**	221,334	13.6%
Transportation and storage	**90,075**	**5.0%**	86,272	5.3%
Mining and utilities	**92,867**	**5.2%**	59,646	3.7%
Other	**118,819**	**6.6%**	73,504	4.5%
Total	**1,796,385**	**100.0%**	1,628,090	100.0%

(unaudited, in thousands of Canadian dollars)

The undisbursed amount of authorized Venture capital investments was $258,975 at June 30, 2012, and was related to the following industry sectors.

Industry sector		June 30, 2012		March 31, 2012
Biotechnology and Pharmacology	**10,232**	**4.0%**	9,359	3.6%
Medical and Health	**5,203**	**2.0%**	6,372	2.4%
Electronics	**4,765**	**1.8%**	765	0.3%
Industrial	**650**	**0.3%**	1,000	0.4%
Communications	**303**	**0.1%**	3,415	1.3%
Total direct investments	**21,153**	**8.2%**	20,911	8.0%
Funds	**237,822**	**91.8%**	240,192	92.0%
Venture capital investments	**258,975**	**100.0%**	261,103	100.0%

The undisbursed amount of authorized asset-backed securities was $272,000 at June 30, 2012 ($354,000 at March 31, 2012).

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

12. RELATED PARTY TRANSACTIONS

As at June 30, 2012, BDC had $11,354.6 million outstanding in short-term notes and $1,348.5 million in long-term notes with Her Majesty the Queen in Right of Canada acting through the Minister of Finance ($11,197.8 million in short-term notes and $1,363.6 million in long-term notes at March 31, 2012).

Accrued interest on borrowings includes $5.0 million payable to the Minister of Finance as at June 30, 2012 ($4.7 million at March 31, 2012).

BDC recorded $29.2 million of interest expense, related to the borrowings with the Minister of Finance, for the first quarter. Last year’s comparative figures for the same period were $30.3 million.

In addition, no borrowings with the Minister of Finance were repurchased in fiscal 2013. Certain borrowings were repurchased for the same period last year, resulting in a net realized loss of $0.1 million.

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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