BDC
Entrepreneurs first

2013

SECOND QUARTER

FINANCIAL REPORT

September 30, 2012

Canada

EXECUTIVE SUMMARY

The global economy continues to be weak. The eurozone is in recession and is still working to find solutions to its debt crisis. China and other emerging economies are experiencing slower economic growth, while the United States' economy continues to expand, but at a sluggish pace. Despite the fragile state of the global economy, the Canadian economy continued to grow in the second quarter, supported by business investment and consumer spending.

Strong business credit conditions showed no sign of weakening as the quarter drew to a close. According to the Bank of Canada, total business credit increased by 6.6% in the last quarter, driven mostly by chartered bank lending. Business investment during the quarter rose 8.0%, mainly due to a 13.4% increase in commercial building construction. Investment in machinery and equipment saw a more modest increase at 2.3%.

BDC's commitment to supporting small and medium-sized businesses remained strong across our business segments. BDC Financing[1] experienced a high level of activity, as clients accepted $1.1 billion in loans this quarter versus $889 million for the same period last year. For the six months ended September 30, a total of $2.1 billion in loans was accepted, compared to $1.7 billion last year.

As at September 30, BDC Financing's[1] loan portfolio, before allowance for credit losses, stood at $15.8 billion, a 1.2% increase compared to the previous quarter ended June 30, and a 2.7% increase compared to March 31, 2012.

BDC Subordinate Financing achieved another solid performance during the second quarter. Clients accepted $58.6 million in financing in the quarter for a total of $112 million for the six-month period. This was a strong result when compared to $37 million and $69 million, respectively, for the same periods last year.

BDC Venture Capital investment authorizations totalled $15.7 million in the second quarter, compared to $36 million in the same period last year. For the six-month period ended September 30, a total of $51.1 million was authorized, slightly lower than last year's activity. However, a larger number of smaller deals were done during that period, as evidenced by the 16 convertible notes issued as seed money to support enterprises in their early stage.

BDC Venture Capital has been recognized for its leadership in helping to build outstanding Canadian companies. This year, it won the Canadian Venture Capital and Private Equity Association's prestigious Deal of the Year Award in the venture capital category for the second year in a row. Along with co-investor New Brunswick Investment Management Corporation (NBIMC), BDC Venture Capital received the award for its investment in Q1 Labs Inc., a New Brunswick-based provider of high-value, cost-effective security intelligence software. Q1 Labs was acquired by IBM in late 2011. This is the third time in the last four years that BDC Venture Capital has been recognized for the deal of the year by the Canadian Venture Capital and Private Equity Association.

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

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

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

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

EXECUTIVE SUMMARY

In the second quarter of fiscal 2013, BDC posted consolidated net income of $163 million(2), compared to $106 million(2) for the same period last year. The increase in net income was mostly due to an impairment reversal on loans of $36.8 million, as our loan portfolio remains healthy, with fewer write-offs and lower delinquency rates. Net income for the first half of fiscal 2013 was $274 million(3), slightly lower than the $282 million(3) recorded last year.

For the quarter, consolidated total comprehensive income totalled $128 million, compared to a consolidated total comprehensive income of $10.8 million for the same period last year. The increase was mostly due to the impairment reversal on loans, as explained above, and to lower actuarial losses on post-employment benefits. For the six-month period, total comprehensive income totalled $168 million, compared to $138.6 million for the same period last year.

Among the highlights in our other lines of business, BDC Consulting initiated 449 new mandates during the quarter for a total of 956 mandates for the six-month period. This compares with 532 and 1,052 for the same periods last year, respectively. BDC strives to deliver affordable advice to help entrepreneurs make their businesses more competitive. To further enhance these services, a review was recently completed to determine what consulting services entrepreneurs need most, and how to increase the quality and efficiency of our services. The high-level approach has been approved and work will now begin to finalize details and develop a transition plan. It is expected that implementation will be phased in gradually, beginning in fiscal 2014.

As at September 30, 2012, total asset-backed securities stood at $582 million, compared to $763 million as at March 31, 2012. The decrease was mainly due to repayments of $280 million, offset by purchases of $102 million of asset-backed securities investments.

BDC recently launched its first annual Index of New Entrepreneurial Activity ("the BDC Index"). The BDC Index was developed to measure the rate at which Canadians are launching new job-creating businesses nationally, regionally and in various sub-regions. It provides information on which part of the country has the greatest entrepreneurial dynamism and the characteristics of new entrepreneurs. The BDC Index is calculated by measuring the number of people who became independent workers with employees in the past 12 months as a proportion of the total labour force, using Statistics Canada's monthly Labour Force Survey. It will be used to identify trends in Canadian entrepreneurship.

At the end of September, The Montreal Group, a global forum of state-supported financial development institutions, gathered in Montreal for its first general assembly and board of directors meeting. The forum, whose creation has been spearheaded by BDC, was established to encourage an exchange of ideas and best practices among the financial development institutions. The goal is to better assist micro, small and medium-sized enterprises (MSME) with their business challenges. MSMEs represent a significant part of the economic activity of all countries. A memorandum of understanding of The Montreal Group was signed, bringing together seven founding members: BDC (Canada), BNDES (Brazil), China Development Bank, Nafinsa (Mexico), OSEO (France), SIDBI (India) and Vnesheconombank (Russia).

---

(2) Including $2.5 million and $5.4 million in net income attributable to non-controlling interests for fiscal 2013 and 2012, respectively.

(3) Including $2.7 million and $7.2 million in net income attributable to non-controlling interests for fiscal 2013 and 2012, respectively.

TABLE OF CONTENTS

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

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

CONTEXT OF THE QUARTERLY FINANCIAL REPORT

The *Financial Administration Act* requires that all departments and parent Crown corporations prepare and make public a quarterly financial report. 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. The board of directors and its committees review ERM. 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 September 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 and six-month periods ended September 30, 2012, compared to the corresponding periods of the prior fiscal year. This analysis also includes comments about variances from BDC's fiscal 2013-2017 Corporate Plan.

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

This analysis should be read in conjunction with the unaudited quarterly Consolidated Financial Statements included in this report and the audited annual Consolidated Financial Statements in the fiscal 2012 Annual Report.

Net Income

	Three months ended September 30		Six months ended September 30	
($ in millions)	**F2013**	F2012	**F2013**	F2012
Financing	**155.8**	92.4	**261.2**	250.2
Subordinate Financing	**20.7**	12.8	**26.4**	19.7
Venture Capital	**(13.5)**	(10.7)	**(14.7)**	(15.1)
Consulting	**(2.9)**	(2.7)	**(5.8)**	(5.8)
Securitization	**3.0**	14.1	**6.5**	32.6
Net income	**163.1**	105.9	**273.6**	281.6
Net income attributable to:				
BDC's shareholder	**160.6**	100.5	**270.9**	274.4
Non-controlling interests	**2.5**	5.4	**2.7**	7.2
Net income	**163.1**	105.9	**273.6**	281.6

Three months ended September 30

BDC reported consolidated net income of $163.1 million for the second quarter ended September 30, 2012, comprising $160.6 million attributable to BDC's shareholder and $2.5 million to non-controlling interests. This compares with $105.9 million in consolidated net income for the second quarter of fiscal 2012, of which $5.4 million was attributable to non-controlling interests.

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

Strong consolidated net income for the current three-month period was generated mostly by BDC Financing, primarily due to an impairment reversal on loans of $36.8 million. Refer to the Financing section of this analysis for further information.

Six months ended September 30

BDC consolidated net income was $273.6 million for the six months ended September 30, 2012, slightly lower than the $281.6 million recorded for the same period last year.

BDC expects its consolidated net income for fiscal 2013 to exceed the Corporate Plan target of $262 million, mainly as a result of lower-than-anticipated impairment losses on loans.

Comprehensive Income

	Three months ended September 30		Six months ended September 30	
($ in millions)	**F2013**	F2012	**F2013**	F2012
Net income	**163.1**	105.9	**273.6**	281.6
Other comprehensive income (loss)				
Net change in unrealized gains (losses) on available-for-sale assets	**(1.4)**	(1.1)	**(3.0)**	(13.4)
Net change in unrealized gains (losses) on cash flow hedges	**(1.5)**	11.2	**(0.5)**	17.9
Actuarial gains (losses) on post-employment benefits	**(32.3)**	(105.2)	**(102.2)**	(147.5)
Other comprehensive income (loss)	**(35.2)**	(95.1)	**(105.7)**	(143.0)
Total comprehensive income	**127.9**	10.8	**167.9**	138.6
Total comprehensive income attributable to:				
BDC's shareholder	**125.4**	5.4	**165.2**	131.4
Non-controlling interests	**2.5**	5.4	**2.7**	7.2
Total comprehensive income	**127.9**	10.8	**167.9**	138.6

Three and six months ended September 30

Consolidated total comprehensive income for the second quarter was $127.9 million, comprising $163.1 million in consolidated net income and $35.2 million in other comprehensive loss. For the six-month period ended September 30, 2012, BDC reported total comprehensive income of $167.9 million, comprising of $273.6 million in net income and $105.7 million in other comprehensive loss.

The decrease in other comprehensive loss for the six-month period ended September 30, 2012, is mainly due to lower actuarial losses on post-employment benefits recorded in the second quarter of fiscal 2013 as a result of higher returns on pension plan assets.

BDC Financing Results

	Three months ended September 30		Six months ended September 30	
($ in millions)	**F2013**	F2012	**F2013**	F2012
Net interest and fee income	**199.5**	193.7	**396.3**	382.8
Impairment reversal (losses) on loans	**36.8**	(16.6)	**21.3**	21.1
Net gains (losses) on other financial instruments	**(0.9)**	(5.9)	**(0.7)**	(2.6)
Income before operating and administrative expenses	**235.4**	171.2	**416.9**	401.3
Operating and administrative expenses	**79.6**	78.8	**155.7**	151.1
Income from Financing	**155.8**	92.4	**261.2**	250.2

	Three months ended September 30		Six months ended September 30	
As % of average portfolio	**F2013**	F2012	**F2013**	F2012
Net interest and fee income	**5.0**	5.2	**5.1**	5.2
Impairment reversal (losses) on loans	**0.9**	(0.4)	**0.3**	0.3
Net gains (losses) on other financial instruments	**-**	(0.2)	**-**	-
Income before operating and administrative expenses	**5.9**	4.6	**5.4**	5.5
Operating and administrative expenses	**2.0**	2.1	**2.0**	2.1
Income from Financing	**3.9**	2.5	**3.4**	3.4

Three months ended September 30

BDC Financing's income was $155.8 million for the second quarter of fiscal 2013, compared with $92.4 million for the same period last year.

The increase in profitability was mostly the result of impairment reversals on loans recorded in the second quarter of fiscal 2013.The continued improvement in loan portfolio credit quality allowed BDC Financing to record a total impairment reversal on loans of $36.8 million for the second quarter ended September 30, 2012, comprising $13.2 million in individual impairment losses and $50.0 million in collective impairment reversal on loans. This compares to total impairment losses of $16.6 million (all of which were individual impairment losses) recorded for the same period of fiscal 2012.

Six months ended September 30

Income from Financing was $261.2 million for the first six months of fiscal 2013, $11.0 million higher than for the same period last year. For this period, BDC Financing recorded a total impairment reversal on loans of $21.3 million, comprising collective impairment reversal on loans of $50 million and individual impairment losses on loans of $28.7 million. This is comparable to last year’s total impairment reversal on loans of $21.1 million, comprising collective impairment reversal on loans of $65 million and individual impairment losses on loans of $43.9 million. Overall, the increase in profitability was mostly the result of an increase in net interest and fee income due to portfolio growth, slightly offset by higher operating and administrative expenses.

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 September 30		Six months ended September 30	
($ in millions)	**F2013**	F2012	**F2013**	F2012
Net revenue on investments	**15.5**	16.3	**29.2**	26.9
Net change in unrealized appreciation (depreciation) of investments	**10.1**	1.2	**7.0**	1.3
Income before operating and administrative expenses	**25.6**	17.5	**36.2**	28.2
Operating and administrative expenses	**4.9**	4.7	**9.8**	8.5
Income from Subordinate Financing	**20.7**	12.8	**26.4**	19.7
Income attributable to:				
BDC's shareholder	**16.1**	6.6	**21.5**	11.5
Non-controlling interests	**4.6**	6.2	**4.9**	8.2
Income from Subordinate Financing	**20.7**	12.8	**26.4**	19.7

Three months ended September 30

Income from BDC Subordinate Financing for the second quarter of fiscal 2013 was $20.7 million and included $4.6 million of income attributable to non-controlling interests.

These results compare positively with last year’s income of $12.8 million for the second quarter. The increase from fiscal 2012 was mainly caused by higher unrealized appreciation of investments recorded in the second quarter of fiscal 2013, as lower interest rates contributed to the increase in the fair value of our portfolio.

Six months ended September 30

For the six months ended September 30, 2012, BDC Subordinate Financing recorded income of $26.4 million, up $6.7 million from last year. Income included $4.9 million attributable to non-controlling interests in fiscal 2013 and $8.2 million in fiscal 2012.

Net revenue on investments was $2.3 million higher, than last year, mostly due to higher net interest income as a result of portfolio growth.

The net change in unrealized appreciation of $7.0 million for the period ended September 30, 2012, included:

- a $6.2 million net fair value appreciation, and
- a reversal of net fair value depreciation due to net realized losses totalling $0.8 million.

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

BDC Venture Capital Results

	Three months ended September 30		Six months ended September 30	
($ in millions)	**F2013**	F2012	**F2013**	F2012
Net revenue (loss) on investments	**(18.6)**	(10.0)	**(19.4)**	7.9
Net change in unrealized appreciation (depreciation) of investments	**10.3**	0.5	**13.8**	(15.9)
Net unrealized foreign exchange gains (losses) on investments	**(4.3)**	12.1	**(2.0)**	10.7
Net gains (losses) on other financial instruments	**3.8**	(8.9)	**2.1**	(8.1)
Income (loss) before operating and administrative expenses	**(8.8)**	(6.3)	**(5.5)**	(5.4)
Operating and administrative expenses	**4.7**	4.4	**9.2**	9.7
Loss from Venture Capital	**(13.5)**	(10.7)	**(14.7)**	(15.1)
Loss attributable to:				
BDC's shareholder	**(11.4)**	(9.9)	**(12.5)**	(14.1)
Non-controlling interests	**(2.1)**	(0.8)	**(2.2)**	(1.0)
Loss from Venture Capital	**(13.5)**	(10.7)	**(14.7)**	(15.1)

Three months ended September 30

During the second quarter of fiscal 2013, BDC Venture Capital recorded a $13.5 million loss, compared to a loss of $10.7 million for the same period last year. Results included losses of $2.1 million in fiscal 2013 and $0.8 million in fiscal 2012 attributable to non-controlling interests.

The net change in unrealized appreciation of $10.3 million for the quarter included the following:

> a $10.8 million net fair value depreciation of the portfolio ($10.0 million depreciation last year); and
> a reversal of net fair value depreciation on divested investments and write-offs totalling $21.1 million (a reversal of net fair value depreciation of $10.5 million 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.

Six months ended September 30

For the six months ended September 30, 2012, Venture Capital recorded a $14.7 million loss, compared to a loss of $15.1 million for the same period last year. The results included a loss of $2.2 million and a loss of $1.0 million attributable to non-controlling interests, respectively.

Net loss on investments was $19.4 million for the first six months, compared to net revenue on investments of $7.9 million for the same period last year. Net revenue in fiscal 2012 was favourably impacted by the excellent return generated by a divestiture of one of our investee companies.

The net change in unrealized appreciation of $13.8 million for the period included the following:

> a $9.7 million net fair value depreciation of the portfolio ($13.5 million depreciation last year); and
> a reversal of net fair value depreciation on divested investments and write-offs totalling $23.5 million (a reversal of $2.4 million of net fair value appreciation last year).

Operating and administrative expenses amounted to $9.2 million, lower than the $9.7 million recorded last year.

BDC Consulting Results

	Three months ended September 30		Six months ended September 30	
($ in millions)	**F2013**	F2012	**F2013**	F2012
Revenue	**5.5**	5.6	**11.6**	11.4
Operating and administrative expenses	**8.4**	8.3	**17.4**	17.2
Loss from Consulting	**(2.9)**	(2.7)	**(5.8)**	(5.8)

Three and six months ended September 30

The loss from BDC Consulting was $2.9 million for the second quarter of fiscal 2013, slightly greater than the $2.7 million loss recorded for the same quarter last year. Cumulative loss for the six-month period totalled $5.8 million, which is the same as the cumulative loss for the same period last year. Revenue was slightly up in the six-month period of fiscal 2013, 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 September 30		Six months ended September 30	
($ in millions)	**F2013**	F2012	**F2013**	F2012
Net interest and fee income	**3.4**	14.6	**7.3**	33.6
Net gains (losses) on other financial instruments	**-**	-	**-**	(0.1)
Income before operating and administrative expenses	**3.4**	14.6	**7.3**	33.5
Operating and administrative expenses	**0.4**	0.5	**0.8**	0.9
Income from Securitization	**3.0**	14.1	**6.5**	32.6

Three and six months ended September 30

Income from BDC Securitization for the second quarter of fiscal 2013 was $3.0 million, for a total of $6.5 million for the six-month period ended September 30, 2012. This compares to income from BDC Securitization of $14.1 million and $32.6 million, respectively, for the same periods last year.

The decrease in income was due to lower net interest and fee income as a result of the decline in the portfolio due to prepayments.

The Funding Platform for Independent Lenders (F-PIL) — (formerly known as the Multi-Seller Platform for Small Originators (MSPSO) — was launched during the first quarter of fiscal 2012 to help of helping small and medium-sized enterprises get access to credit. The program is geared toward the purchase of term asset-backed securities (ABS) supported by loans and leases on vehicles and equipment. For the six months ended September 30, 2012, total disbursements totalled $102.2 million.

Consolidated Statement of Financial Position and Cash Flows

As at September 30, 2012, total BDC assets amounted to $17.6 billion, an increase of $356.1 million from March 31, 2012, mainly due to the increase in loans and subordinate financing investments.

The ABS portfolio stood at $581.9 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 due to repayments of asset-backed securities.

At $15.2 billion, the loan portfolio (net of allowance for credit losses) represented BDC's largest asset ($15.8 billion in gross portfolio and a $0.6 billion allowance for credit losses). Portfolio growth was 2.7% since March 31, 2012.

As for BDC's investment portfolios, the BDC Subordinate Financing portfolio stood at $544.8 million, representing a growth of 19.1% since March 31, 2012. The BDC Venture Capital portfolio was $389.3 million at September 30, 2012, compared to $359.0 million at March 31, 2012. Investment disbursements accounted for most of the increase in both of these portfolios.

Derivative assets of $92.0 million and derivative liabilities of $14.8 million reflected the fair value of derivative financial instruments as at September 30, 2012. Net derivative fair value increased by $6.8 million, compared to the value at March 31, 2012, as a result of interest rate decreases on swaps used in Asset Liability Management.

The post-employment benefit liability amounted to $289.2 million at September 30, 2012, representing an increase of $69.0 million, compared to the March 31, 2012, amount of $220.2 million. This significant increase was the result of actuarial losses recorded during the six-month period ended September 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 $682.4 million at September 30, 2012, compared to $740.7 million at March 31, 2012. For the six-month period ended September 30, 2012, cash flow provided by investing activities amounted to $49.1, million as a result of net repayments of asset-backed securities, offset by net disbursements for Subordinate Financing and Venture Capital investments. Financing activities provided $137.1 million in cash flow, as a result of the issuance of short-term notes, offset by the net repayment of long-term notes and by the payment of dividends on common shares, while operating activities used $244.4 million, mainly due to the increase in the loans portfolio.

At September 30, 2012, BDC funded its portfolios and liquidities with borrowings of $13.5 billion and total equity of $3.7 billion. Borrowings comprised $11.6 billion in short-term notes and $1.9 billion in long-term notes. Short-term notes increased by $353.4 million as a result of growth in the floating rate loan portfolio.

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

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

Jean-René Halde
President and Chief Executive Officer

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

Montreal, Canada
November 6, 2012

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(unaudited)

(in thousands of Canadian dollars)	Notes	September 30, 2012	March 31, 2012
ASSETS			
Cash and cash equivalents		**682,404**	740,667
Derivative assets		**91,972**	87,681
Loans and investments			
Asset-backed securities	6	**581,906**	763,200
Loans	7	**15,209,874**	14,739,271
Subordinate financing investments	8	**544,813**	457,369
Venture capital investments	9	**389,282**	358,951
		16,725,875	16,318,791
Property and equipment		**23,810**	25,171
Intangible assets		**34,971**	32,094
Other assets		**16,990**	15,478
Total assets		**17,576,022**	17,219,882
LIABILITIES AND EQUITY			
Liabilities			
Accounts payable and accrued liabilities		**63,525**	89,229
Derivative liabilities		**14,774**	17,244
Borrowings			
Short-term notes		**11,568,238**	11,214,813
Long-term notes		**1,888,416**	2,008,943
		13,456,654	13,223,756
Post-employment benefit liability		**289,230**	220,169
Other liabilities		**44,075**	44,223
Total liabilities		**13,868,258**	13,594,621
Equity			
Share capital	10	**2,088,400**	2,088,400
Contributed surplus		**27,778**	27,778
Retained earnings		**1,478,691**	1,378,617
Accumulated other comprehensive income		**11,692**	15,185
Equity attributable to BDC's shareholder		**3,606,561**	3,509,980
Non-controlling interests		**101,203**	115,281
Total equity		**3,707,764**	3,625,261
Total liabilities and equity		**17,576,022**	17,219,882

Guarantees (Note 12)

Commitments (Note 13)

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 September 30 **2012**	Three months ended September 30 2011	Six months ended September 30 **2012**	Six months ended September 30 2011
Interest income	**241,990**	246,704	**480,084**	495,393
Interest expense	**31,114**	32,521	**61,429**	67,165
Net interest income	**210,876**	214,183	**418,655**	428,228
Net realized gains (losses) on investments	**(21,205)**	(7,751)	**(24,581)**	7,135
Consulting revenue	**5,540**	5,596	**11,528**	11,412
Fee and other income	**10,130**	8,124	**19,354**	15,974
Net realized gains (losses) on other financial instruments	**572**	306	**2,639**	2,452
Net revenue	**205,913**	220,458	**427,595**	465,201
Impairment reversal (losses) on loans	**36,844**	(16,667)	**21,322**	21,067
Net change in unrealized appreciation (depreciation) of investments	**20,431**	1,769	**20,802**	(14,581)
Net unrealized foreign exchange gains (losses) on investments	**(4,256)**	12,096	**(2,013)**	10,722
Net unrealized gains (losses) on other financial instruments	**2,204**	(15,070)	**(1,243)**	(13,364)
Income before operating and administrative expenses	**261,136**	202,586	**466,463**	469,045
Salaries and benefits	**64,660**	63,821	**129,444**	124,607
Premises and equipment	**9,413**	9,349	**18,793**	18,232
Other expenses	**23,946**	23,487	**44,663**	44,637
Operating and administrative expenses	**98,019**	96,657	**192,900**	187,476
Net income	**163,117**	105,929	**273,563**	281,569
Net income attributable to:				
BDC's shareholder	**160,620**	100,556	**270,882**	274,416
Non-controlling interests	**2,497**	5,373	**2,681**	7,153
Net income	**163,117**	105,929	**273,563**	281,569

The accompanying notes are an integral part of these Consolidated Financial Statements and Note 11 provides additional information on segmented net income.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(unaudited)

(in thousands of Canadian dollars)	Three months ended September 30		Six months ended September 30	
	2012	2011	**2012**	2011
Net income	**163,117**	105,929	**273,563**	281,569
Other comprehensive income (loss)				
Net change in unrealized gains (losses) on available-for-sale assets	**(1,367)**	(1,102)	**(3,025)**	(13,433)
Net change in unrealized gains (losses) on cash flow hedges	**(1,546)**	11,211	**(468)**	17,936
Actuarial gains (losses) on post-employment benefits	**(32,294)**	(105,252)	**(102,184)**	(147,453)
Other comprehensive income (loss)	**(35,207)**	(95,143)	**(105,677)**	(142,950)
Total comprehensive income	**127,910**	10,786	**167,886**	138,619
Total comprehensive income attributable to:				
BDC's shareholder	**125,413**	5,413	**165,205**	131,466
Non-controlling interests	**2,497**	5,373	**2,681**	7,153
Total comprehensive income	**127,910**	10,786	**167,886**	138,619

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

				Accumulated other comprehensive income (loss)			Equity attributable to BDC's shareholder	Non-controlling interests	
(in thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings	Available-for-sale assets	Cash flow hedges	Total			Total equity
Balance at June 30, 2012	**2,088,400**	**27,778**	**1,350,365**	**4,693**	**9,912**	**14,605**	**3,481,148**	**107,809**	**3,588,957**
Total comprehensive income									
Net income			**160,620**				**160,620**	**2,497**	**163,117**
Other comprehensive income									
Net change in unrealized gains (losses) on available-for-sale assets				**(1,367)**		**(1,367)**	**(1,367)**		**(1,367)**
Net change in unrealized gains (losses) on cash flow hedges					**(1,546)**	**(1,546)**	**(1,546)**		**(1,546)**
Actuarial gains (losses) on post-employment benefits			**(32,294)**				**(32,294)**		**(32,294)**
Other comprehensive income	**-**	**-**	**(32,294)**	**(1,367)**	**(1,546)**	**(2,913)**	**(35,207)**	**-**	**(35,207)**
Total comprehensive income	**-**	**-**	**128,326**	**(1,367)**	**(1,546)**	**(2,913)**	**125,413**	**2,497**	**127,910**
Dividends on common shares			**-**				**-**		**-**
Distributions to non-controlling interests								**(9,641)**	**(9,641)**
Capital injections from non-controlling interests								**538**	**538**
Balance at September 30, 2012	**2,088,400**	**27,778**	**1,478,691**	**3,326**	**8,366**	**11,692**	**3,606,561**	**101,203**	**3,707,764**

				Accumulated other comprehensive income (loss)			Equity attributable to BDC's shareholder	Non-controlling interests	
(in thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings	Available-for-sale assets	Cash flow hedges	Total			Total equity
Balance at June 30, 2011	**2,514,400**	**27,778**	**1,133,019**	**13,839**	**5,148**	**18,987**	**3,694,184**	**135,703**	**3,829,887**
Total comprehensive income									
Net income			100,556				100,556	5,373	105,929
Other comprehensive income									
Net change in unrealized gains (losses) on available-for-sale assets				(1,102)		(1,102)	(1,102)		(1,102)
Net change in unrealized gains (losses) on cash flow hedges					11,211	11,211	11,211		11,211
Actuarial gains (losses) on post-employment benefits			(105,252)				(105,252)		(105,252)
Other comprehensive income	-	-	(105,252)	(1,102)	11,211	10,109	(95,143)	-	(95,143)
Total comprehensive income	**-**	**-**	**(4,696)**	**(1,102)**	**11,211**	**10,109**	**5,413**	**5,373**	**10,786**
Dividends on common shares			-				-		**-**
Distributions to non-controlling interests								(11,355)	**(11,355)**
Capital injections from non-controlling interests								3,540	**3,540**
Balance at September 30, 2011	**2,514,400**	**27,778**	**1,128,323**	**12,737**	**16,359**	**29,096**	**3,699,597**	**133,261**	**3,832,858**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six-month period ended September 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, 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			270,882				270,882	2,681	273,563
Other comprehensive income									
Net change in unrealized gains (losses) on available-for-sale assets				(3,025)		(3,025)	(3,025)		(3,025)
Net change in unrealized gains (losses) on cash flow hedges					(468)	(468)	(468)		(468)
Actuarial gains (losses) on post-employment benefits			(102,184)				(102,184)		(102,184)
Other comprehensive income	-	-	(102,184)	(3,025)	(468)	(3,493)	(105,677)	-	(105,677)
Total comprehensive income	-	-	168,698	(3,025)	(468)	(3,493)	165,205	2,681	167,886
Dividends on common shares			(68,624)				(68,624)		(68,624)
Distributions to non-controlling interests								(18,037)	(18,037)
Capital injections from non-controlling interests								1,278	1,278
Balance at September 30, 2012	2,088,400	27,778	1,478,691	3,326	8,366	11,692	3,606,561	101,203	3,707,764

(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			274,416				274,416	7,153	281,569
Other comprehensive income									
Net change in unrealized gains (losses) on available-for-sale assets				(13,433)		(13,433)	(13,433)		(13,433)
Net change in unrealized gains (losses) on cash flow hedges					17,936	17,936	17,936		17,936
Actuarial gains (losses) on post-employment benefits			(147,453)				(147,453)		(147,453)
Other comprehensive income	-	-	(147,453)	(13,433)	17,936	4,503	(142,950)	-	(142,950)
Total comprehensive income	-	-	126,963	(13,433)	17,936	4,503	131,466	7,153	138,619
Dividends on common shares			(45,071)				(45,071)		(45,071)
Distributions to non-controlling interests								(25,142)	(25,142)
Capital injections from non-controlling interests								4,605	4,605
Balance at September 30, 2011	2,514,400	27,778	1,128,323	12,737	16,359	29,096	3,699,597	133,261	3,832,858

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 September 30 2012	Three months ended September 30 2011	Six months ended September 30 2012	Six months ended September 30 2011
Operating activities				
Net income	163,117	105,929	273,563	281,569
Adjustments to determine net cash flows				
Interest income	(241,990)	(246,704)	(480,084)	(495,393)
Interest expense	31,114	32,521	61,429	67,165
Net realized losses (gains) on investments	21,205	7,751	24,581	(7,135)
Impairment losses (reversal) on loans	(36,844)	16,667	(21,322)	(21,067)
Net change in unrealized depreciation (appreciation) on investments	(20,431)	(1,769)	(20,802)	14,581
Net unrealized foreign exchange losses (gains) on investments	4,256	(12,096)	2,013	(10,722)
Net unrealized losses (gains) on other financial instruments	(2,204)	15,070	1,243	13,364
Post-employment benefits funding in excess of amounts expensed	(22,924)	(13,541)	(33,123)	(19,269)
Amortization of property and equipment, and intangible assets	2,647	2,753	5,290	5,409
Other	(1,473)	(3,781)	(6,567)	(7,657)
Interest expense paid	(35,040)	(39,509)	(60,321)	(66,924)
Interest income received	244,339	251,404	485,960	499,389
Disbursements for loans	(880,333)	(861,636)	(1,764,669)	(1,510,682)
Repayments of loans	679,247	599,390	1,315,739	1,144,535
Changes in operating assets and liabilities				
Net change in accounts payable and accrued liabilities	(27,845)	(24,953)	(25,704)	(23,596)
Net change in other assets and other liabilities	(947)	13,029	(1,660)	5,594
Net cash flows provided (used) by operating activities	(124,106)	(159,475)	(244,434)	(130,839)
Investing activities				
Disbursements for asset-backed securities	(48,275)	(21,196)	(102,224)	(39,854)
Repayments and proceeds on sale of asset-backed securities	137,090	84,520	280,395	472,496
Disbursements for subordinate financing investments	(59,796)	(28,441)	(114,814)	(66,260)
Repayments of subordinate financing investments	20,365	16,954	32,377	38,711
Disbursements for venture capital investments	(21,337)	(23,473)	(58,896)	(56,889)
Proceeds on sale of venture capital investments	8,168	3,079	19,073	55,376
Acquisition of property and equipment	(1,017)	(2,591)	(1,870)	(3,492)
Acquisition of intangible assets	(225)	(4,694)	(4,936)	(8,904)
Net cash flows provided (used) by investing activities	34,973	24,158	49,105	391,184
Financing activities				
Net change in short-term notes	190,461	656,150	352,612	733,242
Issue of long-term notes	-	-	100,000	6,587
Repayment of long-term notes	(111,658)	(161,879)	(230,163)	(522,673)
Distributions to non-controlling interests	(9,641)	(11,355)	(18,037)	(25,142)
Capital injections from non-controlling interests	538	3,540	1,278	4,605
Dividends paid on common shares	-	-	(68,624)	(45,071)
Dividends paid on preferred shares	-	-	-	(5,012)
Net cash flows provided (used) by financing activities	69,700	486,456	137,066	146,536
Net increase (decrease) in cash and cash equivalents	(19,433)	351,139	(58,263)	406,881
Cash and cash equivalents at beginning of period	701,837	708,973	740,667	653,231
Cash and cash equivalents at end of period	682,404	1,060,112	682,404	1,060,112

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

1. BDC GENERAL DESCRIPTION

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

The objectives of the Business Development Bank of Canada and its subsidiaries (together, BDC) are to promote and assist in the establishment and development of business enterprises in Canada, with a focus on small and medium-sized enterprises, by providing a range of complementary lending, 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.

BDC's condensed quarterly Consolidated Financial Statements follow the same basis of preparation as our audited Consolidated Financial Statements for the year ended March 31, 2012. For complete information on the basis of preparation, refer to page 75 of our 2012 Annual Report.

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. 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 November 6, 2012.

3. SIGNIFICANT ACCOUNTING POLICIES

BDC's condensed quarterly Consolidated Financial Statements follow the same accounting policies as our audited Consolidated Financial Statements for the year ended March 31, 2012. These financial statements must be read in conjunction with BDC's 2012 Annual Report and the accompanying notes, as set out on pages 75 to 133.

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.

For information about the significant judgements, estimates and assumptions that have the most significant effect on the amounts recognized in the quarterly Consolidated Financial Statements, refer to page 86 of our 2012 Annual Report.

(unaudited, in thousands of Canadian dollars)

5. CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

September 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						682,404		682,404
Derivative assets		85,511			6,461			91,972
Asset-backed securities	6		3,487	578,419				581,906
Loans	7					15,209,874		15,209,874
Subordinate financing investments	8		544,813					544,813
Venture capital investments	9		389,282					389,282
Other assets[2]						11,477		11,477
Total financial assets		85,511	937,582	578,419	6,461	15,903,755	-	17,511,728
Financial liabilities								
Accounts payable and accrued liabilities							63,525	63,525
Derivative liabilities		14,539			235			14,774
Short-term notes							11,568,238	11,568,238
Long-term notes			645,345				1,243,071	1,888,416
Other liabilities[2]							28,264	28,264
Total financial liabilities		14,539	645,345	-	235	-	12,903,098	13,563,217

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	6		2,502	760,698				763,200
Loans	7					14,739,271		14,739,271
Subordinate financing investments	8		457,369					457,369
Venture capital investments	9		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.

(unaudited, in thousands of Canadian dollars)

6. ASSET-BACKED SECURITIES

	September 30, 2012	March 31, 2012
Available-for-sale		
Principal amount	**575,200**	754,548
Unamortized loss on initial recognition	**(106)**	(200)
Cumulative fair value appreciation (depreciation)	**3,325**	6,350
Carrying value	**578,419**	760,698
Yield	**2.82%**	2.96%
Fair value through profit or loss		
Principal amount	**3,465**	2,512
Cumulative fair value appreciation (depreciation)	**22**	(10)
Carrying value	**3,487**	2,502
Yield	**9.21%**	9.31%
Asset-backed securities	**581,906**	763,200

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

7. 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	**733,056**	**3,227,402**	**11,277,661**	**15,238,119**	**(350,000)**	**-**	**(350,000)**	**14,888,119**
Impaired	**47,755**	**89,923**	**387,679**	**525,357**	**-**	**(203,602)**	**(203,602)**	**321,755**
Loans as at September 30, 2012	**780,811**	**3,317,325**	**11,665,340**	**15,763,476**	**(350,000)**	**(203,602)**	**(553,602)**	**15,209,874**

	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

	September 30, 2012	March 31, 2012
Balance at beginning of period	**610,167**	774,676
Write-offs	**(35,563)**	(134,609)
Effect of discounting	**(6,718)**	(13,482)
Recoveries and other	**7,038**	21,817
	574,924	648,402
Impairment losses (reversal) on loans	**(21,322)**	(38,235)
Balance at end of period	**553,602**	610,167

Concentrations of total loans outstanding

Geographic distribution		**September 30, 2012**		March 31, 2012
Newfoundland and Labrador	**629,889**	**4.0%**	606,044	3.9%
Prince Edward Island	**46,134**	**0.3%**	44,778	0.3%
Nova Scotia	**389,958**	**2.5%**	404,124	2.6%
New Brunswick	**488,526**	**3.1%**	486,004	3.2%
Quebec	**5,292,422**	**33.5%**	5,142,378	33.5%
Ontario	**4,403,487**	**27.9%**	4,350,568	28.3%
Manitoba	**409,377**	**2.6%**	387,297	2.5%
Saskatchewan	**391,080**	**2.5%**	376,466	2.5%
Alberta	**1,829,283**	**11.6%**	1,691,419	11.0%
British Columbia	**1,774,244**	**11.3%**	1,751,039	11.5%
Yukon	**80,580**	**0.5%**	78,866	0.5%
Northwest Territories and Nunavut	**28,496**	**0.2%**	30,455	0.2%
Loans outstanding	**15,763,476**	**100.0%**	15,349,438	100.0%

Industry sector		**September 30, 2012**		March 31, 2012
Manufacturing	**3,845,312**	**24.3%**	3,866,503	25.2%
Wholesale and retail trade	**3,341,797**	**21.2%**	3,318,302	21.6%
Tourism	**1,907,093**	**12.1%**	1,864,383	12.1%
Commercial properties	**1,762,887**	**11.2%**	1,568,489	10.2%
Construction	**1,241,809**	**7.9%**	1,175,223	7.7%
Transportation and storage	**879,895**	**5.6%**	900,074	5.9%
Business services	**689,996**	**4.4%**	649,964	4.2%
Other	**2,094,687**	**13.3%**	2,006,500	13.1%
Loans outstanding	**15,763,476**	**100.0%**	15,349,438	100.0%

(unaudited, in thousands of Canadian dollars)

8. 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 September 30, 2012	**88,941**	**378,025**	**81,967**	**548,933**	**544,813**
As at March 31, 2012	77,091	329,875	61,555	468,521	457,369

Concentrations of total Subordinate financing investments

	September 30, 2012		March 31, 2012	
Geographic distribution	**Fair value**	**Cost**	Fair value	Cost
Newfoundland and Labrador	**15,963**	**14,697**	16,502	14,777
Nova Scotia	**11,850**	**11,454**	10,772	10,846
New Brunswick	**8,284**	**8,956**	8,688	9,533
Quebec	**240,628**	**252,350**	213,914	227,810
Ontario	**174,113**	**172,429**	129,839	128,273
Manitoba	**8,429**	**7,936**	8,578	8,005
Saskatchewan	**428**	**420**	555	546
Alberta	**56,378**	**52,164**	41,107	41,342
British Columbia	**25,212**	**25,010**	23,912	23,887
Yukon	**3,528**	**3,517**	3,502	3,502
Subordinate financing investments	**544,813**	**548,933**	457,369	468,521

	September 30, 2012		March 31, 2012	
Industry sector	**Fair value**	**Cost**	Fair value	Cost
Manufacturing	**202,958**	**201,264**	171,567	172,538
Business services	**106,911**	**118,257**	92,202	101,061
Wholesale and retail trade	**91,337**	**86,679**	77,746	74,037
Construction	**29,907**	**29,291**	29,176	29,038
Transportation and storage	**15,737**	**15,327**	13,395	13,487
Tourism	**6,491**	**5,753**	4,998	4,446
Technologies	**3,983**	**6,390**	3,691	6,563
Industrial technologies	**1,928**	**2,025**	1,123	1,625
Biotechnology	**1,521**	**1,215**	1,521	1,215
Other	**84,040**	**82,732**	61,950	64,511
Subordinate financing investments	**544,813**	**548,933**	457,369	468,521

(unaudited, in thousands of Canadian dollars)

9. 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.

	September 30, 2012		March 31, 2012	
Industry sector	**Fair value**	**Cost**	Fair value	Cost
Information technology	**77,246**	**91,410**	71,844	89,426
Biotechnology and pharmacology	**66,700**	**94,756**	55,257	90,354
Electronics	**51,553**	**67,546**	52,578	59,876
Medical and health	**35,315**	**43,936**	33,434	50,019
Communications	**30,859**	**42,740**	31,684	41,199
Industrial	**6,729**	**16,615**	8,870	17,765
Other	**5,377**	**5,173**	5,414	5,173
Total direct investments	**273,779**	**362,176**	259,081	353,812
Funds	**115,503**	**130,760**	99,870	120,539
Venture capital investments	**389,282**	**492,936**	358,951	474,351

	September 30, 2012		March 31, 2012	
Investment type	**Fair value**	**Cost**	Fair value	Cost
Common shares	**48,388**	**86,891**	49,112	81,223
Preferred shares	**188,657**	**233,186**	166,063	222,426
Debt instruments	**36,734**	**42,099**	43,906	50,163
Total direct investments	**273,779**	**362,176**	259,081	353,812
Funds	**115,503**	**130,760**	99,870	120,539
Venture capital investments	**389,282**	**492,936**	358,951	474,351

10. SHARE CAPITAL

An unlimited number of common shares, having a par value of $100 each is authorized. As at September 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 September 30, 2012, and March 31, 2012, and during the six-month period ended September 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 allowance for credit losses sufficient to ensure that BDC can withstand unfavourable economic circumstances without requiring additional government funding. During the six-month period ended September 30, 2012, BDC complied with its capital adequacy guidelines.

11. 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 Funding Platform for Independent Lenders (F-PIL, formerly known as 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. 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 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 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 September 30, 2012

	BDC	Financing	Subordinate Financing	Venture Capital	Consulting	Securitization
Interest income	241,990	223,453	13,951	-	-	4,586
Interest expense	31,114	27,886	2,018	-	-	1,210
Net interest income (expense)	**210,876**	**195,567**	**11,933**	**-**	**-**	**3,376**
Net realized gains (losses) on investments	(21,205)	-	(589)	(20,616)	-	-
Consulting revenue	5,540	-	-	-	5,540	-
Fee and other income	10,130	3,824	4,180	2,037	-	89
Net realized gains (losses) on other financial instruments	572	401	-	171	-	-
Net revenue (loss)	**205,913**	**199,792**	**15,524**	**(18,408)**	**5,540**	**3,465**
Impairment reversal (losses) on loans	36,844	36,844	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	20,431	-	10,085	10,348	-	(2)
Net unrealized foreign exchange gains (losses) on investments	(4,256)	-	-	(4,256)	-	-
Net unrealized gains (losses) on other financial instruments	2,204	(1,294)	-	3,498	-	-
Income (loss) before operating and administrative expenses	**261,136**	**235,342**	**25,609**	**(8,818)**	**5,540**	**3,463**
Salaries and benefits	64,660	51,911	4,215	3,236	5,005	293
Premises and equipment	9,413	8,391	221	442	337	22
Other expenses	23,946	19,286	481	1,020	3,090	69
Operating and administrative expenses	**98,019**	**79,588**	**4,917**	**4,698**	**8,432**	**384**
Net income (loss)	**163,117**	**155,754**	**20,692**	**(13,516)**	**(2,892)**	**3,079**
Net income (loss) attributable to:						
BDC's shareholder	160,620	155,754	16,074	(11,395)	(2,892)	3,079
Non-controlling interests	2,497	-	4,618	(2,121)	-	-
Net income (loss)	**163,117**	**155,754**	**20,692**	**(13,516)**	**(2,892)**	**3,079**
Business segment portfolio at end of period	**16,725,875**	**15,209,874**	**544,813**	**389,282**	**-**	**581,906**

Three months ended September 30, 2011

	BDC	Financing	Subordinate Financing	Venture Capital	Consulting	Securitization
Interest income	246,704	216,012	11,968	-	-	18,724
Interest expense	32,521	26,277	1,734	141	-	4,369
Net interest income (expense)	**214,183**	**189,735**	**10,234**	**(141)**	**-**	**14,355**
Net realized gains (losses) on investments	(7,751)	-	3,125	(10,876)	-	-
Consulting revenue	5,596	-	-	-	5,596	-
Fee and other income	8,124	3,974	2,894	1,037	-	219
Net realized gains (losses) on other financial instruments	306	70	-	236	-	-
Net revenue (loss)	**220,458**	**193,779**	**16,253**	**(9,744)**	**5,596**	**14,574**
Impairment reversal (losses) on loans	(16,667)	(16,667)	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	1,769	-	1,252	492	-	25
Net unrealized foreign exchange gains (losses) on investments	12,096	-	-	12,096	-	-
Net unrealized gains (losses) on other financial instruments	(15,070)	(5,908)	-	(9,162)	-	-
Income (loss) before operating and administrative expenses	**202,586**	**171,204**	**17,505**	**(6,318)**	**5,596**	**14,599**
Salaries and benefits	63,821	52,144	3,847	2,755	4,707	368
Premises and equipment	9,349	8,514	192	341	272	30
Other expenses	23,487	18,102	684	1,337	3,295	69
Operating and administrative expenses	**96,657**	**78,760**	**4,723**	**4,433**	**8,274**	**467**
Net income (loss)	**105,929**	**92,444**	**12,782**	**(10,751)**	**(2,678)**	**14,132**
Net income (loss) attributable to:						
BDC's shareholder	100,556	92,444	6,615	(9,957)	(2,678)	14,132
Non-controlling interests	5,373	-	6,167	(794)	-	-
Net income (loss)	**105,929**	**92,444**	**12,782**	**(10,751)**	**(2,678)**	**14,132**
Business segment portfolio at end of period	**17,582,978**	**14,123,980**	**416,112**	**417,330**	**-**	**2,625,556**

(unaudited, in thousands of Canadian dollars)

Six months ended September 30, 2012

	BDC	Financing	Subordinate Financing	Venture Capital	Consulting	Securitization
Interest income	480,084	443,844	26,372	-	-	9,868
Interest expense	61,429	54,781	3,900	-	-	2,748
Net interest income (expense)	**418,655**	**389,063**	**22,472**	**-**	**-**	**7,120**
Net realized gains (losses) on investments	(24,581)	-	(2,129)	(22,452)	-	-
Consulting revenue	11,528	-	-	-	11,528	-
Fee and other income	19,354	7,223	8,868	3,095	-	168
Net realized gains (losses) on other financial instruments	2,639	684	-	1,955	-	-
Net revenue (loss)	**427,595**	**396,970**	**29,211**	**(17,402)**	**11,528**	**7,288**
Impairment reversal (losses) on loans	21,322	21,322	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	20,802	-	7,010	13,759	-	33
Net unrealized foreign exchange gains (losses) on investments	(2,013)	-	-	(2,013)	-	-
Net unrealized gains (losses) on other financial instruments	(1,243)	(1,413)	-	170	-	-
Income (loss) before operating and administrative expenses	**466,463**	**416,879**	**36,221**	**(5,486)**	**11,528**	**7,321**
Salaries and benefits	129,444	104,264	8,360	6,340	9,865	615
Premises and equipment	18,793	16,724	443	902	680	44
Other expenses	44,663	34,681	983	1,994	6,872	133
Operating and administrative expenses	**192,900**	**155,669**	**9,786**	**9,236**	**17,417**	**792**
Net income (loss)	**273,563**	**261,210**	**26,435**	**(14,722)**	**(5,889)**	**6,529**
Net income (loss) attributable to:						
BDC's shareholder	270,882	261,210	21,509	(12,477)	(5,889)	6,529
Non-controlling interests	2,681	-	4,926	(2,245)	-	-
Net income (loss)	**273,563**	**261,210**	**26,435**	**(14,722)**	**(5,889)**	**6,529**
Business segment portfolio at end of period	**16,725,875**	**15,209,874**	**544,813**	**389,282**	**-**	**581,906**

Six months ended September 30, 2011

	BDC	Financing	Subordinate Financing	Venture Capital	Consulting	Securitization
Interest income	495,393	429,904	23,186	-	-	42,303
Interest expense	67,165	54,400	3,331	280	-	9,154
Net interest income (expense)	**428,228**	**375,504**	**19,855**	**(280)**	**-**	**33,149**
Net realized gains (losses) on investments	7,135	-	304	6,831	-	-
Consulting revenue	11,412	-	-	-	11,412	-
Fee and other income	15,974	7,362	6,741	1,377	-	494
Net realized gains (losses) on other financial instruments	2,452	96	-	2,468	-	(112)
Net revenue (loss)	**465,201**	**382,962**	**26,900**	**10,396**	**11,412**	**33,531**
Impairment reversal (losses) on loans	21,067	21,067	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	(14,581)	-	1,323	(15,934)	-	30
Net unrealized foreign exchange gains (losses) on investments	10,722	-	-	10,722	-	-
Net unrealized gains (losses) on other financial instruments	(13,364)	(2,749)	-	(10,615)	-	-
Income (loss) before operating and administrative expenses	**469,045**	**401,280**	**28,223**	**(5,431)**	**11,412**	**33,561**
Salaries and benefits	124,607	100,526	6,955	6,844	9,531	751
Premises and equipment	18,232	16,584	378	669	541	60
Other expenses	44,637	34,007	1,191	2,208	7,130	101
Operating and administrative expenses	**187,476**	**151,117**	**8,524**	**9,721**	**17,202**	**912**
Net income (loss)	**281,569**	**250,163**	**19,699**	**(15,152)**	**(5,790)**	**32,649**
Net income (loss) attributable to:						
BDC's shareholder	274,416	250,163	11,524	(14,130)	(5,790)	32,649
Non-controlling interests	7,153	-	8,175	(1,022)	-	-
Net income (loss)	**281,569**	**250,163**	**19,699**	**(15,152)**	**(5,790)**	**32,649**
Business segment portfolio at end of period	**17,582,978**	**14,123,980**	**416,112**	**417,330**	**-**	**2,625,556**

(unaudited, in thousands of Canadian dollars)

12. GUARANTEES

BDC issues “letters of credit and loan guarantees” (guarantees) to support businesses with reduced access to capital through a risk-sharing partnership with other lenders. 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 $26.9 million as at September 30, 2012 ($30.9 million at March 31, 2012).

13. COMMITMENTS

Undisbursed amounts of authorized loans and Subordinate financing investments were $1,997,003 at September 30, 2012 ($374,126 fixed rate; $1,622,877 floating rate) and are expected to be disbursed within the next 12 months. The weighted average effective interest rate was 4.80% on loan commitments (4.96% at March 31, 2012) and 9.80% 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	**September 30, 2012**		March 31, 2012	
Newfoundland and Labrador	**82,856**	**4.1%**	69,501	4.3%
Prince Edward Island	**2,447**	**0.1%**	2,001	0.1%
Nova Scotia	**51,732**	**2.6%**	55,462	3.4%
New Brunswick	**24,789**	**1.2%**	31,576	1.9%
Quebec	**628,495**	**31.6%**	539,088	33.1%
Ontario	**552,088**	**27.7%**	432,113	26.5%
Manitoba	**50,831**	**2.5%**	30,346	1.9%
Saskatchewan	**82,784**	**4.1%**	28,825	1.8%
Alberta	**331,136**	**16.6%**	283,532	17.4%
British Columbia	**178,303**	**8.9%**	149,251	9.2%
Yukon	**10,374**	**0.5%**	4,532	0.3%
Northwest Territories and Nunavut	**1,168**	**0.1%**	1,863	0.1%
Total	**1,997,003**	**100.0%**	1,628,090	100.0%

Commitments, by industry distribution	**September 30, 2012**		March 31, 2012	
Manufacturing	**443,305**	**22.1%**	406,462	25.0%
Wholesale and retail trade	**307,148**	**15.4%**	252,503	15.5%
Tourism	**285,493**	**14.3%**	231,847	14.2%
Construction	**204,932**	**10.3%**	164,553	10.1%
Commercial properties	**216,523**	**10.8%**	131,969	8.1%
Services	**230,863**	**11.6%**	221,334	13.6%
Transportation and storage	**117,304**	**5.9%**	86,272	5.3%
Mining and utilities	**83,783**	**4.2%**	59,646	3.7%
Other	**107,652**	**5.4%**	73,504	4.5%
Total	**1,997,003**	**100.0%**	1,628,090	100.0%

(unaudited, in thousands of Canadian dollars)

The undisbursed amount of authorized Venture capital investments was $253,280 at September 30, 2012, and was related to the following industry sectors.

Industry sector		September 30, 2012		March 31, 2012
Biotechnology and pharmacology	**10,149**	**4.0%**	9,359	3.6%
Medical and health	**5,010**	**2.0%**	6,372	2.4%
Electronics	**3,426**	**1.3%**	765	0.3%
Industrial	**650**	**0.3%**	1,000	0.4%
Communications and information technology	**353**	**0.1%**	3,415	1.3%
Total direct investments	**19,588**	**7.7%**	20,911	8.0%
Funds	**233,692**	**92.3%**	240,192	92.0%
Venture capital investments	**253,280**	**100.0%**	261,103	100.0%

The undisbursed amount of authorized asset-backed securities was $334,151 at September 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.

14. RELATED PARTY TRANSACTIONS

As at September 30, 2012, BDC had $11,548.9 million outstanding in short-term notes and $1,242.4 million outstanding 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 included $5.6 million payable to the Minister of Finance as at September 30, 2012 ($4.7 million at March 31, 2012).

BDC recorded $29.9 million in interest expense, related to the borrowings with the Minister of Finance, for the second quarter and $59.1 million for the six months ended September 30, 2012. Last year's comparative figures for the same periods were $29.5 million and $59.8 million, respectively.

In addition, no borrowings with the Minister of Finance were repurchased in fiscal 2013. Certain borrowings were repurchased in 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.

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

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