BDC
Entrepreneurs first

2014

SECOND QUARTER

FINANCIAL REPORT

September 30, 2013

Canada

EXECUTIVE SUMMARY

The Canadian economy continues to grow at a modest pace, supported by consumer spending. After three years of strong growth, consumer spending is still increasing but at a slower pace. As expected, the housing market has softened and will not contribute to economic growth this year. Business investments are also getting off to a slow start this year as compared to last year. Both non-residential and machinery and equipment spending decreased during the second quarter. At the beginning of the year, exports were expected to grow significantly, stimulated by a strengthening U.S. economy, and become a strong contributor to economic growth. However, Canadian exports are not gaining as much momentum as expected, which partly explains the modest growth of the Canadian economy so far in 2013.

Business credit continues to expand in 2013. As of August, total business credit had increased by 7.9% over 12 months; short-term credit had increased by 11.0% and long-term credit by 6.8%.(1)

With stable credit conditions and in line with our complementary role, we have sharpened our focus on helping Canadian small and medium-sized enterprises (SMEs) become more competitive by addressing market needs through initiatives such as our information and communications technology (ICT) loans and our equipment line loans.

Clients of BDC Financing(2) accepted $951.5 million in loans this quarter versus $1.1 billion for the same period last year. As part of our increased focus on supporting smaller size loans, 1,721 clients accepted loans of $250,000 or less for a total of $132.8 million this quarter, compared to 1,051 or $76.9 million for the same period last year.

For the six months ended September 30, a total of $2.2 billion in loans was accepted, compared to $2.1 billion last year.

As at September 30, BDC Financing's(2) loan portfolio, before allowance for credit losses, stood at $17.1 billion, a 4.6% increase since March 31.

During the quarter, BDC Subordinate Financing continued to address the needs of Canada's high-potential, high-growth firms through its specialized products. Clients of BDC Subordinate Financing accepted $68.7 million in financing in the second quarter, for a total of $104.1 million for the six-month period, compared to $58.6 million and $112.2 million, respectively, for the same period last year.

To support innovative Canadian companies and continue its work in developing the venture capital ecosystem, BDC Venture Capital authorized investments totalling $14.0 million in the second quarter, compared to $15.7 million in the same period last year. For the six-month period ended September 30, a total of $32.6 million was authorized, compared to $51.1 million in the same period last year. The decreased activity during the first six months relates to smaller-than-expected investments in companies that have been longstanding members of our venture capital portfolio.

(1) Source: Bank of Canada.

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

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

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

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

EXECUTIVE SUMMARY

The Venture Capital Action Plan (VCAP) is a comprehensive strategy for deploying $400 million in new capital over the next seven to 10 years to increase private sector venture capital financing for high-potential, innovative Canadian businesses. BDC provides support and advice to the federal government as it implements VCAP. During the quarter, $50 million in investments were authorized as part of VCAP.

Among the highlights in BDC's other lines of business, BDC Consulting initiated 603 new mandates during the quarter for a total of 1,277 mandates for the six-month period. This compares with 449 and 956, respectively, for the same periods last year.

BDC Consulting is an important element of our efforts to improve the competitiveness of Canadian businesses. As part of our continuing efforts to improve our consulting services, BDC introduced the BDC Smart Tech blog in September. From social media to e-commerce to business productivity systems, and anything in between, BDC's ICT consulting experts will share their knowledge and views to help entrepreneurs make smart technology investments. This blog is open to comments from entrepreneurs and is intended to be an online forum where they can discuss technology issues with us.

BDC is also maintaining its role in the securitization market, which helps SMEs get access to financing for the vehicles and equipment they need to improve productivity. As at September 30, total asset-backed securities stood at $348.0 million, compared to $437.5 million as at March 31. The decrease was mainly due to repayments of $179.5 million, offset by disbursements of $91.0 million in asset-backed securities investments.

In the second quarter of fiscal 2014, BDC posted consolidated net income of $86.4 million,(3) compared to $160.6 million(3) for the same period last year. The decrease was mostly attributable to higher impairment losses in BDC Financing and a higher net change in unrealized depreciation of BDC Subordinate Financing investments. Net income for the first half of fiscal 2014 was $200.2 million,(4) $68.3 million lower than the $268.5 million(4) recorded last year.

For the quarter, consolidated total comprehensive income was $138.8 million, compared to a consolidated total comprehensive income of $130.3 million for the same period last year. The increase was mostly due to remeasurement gains on net post-employment benefits as a result of higher discount rates used to value the post-employment benefit liability and higher returns on pension plan assets. For the six-month period, total comprehensive income was $284.8 million, compared to $172.7 million for the same period last year.

With a view to sharing our expertise and improving our services to Canadian businesses, we organized a Training and Information Sharing Program for representatives of foreign Development Banks in September. Twenty delegates from 10 foreign development banks, including four representatives from the World Bank, participated. As part of this event, the Development Bank of India (SIDBI) signed a memorandum of understanding with BDC. This memorandum is a bilateral agreement that outlines how we collaborate to develop micro, small and medium enterprise clients.

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(3) Including $2.2 million and $2.5 million in net income attributable to non-controlling interests for fiscal 2014 and 2013, respectively.

(4) Including $3.9 million and $2.7 million in net income attributable to non-controlling interests for fiscal 2014 and 2013, respectively.

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

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

CONTEXT OF THE QUARTERLY FINANCIAL REPORT

The *Financial Administration Act* requires that all departments and parent Crown corporations prepare and make public a quarterly financial report. The Standard on Quarterly Financial Reports for Crown Corporations is issued by the Treasury Board of Canada Secretariat to provide parent Crown corporations with the form and content of the quarterly financial report under the authority of section 131.1 of the *Financial Administration Act*. There is no requirement for an audit or review of the financial statements included in the quarterly financial report. Therefore, the quarterly Consolidated Financial Statements included in this report have not been audited or reviewed by an external auditor.

RISK MANAGEMENT

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

BDC manages risk through the development and communication of policies; the establishment of formal risk reviews and approval processes; and the establishment of limits and delegation of authorities. The Board of Directors and its Board Credit and Risk Committee review ERM quarterly risk reports and monitor the effectiveness of the framework. In each line of business, management ensures that governance activities, controls, processes and procedures are consistent with BDC's ERM framework.

No significant changes were made to BDC's ERM framework and no new risks were identified during the quarter ended September 30, 2013.

ANALYSIS OF FINANCIAL RESULTS

Analysis of financial results is provided to enable a reader to assess BDC's results of operations and financial condition for the six-month period ended September 30, 2013, compared to the corresponding period of the prior fiscal year. This analysis also includes comments about significant variances from BDC's fiscal 2014-18 Corporate Plan, when applicable.

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

This analysis should be read in conjunction with the unaudited quarterly Consolidated Financial Statements included in this report and the audited annual Consolidated Financial Statements in the fiscal 2013 Annual Report.

Net Income

	Three months ended September 30		Six months ended September 30	
($ in millions)	**F2014**	F2013	**F2014**	F2013
Financing	**99.3**	153.7	**206.2**	257.0
Subordinate Financing	**(5.3)**	20.6	**6.1**	26.2
Venture Capital	**(5.2)**	(13.6)	**(7.5)**	(15.0)
Consulting	**(3.8)**	(3.1)	**(7.8)**	(6.2)
Securitization	**1.8**	3.0	**3.8**	6.5
Venture Capital Action Plan	**(0.4)**	-	**(0.6)**	-
Net income	**86.4**	160.6	**200.2**	268.5
Net income attributable to:				
BDC's shareholder	**84.2**	158.1	**196.3**	265.8
Non-controlling interests	**2.2**	2.5	**3.9**	2.7
Net income	**86.4**	160.6	**200.2**	268.5

Three Months Ended September 30

BDC reported consolidated net income of $86.4 million for the second quarter ended September 30, 2013, comprising $84.2 million attributable to BDC's shareholder and $2.2 million to non-controlling interests. This compares to $160.6 million in consolidated net income for the second quarter of fiscal 2013, of which $2.5 million was attributable to non-controlling interests.

Net income in the second quarter of fiscal 2014 was lower than in the corresponding period of fiscal 2013 due primarily to a decrease in BDC Financing and BDC Subordinate Financing results. Refer to the BDC Financing and BDC Subordinate Financing sections of this analysis for further information.

Six Months Ended September 30

BDC consolidated net income was $200.2 million for the six months ended September 30, 2013, lower than the $268.5 million recorded for the same period last year.

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

Comprehensive Income

	Three months ended September 30		Six months ended September 30	
($ in millions)	**F2014**	F2013	**F2014**	F2013
Net income	**86.4**	160.6	**200.2**	268.5
Other comprehensive income (loss)				
Items that may be reclassified subsequently to net income				
Net change in unrealized gains (losses) on available-for-sale assets	**-**	(1.4)	**(0.9)**	(3.0)
Net change in unrealized gains (losses) on cash flow hedges	**(0.3)**	(1.5)	**(2.5)**	(0.5)
Total items that may be reclassified subsequently to net income	**(0.3)**	(2.9)	**(3.4)**	(3.5)
Items that will not be reclassified subsequently to net income				
Remeasurements of net post-employment benefit liability	**52.7**	(27.4)	**88.0**	(92.3)
Other comprehensive income (loss)	**52.4**	(30.3)	**84.6**	(95.8)
Total comprehensive income	**138.8**	130.3	**284.8**	172.7
Total comprehensive income attributable to:				
BDC's shareholder	**136.6**	127.8	**280.9**	170.0
Non-controlling interests	**2.2**	2.5	**3.9**	2.7
Total comprehensive income	**138.8**	130.3	**284.8**	172.7

Three and Six Months Ended September 30

Consolidated total comprehensive income for the second quarter was $138.8 million, comprising $86.4 million in consolidated net income and $52.4 million in other comprehensive income. For the six-month period ended September 30, 2013, BDC reported total comprehensive income of $284.8 million, comprising $200.2 million in net income and $84.6 million in other comprehensive income.

BDC recorded other comprehensive income of $52.4 million and $84.6 million, respectively, for the second quarter and the first six months of fiscal 2014, compared to other comprehensive loss of $30.3 million and $95.8 million for the same period last year. Remeasurement gains of $52.7 million on the net post-employment benefits contributed to the increase in total comprehensive income in the second quarter. Of the total amount of $52.7 million in remeasurement gains, an increase in the discount rate accounted for $18.7 million and higher returns on plan assets for $34.0 million.

The amendments to IAS 19, *Employee Benefits*, changed the accounting for defined benefit plans. The most significant change is the requirement for interest income on plan assets to be calculated using the discount rate used to measure the plan obligation, as opposed to applying management's best estimate of the expected rate of return on plan assets. These changes were applied retrospectively to the quarterly Consolidated Financial Statements for the six-month period ended September 30, 2013. For additional details of the impact of these amendments, refer to Note 3—*Significant Accounting Policies* and Note 4—*Application of New and Amended International Financial Reporting Standards* to the quarterly Consolidated Financial Statements.

BDC Financing Results

	Three months ended September 30		**Six months ended September 30**	
($ in millions)	**F2014**	F2013	**F2014**	F2013
Net interest and fee income	**207.2**	199.5	**413.1**	396.3
Impairment reversals (losses) on loans	**(27.3)**	36.8	**(48.0)**	21.3
Net gains (losses) on other financial instruments	**-**	(0.9)	**0.2**	(0.7)
Income before operating and administrative expenses	**179.9**	235.4	**365.3**	416.9
Operating and administrative expenses	**80.6**	81.7	**159.1**	159.9
Income from Financing	**99.3**	153.7	**206.2**	257.0

	Three months ended September 30		**Six months ended September 30**	
As % of average portfolio	**F2014**	F2013	**F2014**	F2013
Net interest and fee income	**4.8**	5.0	**4.9**	5.1
Impairment reversals (losses) on loans	**(0.6)**	0.9	**(0.6)**	0.3
Net gains (losses) on other financial instruments	**-**	-	**-**	-
Income before operating and administrative expenses	**4.2**	5.9	**4.3**	5.4
Operating and administrative expenses	**1.9**	2.1	**1.9**	2.0
Income from Financing	**2.3**	3.8	**2.4**	3.4

Three Months Ended September 30

BDC Financing's income was $99.3 million for the second quarter of fiscal 2014, compared to $153.7 million for the same period last year.

Net interest and fee income increased $7.7 million or 3.9%. The net interest and fee income growth was mainly driven by the portfolio growth, offset in part by lower interest rates. An increase in individual impairment losses along with a decrease in collective impairment reversals on loans resulted in higher impairment losses on loans this quarter compared to the same period last year.

Operating and administrative expenses for the quarter were lower than those in the same period last year, mainly due to capitalization of project costs related to BDC investments in its Agility and Efficiency (A&E) Program, aimed at improving client service and BDC efficiency.

Six Months Ended September 30

Income from BDC Financing was $206.2 million for the first six months of fiscal 2014, $50.8 million lower than for the same period last year. In the first six months of fiscal 2014, BDC Financing recorded a total impairment loss on loans of $48.0 million, comprising individual impairment losses of $58.0 million and collective impairment reversals of $10.0 million (individual impairment losses of $28.7 million and collective impairment reversals of $50.0 million for the same period last year).

Operating and administrative expenses for the first six months of fiscal 2014 are lower than last year as a result of capitalization of project costs related to BDC investments in its Agility and Efficiency (A&E) Program.

BDC Subordinate Financing Results

	Three months ended September 30		Six months ended September 30	
($ in millions)	**F2014**	F2013	**F2014**	F2013
Net revenue on investments	**25.6**	15.5	**43.7**	29.2
Net change in unrealized appreciation (depreciation) of investments	**(25.0)**	10.1	**(26.0)**	7.0
Income before operating and administrative expenses	**0.6**	25.6	**17.7**	36.2
Operating and administrative expenses	**5.9**	5.0	**11.6**	10.0
Income (loss) from Subordinate Financing	**(5.3)**	20.6	**6.1**	26.2
Income (loss) attributable to:				
BDC's shareholder	**(7.5)**	16.0	**2.0**	21.3
Non-controlling interests	**2.2**	4.6	**4.1**	4.9
Income (loss) from Subordinate Financing	**(5.3)**	20.6	**6.1**	26.2

Three Months Ended September 30

BDC Subordinate Financing recorded a net loss of $5.3 million for the second quarter of fiscal 2014, compared to a net income of $20.6 million for the same period last year.

Net revenue on investments of $25.6 million for the second quarter was higher than the $15.5 million recorded last year, mostly due to higher net realized gains on investments.

The net loss in the second quarter of fiscal 2014 was mostly the result of the unrealized depreciation of investments. The net change in unrealized depreciation of investments of $25.0 million for the quarter included:

- a $19.6 million net fair value depreciation ($10.1 million net fair value appreciation for fiscal 2013); and
- a reversal of net fair value appreciation due to net realized gains totalling $5.4 million (no reversal of net fair value depreciation or appreciation for fiscal 2013).

Six Months Ended September 30

For the six months ended September 30, 2013, BDC Subordinate Financing recorded income of $6.1 million, down $20.1 million from the same period last year. Income included $4.1 million attributable to non-controlling interests in fiscal 2014 and $4.9 million in fiscal 2013.

Net revenue on investments was $14.5 million higher than in the same period last year, due to higher net interest income as a result of portfolio growth ($2.8 million), higher fee and other income ($3.8 million), and higher realized gains ($7.9 million).

The net change in unrealized depreciation of investments of $26.0 million for the six months ended September 30, 2013 included:

- a $19.5 million net fair value depreciation ($6.2 million net fair value appreciation for fiscal 2013); and
- a reversal of net fair value appreciation due to net realized gains totalling $6.5 million (reversal of $0.8 million net fair value depreciation for fiscal 2013).

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)	**F2014**	F2013	**F2014**	F2013
Net revenue (loss) on investments	**(10.8)**	(18.6)	**2.9**	(19.4)
Net change in unrealized appreciation (depreciation) of investments	**11.3**	10.3	**(1.4)**	13.8
Net unrealized foreign exchange gains (losses) on investments	**(2.9)**	(4.3)	**2.9**	(2.0)
Net gains (losses) on other financial instruments	**2.2**	3.8	**(1.7)**	2.1
Income (loss) before operating and administrative expenses	**(0.2)**	(8.8)	**2.7**	(5.5)
Operating and administrative expenses	**5.0**	4.8	**10.2**	9.5
Loss from Venture Capital	**(5.2)**	(13.6)	**(7.5)**	(15.0)
Loss attributable to:				
BDC's shareholder	**(5.2)**	(11.5)	**(7.3)**	(12.8)
Non-controlling interests	**-**	(2.1)	**(0.2)**	(2.2)
Loss from Venture Capital	**(5.2)**	(13.6)	**(7.5)**	(15.0)

Three and Six Months Ended September 30

During the second quarter of fiscal 2014, BDC Venture Capital recorded a $5.2 million loss, compared to a loss of $13.6 million for the same period last year.

Net loss on investments was $7.8 million lower in the second quarter of fiscal 2014 compared to last year, mainly due to lower write-offs.

The net change in unrealized appreciation of $11.3 million for the quarter included the following:

> a $6.6 million net fair value appreciation of the portfolio ($10.8 million depreciation last year); and
> a reversal of net fair value depreciation on divested investments and write-offs totalling $4.7 million (a reversal of $21.1 million of net fair value depreciation last year).

For the six months ended September 30, 2013, BDC Venture Capital recorded a $7.5 million loss, compared to a loss of $15.0 million for the same period last year. The results included a loss of $0.2 million and a loss of $2.2 million attributable to non-controlling interests, respectively.

Net revenue on investments was $2.9 million for the six months ended September 30, 2013, compared to a net loss on investments of $19.4 million for the same period last year. Net revenue on investments for fiscal 2014 was improved primarily by the divestiture of an investee company, offset by write-offs.

The net change in unrealized depreciation of investments of $1.4 million for the six-month period ended September 30, 2013, included the following:

- a $5.3 million net fair value appreciation of the portfolio ($9.7 million depreciation last year); and
- a reversal of net fair value appreciation on divested investments and write-offs totalling $6.7 million (a reversal of $23.5 million of net fair value depreciation last year).

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

As part of its objective to provide enhanced support to select Canadian technology accelerators (CTAs), BDC Venture Capital is developing relationships with several Canadian trade commissions in the United States. Costs associated with BDC Venture Capital's partnership with Canada's Department of Foreign Affairs and International Trade has thus partly contributed to the increase in operating and administrative expenses.

BDC Consulting Results

	Three months ended September 30		Six months ended September 30	
($ in millions)	**F2014**	F2013	**F2014**	F2013
Revenue	**5.7**	5.5	**10.5**	11.6
Operating and administrative expenses	**9.5**	8.6	**18.3**	17.8
Loss from Consulting	**(3.8)**	(3.1)	**(7.8)**	(6.2)

Three and Six Months Ended September 30

BDC Consulting's loss was $3.8 million for the second quarter of fiscal 2014, higher than the $3.1 million loss recorded for the same quarter last year. The cumulative loss for the six-month period ended September 30, 2013, was $7.8 million, compared to $6.2 million for the same period last year. On a year-to-date basis, operating and administrative expenses in fiscal 2014 were slightly higher than those recorded for the same period last year.

BDC is completing a review of its consulting practice to refine and enhance its approach to providing value-added advisory services to entrepreneurs. During the transition phase, higher losses are anticipated in BDC Consulting.

BDC Securitization Results

($ in millions)	Three months ended September 30 F2014	Three months ended September 30 F2013	Six months ended September 30 F2014	Six months ended September 30 F2013
Net interest and fee income	**2.1**	3.4	**4.5**	7.3
Income before operating and administrative expenses	**2.1**	3.4	**4.5**	7.3
Operating and administrative expenses	**0.3**	0.4	**0.7**	0.8
Income from Securitization	**1.8**	3.0	**3.8**	6.5

Three and Six Months Ended September 30

Income from BDC Securitization for the second quarter of fiscal 2014 was $1.8 million, for a total of $3.8 million for the six-month period ended September 30, 2013. This compares to income from BDC Securitization of $3.0 million and $6.5 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 scheduled repayments.

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

BDC Venture Capital Action Plan Results

Three and Six Months Ended September 30

In Budget 2012, the federal government indicated it would invest $400.0 million to increase private sector venture capital financing for high-potential, innovative Canadian businesses. In January 2013, the Prime Minister announced the Venture Capital Action Plan (VCAP), a comprehensive strategy for deploying the new capital over the next seven to 10 years. The government has requested BDC's support and advice in the implementation of VCAP.

During the first quarter of fiscal 2014, BDC allocated resources to support the operations of this new business line. For the six months ended September 30, 2013, $0.6 million in operating and administrative expenses were incurred, mostly for salaries and benefits.

Consolidated Statement of Financial Position and Cash Flows

As at September 30, 2013, total BDC assets amounted to $19.0 billion, an increase of $808.5 million from March 31, 2013, mainly due to the increase in loans.

At $16.6 billion, the loan portfolio represented BDC's largest asset ($17.1 billion in gross portfolio and a $0.5 billion allowance for credit losses). The gross loan portfolio grew by 4.6% in the six months after March 31, 2013.

As for BDC's investment portfolios, the BDC Subordinate Financing portfolio stood at $563.1 million, compared to $557.8 million as at March 31, 2013, representing growth of 0.9%. Investment disbursements accounted for most of the increase; however, this was offset by net fair value depreciation of the portfolio. The BDC Venture Capital portfolio was $446.1 million at September 30, 2013, compared to $456.7 million at March 31, 2013. The decrease in this portfolio was mainly due to the divestiture of an investee company during the first quarter and write-offs, partially offset by investment disbursements.

The asset-backed securities (ABS) portfolio stood at $348.0 million, compared to $437.5 million at March 31, 2013. This portfolio consists mainly of implied investment-grade securities purchased under the Funding Platform for Independent Lenders (F-PIL) program. The decline of the portfolio is due to scheduled repayments of ABS.

Derivative assets of $59.3 million and derivative liabilities of $10.4 million reflected the fair value of derivative financial instruments as at September 30, 2013. Net derivative fair value decreased by $17.1 million, compared to the fair value at March 31, 2013, primarily as the result of a decrease in the fair value of interest rate swaps.

As at September 30, 2013, BDC recorded a net post-employment benefit liability of $80.7 million, consisting of a post-employment benefit asset of $80.5 million related to the registered pension plan, and a post-employment benefit liability of $161.2 million for the other plans. This represents a decrease of $110.6 million compared to the net outstanding balance as at March 31, 2013. This significant decrease was the result of remeasurement gains on post-employment benefits recorded during the six-month period ended September 30, 2013. Under the revised IAS 19, *Employee Benefits,* the post-employment benefit liability as at March 31, 2013, has been restated for comparative purposes. Refer to page 8 of this report for further information on remeasurements of post-employment benefits.

BDC holds cash and cash equivalents in accordance with its Treasury Risk Policy. The Bank's liquidities, which ensure funds are available to meet BDC's cash outflows, totalled $771.8 million at September 30, 2013, compared to $701.7 million at March 31, 2013. For the six-month period ended September 30, 2013, cash flow provided by investing activities amounted to $55.5 million, as a result of net repayments of asset-backed securities and net proceeds on the sale of venture capital investments, offset by net disbursements for subordinate financing. Financing activities provided $598.6 million in cash flow, mainly as a result of the issuance of short-term notes, offset by the payment of dividends on common shares, while operating activities used $584.0 million, mainly due to the increase in the loans portfolio.

At September 30, 2013, BDC funded its portfolios and liquidities with borrowings of $14.5 billion and total equity of $4.2 billion. Borrowings comprised $13.4 billion in short-term notes and $1.1 billion in long-term notes.

CONSOLIDATED FINANCIAL STATEMENTS

(unaudited, in thousands of Canadian dollars)

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

Management is responsible for the preparation and fair presentation of these condensed quarterly Consolidated Financial Statements in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations, and for such internal controls as management determines are necessary to enable the preparation of 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, 2013

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(unaudited)

(in thousands of Canadian dollars)	Notes	September 30, 2013	March 31, 2013	April 1, 2012[1]
ASSETS				
Cash and cash equivalents		**771,786**	701,678	740,667
Derivative assets		**59,272**	82,159	87,681
Loans and investments				
Asset-backed securities	8	**347,985**	437,453	763,200
Loans	9	**16,631,056**	15,871,635	14,739,271
Subordinate financing investments	10	**563,127**	557,840	457,369
Venture capital investments	11	**446,126**	456,708	358,951
Total loans and investments		**17,988,294**	17,323,636	16,318,791
Property and equipment		**26,785**	25,671	25,171
Intangible assets		**49,104**	35,314	32,094
Post-employment benefit asset		**80,544**	-	-
Other assets		**16,627**	15,447	15,478
Total assets		**18,992,412**	18,183,905	17,219,882
LIABILITIES AND EQUITY				
Liabilities				
Accounts payable and accrued liabilities		**82,074**	106,440	89,229
Derivative liabilities		**10,436**	16,212	17,244
Borrowings				
Short-term notes		**13,381,846**	12,731,629	11,214,813
Long-term notes		**1,152,992**	1,136,267	2,008,943
Total borrowings		**14,534,838**	13,867,896	13,223,756
Post-employment benefit liability		**161,226**	191,245	218,378
Other liabilities		**49,651**	46,437	44,223
Total liabilities		**14,838,225**	14,228,230	13,592,830
Equity				
Share capital	12	**2,088,400**	2,088,400	2,088,400
Contributed surplus		**27,778**	27,778	27,778
Retained earnings		**1,972,896**	1,748,156	1,380,408
Accumulated other comprehensive income		**5,212**	8,568	15,185
Equity attributable to BDC's shareholder		**4,094,286**	3,872,902	3,511,771
Non-controlling interests		**59,901**	82,773	115,281
Total equity		**4,154,187**	3,955,675	3,627,052
Total liabilities and equity		**18,992,412**	18,183,905	17,219,882

Guarantees (Note 14)

Commitments (Note 15)

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

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

CONSOLIDATED STATEMENT OF INCOME

(unaudited)

(in thousands of Canadian dollars)	Three months ended September 30 2013	Three months ended September 30 2012[1]	Six months ended September 30 2013	Six months ended September 30 2012[1]
Interest income	**253,794**	241,990	**503,947**	480,084
Interest expense	**35,328**	31,114	**68,678**	61,429
Net interest income	**218,466**	210,876	**435,269**	418,655
Net realized gains (losses) on investments	**(6,869)**	(21,205)	**7,034**	(24,581)
Consulting revenue	**5,727**	5,540	**10,522**	11,528
Fee and other income	**12,458**	10,130	**21,885**	19,354
Net realized gains (losses) on other financial instruments	**(1,600)**	572	**(3,420)**	2,639
Net revenue	**228,182**	205,913	**471,290**	427,595
Impairment reversals (losses) on loans	**(27,255)**	36,844	**(48,016)**	21,322
Net change in unrealized appreciation (depreciation) of investments	**(13,725)**	20,431	**(27,355)**	20,802
Net unrealized foreign exchange gains (losses) on investments	**(2,890)**	(4,256)	**2,887**	(2,013)
Net unrealized gains (losses) on other financial instruments	**3,890**	2,204	**1,899**	(1,243)
Income before operating and administrative expenses	**188,202**	261,136	**400,705**	466,463
Salaries and benefits	**71,584**	67,370	**141,185**	134,857
Premises and equipment	**9,842**	9,413	**19,871**	18,793
Other expenses	**20,384**	23,775	**39,489**	44,328
Operating and administrative expenses	**101,810**	100,558	**200,545**	197,978
Net income	**86,392**	160,578	**200,160**	268,485
Net income attributable to:				
BDC's shareholder	**84,234**	158,081	**196,339**	265,804
Non-controlling interests	**2,158**	2,497	**3,821**	2,681
Net income	**86,392**	160,578	**200,160**	268,485

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

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(unaudited)

(in thousands of Canadian dollars)	Three months ended September 30 2013	Three months ended September 30 2012[1]	Six months ended September 30 2013	Six months ended September 30 2012[1]
Net income	**86,392**	160,578	**200,160**	268,485
Other comprehensive income (loss)				
Items that may be reclassified subsequently to net income				
Net change in unrealized gains (losses) on available-for-sale assets	**(40)**	(1,367)	**(933)**	(3,025)
Net change in unrealized gains (losses) on cash flow hedges	**(350)**	(1,546)	**(2,423)**	(468)
Total items that may be reclassified subsequently to net income	**(390)**	(2,913)	**(3,356)**	(3,493)
Items that will not be reclassified to net income				
Remeasurements of net post-employment benefit liability	**52,739**	(27,336)	**87,994**	(92,268)
Other comprehensive income (loss)	**52,349**	(30,249)	**84,638**	(95,761)
Total comprehensive income	**138,741**	130,329	**284,798**	172,724
Total comprehensive income attributable to:				
BDC's shareholder	**136,583**	127,832	**280,977**	170,043
Non-controlling interests	**2,158**	2,497	**3,821**	2,681
Total comprehensive income	**138,741**	130,329	**284,798**	172,724

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

(in thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss) Available-for-sale assets	Accumulated other comprehensive income (loss) Cash flow hedges	Accumulated other comprehensive income (loss) Total	Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
Balance at June 30, 2013	2,088,400	27,778	1,835,923	1,024	4,578	5,602	3,957,703	74,559	4,032,262
Total comprehensive income									
Net income			84,234				84,234	2,158	86,392
Other comprehensive income (loss)									
Net change in unrealized gains (losses) on available-for-sale assets				(40)		(40)	(40)		(40)
Net change in unrealized gains (losses) on cash flow hedges					(350)	(350)	(350)		(350)
Remeasurements of net post-employment benefit liability			52,739				52,739		52,739
Other comprehensive income (loss)	-	-	52,739	(40)	(350)	(390)	52,349	-	52,349
Total comprehensive income	-	-	136,973	(40)	(350)	(390)	136,583	2,158	138,741
Dividends on common shares			-				-		-
Distributions to non-controlling interests								(17,464)	(17,464)
Capital injections from non-controlling interests								648	648
Transactions with owner, recorded directly in equity	-	-	-	-	-	-	-	(16,816)	(16,816)
Balance at September 30, 2013	2,088,400	27,778	1,972,896	984	4,228	5,212	4,094,286	59,901	4,154,187

(in thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings[1]	Accumulated other comprehensive income (loss) Available-for-sale assets	Accumulated other comprehensive income (loss) Cash flow hedges	Accumulated other comprehensive income (loss) Total	Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
Balance at June 30, 2012	2,088,400	27,778	1,354,575	4,693	9,912	14,605	3,485,358	107,809	3,593,167
Total comprehensive income									
Net income			158,081				158,081	2,497	160,578
Other comprehensive income (loss)									
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)
Remeasurements of net post-employment benefit liability			(27,336)				(27,336)		(27,336)
Other comprehensive income (loss)	-	-	(27,336)	(1,367)	(1,546)	(2,913)	(30,249)	-	(30,249)
Total comprehensive income	-	-	130,745	(1,367)	(1,546)	(2,913)	127,832	2,497	130,329
Dividends on common shares			-				-		-
Distributions to non-controlling interests								(9,641)	(9,641)
Capital injections from non-controlling interests								538	538
Transactions with owner, recorded directly in equity	-	-	-	-	-	-	-	(9,103)	(9,103)
Balance at September 30, 2012	2,088,400	27,778	1,485,320	3,326	8,366	11,692	3,613,190	101,203	3,714,393

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

(in thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings[(1)]	Accumulated other comprehensive income (loss) Available-for-sale assets	Cash flow hedges	Total	Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
Balance at March 31, 2013	**2,088,400**	**27,778**	**1,748,156**	**1,917**	**6,651**	**8,568**	**3,872,902**	**82,773**	**3,955,675**
Total comprehensive income									
Net income			**196,339**				**196,339**	**3,821**	**200,160**
Other comprehensive income (loss)									
Net change in unrealized gains (losses) on available-for-sale assets				**(933)**		**(933)**	**(933)**		**(933)**
Net change in unrealized gains (losses) on cash flow hedges					**(2,423)**	**(2,423)**	**(2,423)**		**(2,423)**
Remeasurements of net post-employment benefit liability			**87,994**				**87,994**		**87,994**
Other comprehensive income (loss)	**-**	**-**	**87,994**	**(933)**	**(2,423)**	**(3,356)**	**84,638**	**-**	**84,638**
Total comprehensive income	**-**	**-**	**284,333**	**(933)**	**(2,423)**	**(3,356)**	**280,977**	**3,821**	**284,798**
Dividends on common shares			**(59,593)**				**(59,593)**		**(59,593)**
Distributions to non-controlling interests								**(28,381)**	**(28,381)**
Capital injections from non-controlling interests								**1,688**	**1,688**
Transactions with owner, recorded directly in equity	**-**	**-**	**(59,593)**	**-**	**-**	**-**	**(59,593)**	**(26,693)**	**(86,286)**
Balance at September 30, 2013	**2,088,400**	**27,778**	**1,972,896**	**984**	**4,228**	**5,212**	**4,094,286**	**59,901**	**4,154,187**

(in thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings[(1)]	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 April 1, 2012	2,088,400	27,778	1,380,408	6,351	8,834	15,185	3,511,771	115,281	3,627,052
Total comprehensive income									
Net income			265,804				265,804	2,681	268,485
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)
Remeasurements of net post-employment benefit liability			(92,268)				(92,268)		(92,268)
Other comprehensive income	-	-	(92,268)	(3,025)	(468)	(3,493)	(95,761)	-	(95,761)
Total comprehensive income	-	-	173,536	(3,025)	(468)	(3,493)	170,043	2,681	172,724
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
Transactions with owner, recorded directly in equity	-	-	(68,624)	-	-	-	(68,624)	(16,759)	(85,383)
Balance at September 30, 2012	2,088,400	27,778	1,485,320	3,326	8,366	11,692	3,613,190	101,203	3,714,393

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

(unaudited)

(in thousands of Canadian dollars)	Three months ended September 30 2013	Three months ended September 30 2012	Six months ended September 30 2013	Six months ended September 30 2012
Operating activities				
Net income	**86,392**	160,578	**200,160**	268,485
Adjustments to determine net cash flows				
Interest income	**(253,794)**	(241,990)	**(503,947)**	(480,084)
Interest expense	**35,328**	31,114	**68,678**	61,429
Net realized losses (gains) on investments	**6,869**	21,205	**(7,034)**	24,581
Impairment losses (reversals) on loans	**27,255**	(36,844)	**48,016**	(21,322)
Net change in unrealized depreciation (appreciation) on investments	**13,725**	(20,431)	**27,355**	(20,802)
Net unrealized foreign exchange losses (gains) on investments	**2,890**	4,256	**(2,887)**	2,013
Net unrealized losses (gains) on other financial instruments	**(3,890)**	(2,204)	**(1,899)**	1,243
Post-employment benefits funding in excess of amounts expensed	**(9,486)**	(20,385)	**(22,566)**	(28,045)
Depreciation of property and equipment, and amortization of intangible assets	**2,789**	2,647	**5,746**	5,290
Other	**(2,326)**	1,888	**(4,208)**	151
Interest expense paid	**(40,682)**	(35,040)	**(69,003)**	(60,321)
Interest income received	**256,388**	240,978	**504,112**	479,242
Disbursements for loans	**(944,971)**	(880,333)	**(2,130,906)**	(1,764,669)
Repayments of loans	**632,976**	679,247	**1,326,704**	1,315,739
Changes in operating assets and liabilities				
Net change in accounts payable and accrued liabilities	**(31,440)**	(27,845)	**(24,366)**	(25,704)
Net change in other assets and other liabilities	**8,152**	(947)	**2,034**	(1,660)
Net cash flows provided (used) by operating activities	**(213,825)**	(124,106)	**(584,011)**	(244,434)
Investing activities				
Disbursements for asset-backed securities	**(33,379)**	(48,275)	**(90,959)**	(102,224)
Repayments and proceeds on sale of asset-backed securities	**66,122**	137,090	**179,471**	280,395
Disbursements for subordinate financing investments	**(62,808)**	(59,796)	**(91,441)**	(114,814)
Repayments of subordinate financing investments	**45,271**	20,365	**65,350**	32,377
Disbursements for venture capital investments	**(30,193)**	(21,337)	**(62,340)**	(58,896)
Proceeds on sale of venture capital investments	**27,077**	8,168	**76,109**	19,073
Acquisition of property and equipment	**(1,847)**	(1,017)	**(4,603)**	(1,870)
Acquisition of intangible assets	**(8,161)**	(225)	**(16,047)**	(4,936)
Net cash flows provided (used) by investing activities	**2,082**	34,973	**55,540**	49,105
Financing activities				
Net change in short-term notes	**229,061**	190,461	**650,797**	352,612
Issuance of long-term notes	**32,900**	-	**107,435**	100,000
Repayment of long-term notes	**(35,385)**	(111,658)	**(73,367)**	(230,163)
Distributions to non-controlling interests	**(17,464)**	(9,641)	**(28,381)**	(18,037)
Capital injections from non-controlling interests	**648**	538	**1,688**	1,278
Dividends paid on common shares	**-**	-	**(59,593)**	(68,624)
Net cash flows provided (used) by financing activities	**209,760**	69,700	**598,579**	137,066
Net increase (decrease) in cash and cash equivalents	**(1,983)**	(19,433)	**70,108**	(58,263)
Cash and cash equivalents at beginning of period	**773,769**	701,837	**701,678**	740,667
Cash and cash equivalents at end of period	**771,786**	682,404	**771,786**	682,404

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

1. BDC GENERAL DESCRIPTION

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

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

2. BASIS OF PREPARATION

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

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

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

These condensed quarterly Consolidated Financial Statements were approved for issue by the Board of Directors on November 6, 2013.

3. SIGNIFICANT ACCOUNTING POLICIES

BDC's condensed quarterly Consolidated Financial Statements follow the same accounting policies as our audited Consolidated Financial Statements for the year ended March 31, 2013, except for those described in Note 4—*Application of New and Amended International Financial Reporting Standards*. These policies have been consistently applied to all periods presented in these condensed quarterly Consolidated Financial Statements and have been applied consistently by all entities consolidated by BDC.

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

4. APPLICATION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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

- IFRS 10, *Consolidated Financial Statements;*
- IFRS 12, *Disclosures of Interest in Other Entities;*
- IAS 1, *Presentation of Financial Statements*;
- IAS 27, *Separate Financial Statements*; and
- IAS 28, *Investments in Associates and Joint Ventures.*

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

(unaudited, in thousands of Canadian dollars)

Amendments to IAS 19, *Employee Benefits*

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

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

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

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

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

Consolidated Statement of Comprehensive Income Three months ended September 30, 2012	**As previously reported**	**Amended IAS 19 effects**	**Restated**
Operating and administrative expenses	98,019	2,539	100,558
Net income	163,117	(2,539)	160,578
Remeasurements of net post-employment benefit liability	(32,294)	4,958	(27,336)
Other comprehensive loss	(35,207)	4,958	(30,249)
Comprehensive income	127,910	2,419	130,329

Consolidated Statement of Comprehensive Income Six months ended September 30, 2012	**As previously reported**	**Amended IAS 19 effects**	**Restated**
Operating and administrative expenses	192,900	5,078	197,978
Net income	273,563	(5,078)	268,485
Remeasurements of net post-employment benefit liability	(102,184)	9,916	(92,268)
Other comprehensive loss	(105,677)	9,916	(95,761)
Comprehensive income	167,886	4,838	172,724

IFRS 13, *Fair Value Measurement*

IFRS 13 provides a common definition of fair value, sets out a framework for measuring fair value and requires disclosure regarding fair value measurements. Except for the additional disclosure requirements needed upon adoption (refer to Note 7—*Fair Value of Financial Instruments*), there is no impact on BDC's quarterly results or financial position.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

(unaudited, in thousands of Canadian dollars)

6. CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

September 30, 2013

	Note	Measured at fair value: FVTPL[(1)] Held-for-trading	Measured at fair value: FVTPL[(1)] Designated as FVTPL	Measured at fair value: Available-for-sale	Measured at fair value: Cash flow hedges	Measured at amortized cost: Loans and receivables	Measured at amortized cost: Financial liabilities	Total
Financial assets								
Cash and cash equivalents						**771,786**		**771,786**
Derivative assets		**55,760**			**3,512**			**59,272**
Asset-backed securities	8		**3,865**	**344,120**				**347,985**
Loans	9					**16,631,056**		**16,631,056**
Subordinate financing investments	10		**563,127**					**563,127**
Venture capital investments	11		**446,126**					**446,126**
Other assets[(2)]						**9,000**		**9,000**
Total financial assets		**55,760**	**1,013,118**	**344,120**	**3,512**	**17,411,842**	-	**18,828,352**
Financial liabilities								
Accounts payable and accrued liabilities							**82,074**	**82,074**
Derivative liabilities		**10,415**			**21**			**10,436**
Short-term notes							**13,381,846**	**13,381,846**
Long-term notes			**596,013**				**556,979**	**1,152,992**
Other liabilities[(2)]							**37,259**	**37,259**
Total financial liabilities		**10,415**	**596,013**	**-**	**21**	**-**	**14,058,158**	**14,664,607**

March 31, 2013

	Note	Measured at fair value: FVTPL[(1)] Held-for-trading	Measured at fair value: FVTPL[(1)] Designated as FVTPL	Measured at fair value: Available-for-sale	Measured at fair value: Cash flow hedges	Measured at amortized cost: Loans and receivables	Measured at amortized cost: Financial liabilities	Total
Financial assets								
Cash and cash equivalents						701,678		701,678
Derivative assets		76,757			5,402			82,159
Asset-backed securities	8		3,725	433,728				437,453
Loans	9					15,871,635		15,871,635
Subordinate financing investments	10		557,840					557,840
Venture capital investments	11		456,708					456,708
Other assets[(2)]						9,714		9,714
Total financial assets		76,757	1,018,273	433,728	5,402	16,583,027	-	18,117,187
Financial liabilities								
Accounts payable and accrued liabilities							106,440	106,440
Derivative liabilities		16,102			110			16,212
Short-term notes							12,731,629	12,731,629
Long-term notes			630,249				506,018	1,136,267
Other liabilities[(2)]							35,175	35,175
Total financial liabilities		16,102	630,249	-	110	-	13,379,262	14,025,723

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

(unaudited, in thousands of Canadian dollars)

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

> Level 1—Fair values based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities;
> Level 2—Fair values based on inputs other than quoted prices in active markets that are either directly or indirectly observable; and
> Level 3—Fair values based on valuation techniques with one or more significant unobservable market inputs.

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

				September 30, 2013
	Fair value measurements using			Total
	Level 1	Level 2	Level 3	fair value
Assets				
Derivative assets		59,272		59,272
Asset-backed securities		347,985		347,985
Subordinate financing investments	2,484		560,643	563,127
Venture capital investments	13,138		432,988	446,126
	15,622	407,257	993,631	1,416,510
Liabilities				
Derivative liabilities		10,436		10,436
Long-term notes designated as FVTPL[1]		596,013		596,013
	-	606,449	-	606,449

[1] Fair value through profit or loss.

(unaudited, in thousands of Canadian dollars)

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

[1] Fair value through profit or loss.

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

	Subordinate financing investments	Venture capital investments	September 30, 2013 Total
Fair value at April 1, 2013	**556,031**	**424,047**	**980,078**
Net realized gains (losses) on investments	**5,784**	**692**	**6,476**
Net change in unrealized appreciation (depreciation) of investments	**(26,807)**	**(3,276)**	**(30,083)**
Net unrealized foreign exchange gains (losses) on investments	**-**	**2,324**	**2,324**
Disbursements for investments	**91,441**	**62,340**	**153,781**
Repayments of investments and other	**(65,806)**	**(49,385)**	**(115,191)**
Transfers from level 3 to level 1	**-**	**(3,754)**	**(3,754)**
Fair value at September 30, 2013	**560,643**	**432,988**	**993,631**

(unaudited, in thousands of Canadian dollars)

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

8. ASSET-BACKED SECURITIES

	September 30, 2013	March 31, 2013
Available-for-sale		
Principal amount	**343,137**	431,853
Unamortized loss on initial recognition	**-**	(41)
Cumulative fair value appreciation (depreciation)	**983**	1,916
Carrying value	**344,120**	433,728
Yield	**2.41%**	2.64%
Fair value through profit or loss		
Principal amount	**3,773**	3,680
Cumulative fair value appreciation (depreciation)	**92**	45
Carrying value	**3,865**	3,725
Yield	**8.66%**	9.20%
Asset-backed securities	**347,985**	437,453

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

(unaudited, in thousands of Canadian dollars)

9. LOANS

The following table provides loans outstanding by maturity date.

	Within 1 year	1 to 5 years	Over 5 years	Total gross amount	Collective allowance	Individual allowance	Total allowance	Total net amount
Performing	**178,494**	**1,774,434**	**14,702,735**	**16,655,663**	**(340,000)**	**-**	**(340,000)**	**16,315,663**
Impaired	**10,048**	**62,494**	**439,919**	**512,461**	**-**	**(197,068)**	**(197,068)**	**315,393**
Loans as at September 30, 2013	**188,542**	**1,836,928**	**15,142,654**	**17,168,124**	**(340,000)**	**(197,068)**	**(537,068)**	**16,631,056**

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

Allowance for Credit Losses

	September 30, 2013	March 31, 2013
Balance at beginning of period	**538,338**	610,167
Write-offs	**(48,854)**	(90,558)
Effect of discounting	**(6,092)**	(12,876)
Recoveries and other	**5,660**	12,529
	489,052	519,262
Impairment losses (reversals) on loans	**48,016**	19,076
Balance at end of period	**537,068**	538,338

Concentrations of Total Loans Outstanding

Geographic distribution	September 30, 2013		March 31, 2013	
Newfoundland and Labrador	**696,910**	**4.1%**	664,217	4.0%
Prince Edward Island	**45,722**	**0.3%**	48,014	0.3%
Nova Scotia	**405,335**	**2.4%**	380,785	2.3%
New Brunswick	**483,545**	**2.8%**	470,993	2.9%
Quebec	**5,824,549**	**33.8%**	5,584,253	34.0%
Ontario	**4,623,091**	**26.9%**	4,511,112	27.6%
Manitoba	**474,441**	**2.8%**	449,771	2.7%
Saskatchewan	**477,701**	**2.8%**	429,878	2.6%
Alberta	**2,171,202**	**12.6%**	1,984,704	12.1%
British Columbia	**1,839,773**	**10.7%**	1,760,439	10.7%
Yukon	**99,022**	**0.6%**	98,955	0.6%
Northwest Territories and Nunavut	**26,833**	**0.2%**	26,852	0.2%
Loans outstanding	**17,168,124**	**100.0%**	16,409,973	100.0%

(unaudited, in thousands of Canadian dollars)

Industry sector		September 30, 2013		March 31, 2013
Manufacturing	**4,154,681**	**24.1%**	4,042,442	24.6%
Wholesale and retail trade	**3,618,867**	**21.1%**	3,513,350	21.4%
Commercial properties	**2,224,309**	**13.0%**	2,211,238	13.6%
Tourism	**2,171,538**	**12.6%**	2,035,027	12.4%
Construction	**1,519,776**	**8.9%**	1,397,565	8.5%
Transportation and storage	**1,049,732**	**6.1%**	998,243	6.1%
Business services	**803,596**	**4.7%**	762,816	4.6%
Other	**1,625,625**	**9.5%**	1,449,292	8.8%
Loans outstanding	**17,168,124**	**100.0%**	16,409,973	100.0%

10. SUBORDINATE FINANCING INVESTMENTS

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

	Within 1 year	1 to 5 years	Over 5 years	Total cost	Total fair value
As at September 30, 2013	**74,639**	**435,477**	**87,257**	**597,373**	**563,127**
As at March 31, 2013	78,598	377,602	109,834	566,034	557,840

Concentrations of Total Subordinate Financing Investments

	September 30, 2013		March 31, 2013	
Geographic distribution	**Fair value**	**Cost**	Fair value	Cost
Newfoundland and Labrador	**11,016**	**13,620**	12,818	14,283
Nova Scotia	**14,567**	**15,184**	13,175	13,257
New Brunswick	**12,201**	**12,166**	10,238	10,021
Quebec	**245,638**	**271,714**	253,416	265,001
Ontario	**178,274**	**180,899**	177,129	176,260
Manitoba	**9,649**	**8,146**	9,601	8,198
Saskatchewan	**4,799**	**3,857**	3,888	3,899
Alberta	**62,392**	**64,817**	51,792	48,868
British Columbia	**21,813**	**24,056**	22,521	22,729
Yukon	**2,778**	**2,914**	3,262	3,518
Subordinate financing investments	**563,127**	**597,373**	557,840	566,034

(unaudited, in thousands of Canadian dollars)

	September 30, 2013		March 31, 2013	
Industry sector	**Fair value**	**Cost**	Fair value	Cost
Manufacturing	**207,235**	**213,729**	199,833	201,329
Business services	**107,226**	**125,087**	119,468	128,518
Wholesale and retail trade	**96,948**	**97,080**	98,297	96,070
Construction	**38,892**	**41,062**	34,400	33,321
Mining, and oil and gas extraction	**32,207**	**32,816**	25,084	23,141
Information industries	**22,512**	**24,252**	19,758	18,831
Transportation and storage	**10,792**	**11,439**	12,267	13,405
Educational services	**9,557**	**10,326**	10,230	10,488
Real estate, and rental and leasing	**8,115**	**7,848**	7,934	7,924
Tourism	**6,825**	**6,201**	6,538	5,685
Other	**22,818**	**27,533**	24,031	27,322
Subordinate financing investments	**563,127**	**597,373**	557,840	566,034

11. VENTURE CAPITAL INVESTMENTS

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

	September 30, 2013		March 31, 2013	
Industry sector	**Fair value**	**Cost**	Fair value	Cost
Information technology	**94,267**	**101,829**	113,289	101,279
Electronics	**57,966**	**70,545**	53,490	66,992
Biotechnology and pharmacology	**55,719**	**66,120**	80,995	94,701
Medical and health	**34,597**	**48,655**	40,257	51,230
Communications	**26,828**	**30,234**	29,509	46,092
Industrial	**6,306**	**15,369**	6,049	15,715
Other	**12,705**	**14,750**	6,336	6,044
Total direct investments	**288,388**	**347,502**	329,925	382,053
Funds	**157,738**	**171,483**	126,783	149,050
Venture capital investments	**446,126**	**518,985**	456,708	531,103

	September 30, 2013		March 31, 2013	
Investment type	**Fair value**	**Cost**	Fair value	Cost
Common shares	**29,821**	**68,348**	61,266	99,668
Preferred shares	**214,681**	**232,654**	224,238	234,816
Debentures	**43,886**	**46,500**	44,421	47,569
Total direct investments	**288,388**	**347,502**	329,925	382,053
Funds	**157,738**	**171,483**	126,783	149,050
Venture capital investments	**446,126**	**518,985**	456,708	531,103

12. SHARE CAPITAL

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

Statutory Limitations

As per the BDC Act, the debt-to-equity ratio cannot exceed 12:1. In addition, the paid-in capital, the contributed surplus and any proceeds that have been prescribed as equity (such as hybrid capital instruments) must not exceed $3.0 billion. As at September 30, 2013, and March 31, 2013, and during the six-month period ended September 30, 2013, BDC met both of these statutory limitation requirements.

Capital Adequacy

Treasury Board of Canada Secretariat provides guidelines to BDC on its capital adequacy ratios. BDC must maintain overall capital and allowance for credit losses sufficient to ensure that BDC can withstand unfavourable economic circumstances without requiring additional government funding. During the six-month period ended September 30, 2013, and for the fiscal year ended March 31, 2013, BDC complied with its capital adequacy guidelines.

13. SEGMENTED INFORMATION

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

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

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

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

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

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

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

(unaudited, in thousands of Canadian dollars)

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

Three months ended September 30, 2013

	BDC	Financing	Subordinate Financing	Venture Capital	Consulting	Securitization	Venture Capital Action Plan
Interest income	253,794	236,406	15,097	-	-	2,291	-
Interest expense	35,328	33,086	1,994	-	-	248	-
Net interest income	**218,466**	**203,320**	**13,103**	**-**	**-**	**2,043**	**-**
Net realized gains (losses) on investments	(6,869)	-	4,798	(11,667)	-	-	-
Consulting revenue	5,727	-	-	-	5,727	-	-
Fee and other income	12,458	3,867	7,714	824	-	53	-
Net realized gains (losses) on other financial instruments	(1,600)	367	-	(1,967)	-	-	-
Net revenue (loss)	**228,182**	**207,554**	**25,615**	**(12,810)**	**5,727**	**2,096**	**-**
Impairment reversals (losses) on loans	(27,255)	(27,255)	-	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	(13,725)	-	(24,974)	11,261	-	(12)	-
Net unrealized foreign exchange gains (losses) on investments	(2,890)	-	-	(2,890)	-	-	-
Net unrealized gains (losses) on other financial instruments	3,890	(340)	-	4,230	-	-	-
Income (loss) before operating and administrative expenses	**188,202**	**179,959**	**641**	**(209)**	**5,727**	**2,084**	**-**
Salaries and benefits	71,584	56,710	5,043	3,582	5,658	269	322
Premises and equipment	9,842	8,648	309	394	472	19	-
Other expenses	20,384	15,282	587	1,007	3,385	48	75
Operating and administrative expenses	**101,810**	**80,640**	**5,939**	**4,983**	**9,515**	**336**	**397**
Net income (loss)	**86,392**	**99,319**	**(5,298)**	**(5,192)**	**(3,788)**	**1,748**	**(397)**
Net income (loss) attributable to:							
BDC's shareholder	84,234	99,319	(7,477)	(5,171)	(3,788)	1,748	(397)
Non-controlling interests	2,158	-	2,179	(21)	-	-	-
Net income (loss)	**86,392**	**99,319**	**(5,298)**	**(5,192)**	**(3,788)**	**1,748**	**(397)**
Business segment portfolio at end of period	**17,988,294**	**16,631,056**	**563,127**	**446,126**	**-**	**347,985**	**-**

Three months ended September 30, 2012

	BDC	Financing	Subordinate Financing	Venture Capital	Consulting	Securitization	Venture Capital Action Plan
Interest income	241,990	223,453	13,951	-	-	4,586	-
Interest expense	31,114	27,886	2,018	-	-	1,210	-
Net interest income	**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 reversals (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	67,370	54,133	4,335	3,386	5,211	305	-
Premises and equipment	9,413	8,391	221	442	337	22	-
Other expenses	23,775	19,162	478	980	3,086	69	-
Operating and administrative expenses	**100,558**	**81,686**	**5,034**	**4,808**	**8,634**	**396**	**-**
Net income (loss)	**160,578**	**153,656**	**20,575**	**(13,626)**	**(3,094)**	**3,067**	**-**
Net income (loss) attributable to:							
BDC's shareholder	158,081	153,656	15,957	(11,505)	(3,094)	3,067	-
Non-controlling interests	2,497	-	4,618	(2,121)	-	-	-
Net income (loss)	**160,578**	**153,656**	**20,575**	**(13,626)**	**(3,094)**	**3,067**	**-**
Business segment portfolio at end of period	**16,725,875**	**15,209,874**	**544,813**	**389,282**	**-**	**581,906**	**-**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(unaudited, in thousands of Canadian dollars)

Six months ended September 30, 2013

	BDC	Financing	Subordinate Financing	Venture Capital	Consulting	Securitization	Venture Capital Action Plan
Interest income	503,947	469,729	29,291	-	-	4,927	-
Interest expense	68,678	64,075	4,007	-	-	596	-
Net interest income	**435,269**	**405,654**	**25,284**	**-**	**-**	**4,331**	**-**
Net realized gains (losses) on investments	7,034	-	5,787	1,247	-	-	-
Consulting revenue	10,522	-	-	-	10,522	-	-
Fee and other income	21,885	7,405	12,676	1,693	-	111	-
Net realized gains (losses) on other financial instruments	(3,420)	768	-	(4,188)	-	-	-
Net revenue (loss)	**471,290**	**413,827**	**43,747**	**(1,248)**	**10,522**	**4,442**	**-**
Impairment reversals (losses) on loans	(48,016)	(48,016)	-	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	(27,355)	-	(26,051)	(1,351)	-	47	-
Net unrealized foreign exchange gains (losses) on investments	2,887	-	-	2,887	-	-	-
Net unrealized gains (losses) on other financial instruments	1,899	(506)	-	2,405	-	-	-
Income (loss) before operating and administrative expenses	**400,705**	**365,305**	**17,696**	**2,693**	**10,522**	**4,489**	**-**
Salaries and benefits	141,185	112,476	9,758	7,043	10,863	612	433
Premises and equipment	19,871	17,476	624	789	944	38	-
Other expenses	39,489	29,118	1,241	2,377	6,521	84	148
Operating and administrative expenses	**200,545**	**159,070**	**11,623**	**10,209**	**18,328**	**734**	**581**
Net income (loss)	**200,160**	**206,235**	**6,073**	**(7,516)**	**(7,806)**	**3,755**	**(581)**
Net income (loss) attributable to:							
BDC's shareholder	196,339	206,235	2,009	(7,273)	(7,806)	3,755	(581)
Non-controlling interests	3,821	-	4,064	(243)	-	-	-
Net income (loss)	**200,160**	**206,235**	**6,073**	**(7,516)**	**(7,806)**	**3,755**	**(581)**
Business segment portfolio at end of period	**17,988,294**	**16,631,056**	**563,127**	**446,126**	**-**	**347,985**	**-**

Six months ended September 30, 2012

	BDC	Financing	Subordinate Financing	Venture Capital	Consulting	Securitization	Venture Capital Action Plan
Interest income	480,084	443,844	26,372	-	-	9,868	-
Interest expense	61,429	54,781	3,900	-	-	2,748	-
Net interest income	**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 reversals (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	134,857	108,710	8,599	6,635	10,275	638	-
Premises and equipment	18,793	16,724	443	902	680	44	-
Other expenses	44,328	34,432	977	1,920	6,866	133	-
Operating and administrative expenses	**197,978**	**159,866**	**10,019**	**9,457**	**17,821**	**815**	**-**
Net income (loss)	**268,485**	**257,013**	**26,202**	**(14,943)**	**(6,293)**	**6,506**	**-**
Net income (loss) attributable to:							
BDC's shareholder	265,804	257,013	21,276	(12,698)	(6,293)	6,506	-
Non-controlling interests	2,681	-	4,926	(2,245)	-	-	-
Net income (loss)	**268,485**	**257,013**	**26,202**	**(14,943)**	**(6,293)**	**6,506**	**-**
Business segment portfolio at end of period	**16,725,875**	**15,209,874**	**544,813**	**389,282**	**-**	**581,906**	**-**

(unaudited, in thousands of Canadian dollars)

14. GUARANTEES

BDC issues "letters of credit and loan guarantees" (guarantees) to support businesses. Those guarantees represent BDC's obligation to make payments to third parties if clients are unable to meet their contractual commitments. The maximum amount payable under the guarantees totalled $25.5 million as at September 30, 2013 ($25.4 million at March 31, 2013).

15. COMMITMENTS

Loans

The undisbursed amount of authorized loans was $1,850,434 at September 30, 2013 ($291,719 fixed rate; $1,558,715 floating rate) and is expected to be disbursed within the next 12 months. The weighted average effective interest rate was 4.95% on loan commitments (5.01% at March 31, 2013). The following tables present undisbursed amounts of authorized loans, by location and industry.

Commitments, by geographic distribution	September 30, 2013		March 31, 2013	
Newfoundland and Labrador	**83,733**	**4.5%**	73,891	4.0%
Prince Edward Island	**302**	**-**	636	0.1%
Nova Scotia	**57,732**	**3.1%**	70,179	3.8%
New Brunswick	**23,623**	**1.3%**	21,059	1.1%
Quebec	**617,687**	**33.4%**	570,122	30.8%
Ontario	**415,783**	**22.5%**	478,959	25.9%
Manitoba	**40,662**	**2.2%**	37,610	2.0%
Saskatchewan	**105,066**	**5.7%**	83,533	4.5%
Alberta	**338,468**	**18.3%**	361,516	19.5%
British Columbia	**161,142**	**8.7%**	143,813	7.8%
Yukon	**2,698**	**0.1%**	8,592	0.4%
Northwest Territories and Nunavut	**3,538**	**0.2%**	1,218	0.1%
Total	**1,850,434**	**100.0%**	1,851,128	100.0%

Commitments, by industry distribution	September 30, 2013		March 31, 2013	
Manufacturing	**436,321**	**23.6%**	424,501	22.9%
Tourism	**271,886**	**14.7%**	253,476	13.7%
Wholesale and retail trade	**267,339**	**14.4%**	271,055	14.7%
Construction	**198,534**	**10.7%**	186,028	10.0%
Transportation and storage	**150,075**	**8.1%**	138,526	7.5%
Commercial properties	**138,400**	**7.5%**	211,738	11.4%
Business services	**88,388**	**4.8%**	84,171	4.5%
Other	**299,491**	**16.2%**	281,633	15.3%
Total	**1,850,434**	**100.0%**	1,851,128	100.0%

(unaudited, in thousands of Canadian dollars)

Subordinate Financing

The undisbursed amount of authorized investments was $48,340 at September 30, 2013 ($36,265 fixed rate; $12,075 floating rate) and is expected to be disbursed within the next 12 months. The weighted average effective interest rate (excluding non-interest returns) was 10.67% on investment commitments (10.30% at March 31, 2013). The following tables present undisbursed amounts of authorized investments, by location and industry.

Commitments, by geographic distribution	September 30, 2013		March 31, 2013	
Newfoundland and Labrador	-	-	500	1.3%
Nova Scotia	2,000	4.1%	-	-
New Brunswick	-	-	1,000	2.5%
Quebec	14,265	29.5%	9,595	24.3%
Ontario	18,347	38.0%	15,459	39.1%
Saskatchewan	625	1.3%	-	-
Alberta	8,703	18.0%	8,703	22.0%
British Columbia	3,150	6.5%	4,250	10.8%
Northwest Territories and Nunavut	1,250	2.6%	-	-
Total	48,340	100.0%	39,507	100.0%

Commitments, by industry distribution	September 30, 2013		March 31, 2013	
Manufacturing	14,650	30.4%	22,035	55.7%
Wholesale and retail trade	11,625	24.0%	3,986	10.1%
Business services	8,811	18.2%	7,733	19.6%
Construction	6,750	14.0%	250	0.6%
Mining, and oil and gas extraction	2,953	6.1%	3,703	9.4%
Information industries	2,870	5.9%	1,400	3.5%
Transportation and storage	300	0.6%	300	0.8%
Tourism	100	0.2%	100	0.3%
Other	281	0.6%	-	-
Total	48,340	100.0%	39,507	100.0%

Venture Capital

The undisbursed amount of authorized venture capital investments was $261,048 at September 30, 2013, and was related to the following industry sectors.

Industry sector	September 30, 2013		March 31, 2013	
Biotechnology and pharmacology	8,901	3.4%	12,728	4.5%
Information technology	4,787	1.8%	4,175	1.4%
Electronics	2,316	0.9%	2,916	1.0%
Medical and health	1,204	0.5%	2,674	0.9%
Communications	424	0.2%	308	0.1%
Industrial	333	0.1%	300	0.1%
Other	-	-	381	0.1%
Total direct investments	17,965	6.9%	23,482	8.1%
External funds	243,083	93.1%	267,297	91.9%
Venture capital investments	261,048	100.0%	290,779	100.0%

Asset-Backed Securities

The undisbursed amount of authorized asset-backed securities was $453,000 at September 30, 2013 ($472,000 at March 31, 2013).

Venture Capital Action Plan

The undisbursed amount of authorized venture capital action plan investments was $50,000 at September 30, 2013 (no undisbursed amount at March 31, 2013)

Leases

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

16. RELATED PARTY TRANSACTIONS

As at September 30, 2013, BDC had $13,371.7 million outstanding in short-term notes and $556.3 million outstanding in long-term notes (excluding accrued interest) with Her Majesty the Queen in Right of Canada acting through the Minister of Finance ($12,708.6 million in short-term notes and $505.7 million in long-term notes at March 31, 2013).

Accrued interest on borrowings included $5.7 million payable to the Minister of Finance as at September 30, 2013 ($6.0 million at March 31, 2013).

BDC recorded $34.5 million in interest expense, related to the borrowings from the Minister of Finance, for the second quarter and $66.9 for the six months ended September 30, 2013. Last year's comparative figures for the same periods were $29.9 million and $59.1 million, respectively.

In addition, no borrowings from the Minister of Finance were repurchased in the first six months of fiscal 2014 (no borrowings were repurchased during the same period last year).

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

17. COMPARATIVE FIGURES

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

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