BDC

BANKING ON CANADIAN ENTREPRENEURS

Developing business with you

ANNUAL REPORT 2005

Canada

BDC: Developing business with you

BDC sustains the efforts of Canadian entrepreneurs by promoting the creation and growth of their businesses with a focus on knowledge-based industries and exporters. The adoption of the *Business Development Bank of Canada Act* in 1995 strengthened and clarified BDC's public policy mandate, particularly by making BDC a complementary lender to other institutions in the Canadian financial services market whose main task consists of being actively present in target markets and in every stage of business growth. This important legislative change provided the base from which BDC has been able to help Canada's entrepreneurs start their businesses, as well as boost productivity, stimulate growth and maximize their management savvy.

Although the business environment has changed significantly in the last 10 years, BDC has succeeded in establishing a close and durable business relationship with its clients by consistently developing business solutions responsive to their needs and by extending its reach in all regions of the country. Relying on a dedicated and knowledgeable team of professionals, BDC is determined to go the extra mile to support Canadian entrepreneurs in their business ventures. By helping develop entrepreneurial excellence, BDC contributes to reinforcing Canadian businesses, enabling them to strengthen the national economy.

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Mandate

BDC's mandate as set out in the *Business Development Bank of Canada Act* of 1995 (BDC Act) is to support Canadian entrepreneurship by providing financial and consulting services. BDC is also mandated to be a complementary lender in the market: financing and investments are to fill out or complete services available from commercial financial institutions.

Mission

To help create and develop Canadian small and medium-sized businesses through timely and relevant financial and consulting services.

Vision

To make a unique and significant contribution to the success of dynamic and innovative entrepreneurship for the benefit of all Canadians.

Core Values

To uphold the following core values that define BDC and strengthen its corporate culture: ethics, client connection, team spirit, accountability and work/life balance.

Key Services

BDC Financing
Long-term loan financing designed particularly to support start-ups and innovation strategies, and to offer equipment financing for modernization purposes.

BDC Venture Capital
Covers every stage of a company's development cycle, from seed through expansion, with a focus on early-stage and fast-growing businesses in four target sectors: life sciences, telecommunications, information technology and advanced technologies.

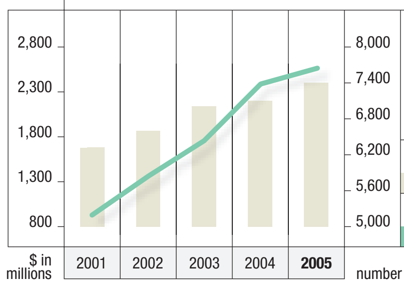
BDC Subordinate Financing
Hybrid instrument combining elements of both debt financing and equity financing, which is offered to more mature businesses with excellent growth potential.

BDC Consulting
Customized business consulting services delivered through a national network of professional consultants and designed to help Canadian entrepreneurs maximize their management savvy.

BDC Connex®
Offers Canadian entrepreneurs a variety of online services and handles many BDC alliances and partnerships, such as the partnership agreements with Community Futures Development Corporations (CFDCs).

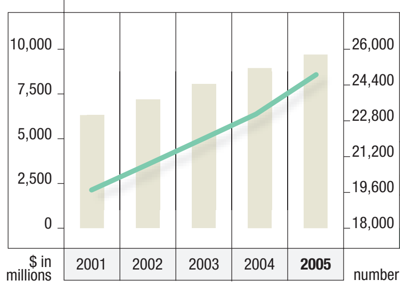
2005 Highlights

Total Financing Authorized for the years ended March 31



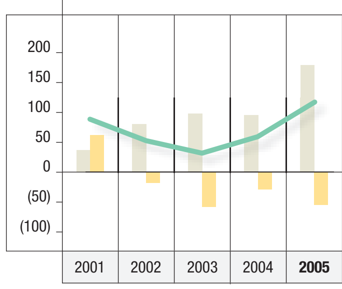
	2001	2002	2003	2004	**2005**
Amount	1,647	1,845	2,125	2,192	**2,410**
Number authorized	5,173	5,806	6,387	7,338	**7,603**

Total Financing Committed as at March 31



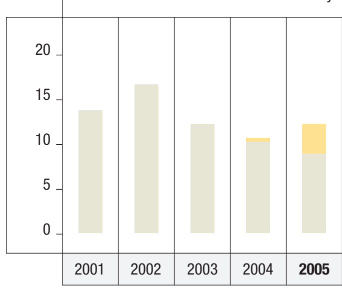
	2001	2002	2003	2004	**2005**
Amount	6,353	7,201	8,026	8,845	**9,619**
Number of clients	19,664	20,780	21,897	22,966	**24,571**

Net Income for the years ended March 31 ($ in millions)



	2001	2002	2003	2004	**2005**
Loans and Consulting	32.1	74.7	91.4	89.4	**169.6**
Venture Capital	56.2	(21.0)	(59.5)	(30.3)	**(56.1)**
Total net income	88.3	53.7	31.9	59.1	**113.5**

Dividends Declared for the years ended March 31 ($ in millions)

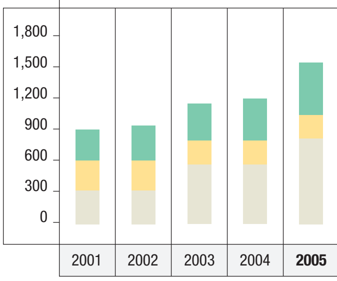


	2001	2002	2003	2004	**2005***
Dividends on preferred shares	13.8	16.7	12.2	10.3	**9.0**
Dividends on common shares	–	–	–	0.4	**3.3**
Total dividends declared +	13.8	16.7	12.2	10.7	**12.3**

* In addition, based on BDC's fiscal 2005 performance, common dividends of $7.8 million were declared after March 31, 2005 and will be paid and recorded in fiscal 2006.

2005 Highlights

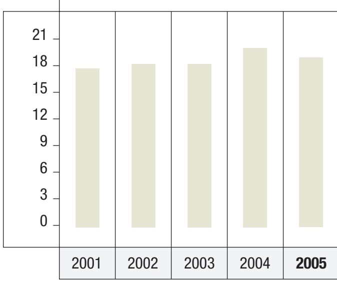
Total Shareholder's Equity as at March 31 ($ in millions)



	2001	2002	2003	2004	**2005**
Common shares*	331.2	331.2	586.2	586.2	**836.2**
Preferred shares	295.0	295.0	230.0	230.0	**230.0**
Retained earnings	297.1	334.1	353.8	402.3	**503.4**
Total shareholder's equity	923.3	960.3	1,170.0	1,218.5	**1,569.6**

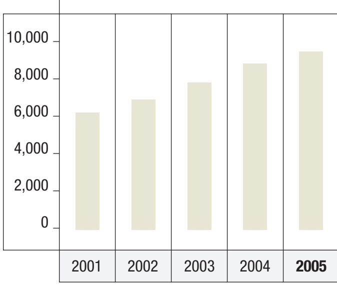
* Includes $27.8 million of contributed surplus.

Consulting Revenue for the years ended March 31 ($ in millions)



2001	2002	2003	2004	**2005**
17.7	18.2	18.2	20.0	**18.9**

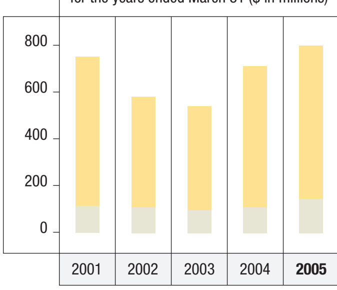
Total Assets as at March 31 ($ in millions)



2001	2002	2003	2004	**2005**
6,226	6,897	7,791	8,809	**9,445**

Total Value of Venture Capital Projects Financed

for the years ended March 31 ($ in millions)



	2001	2002	2003	2004	**2005**
BDC Venture Capital authorized	114	106	93	109	**143**
Other sources of investment (estimated)	636	472	446	598	**652**
Total +	750	578	539	707	**795**

Objectives, Measurements and Targets

BDC's balanced scorecard is built around the following perspectives: clients, employees, efficiency and financial sustainability. This approach translates BDC's objectives and strategies into coherent sets of performance measurements and ensures integrated risk management of BDC's business risks.

CORPORATE OBJECTIVES

Clients – To create a unique and valued relationship with Canadian entrepreneurs to support the creation of their businesses and accompany their growth (measured by client satisfaction).

Employees – To foster a culture of engagement, learning and growth (measured by employee commitment).

Efficiency – To establish effective and efficient operating and administrative expenses to net interest and other income (measured by the efficiency ratio).

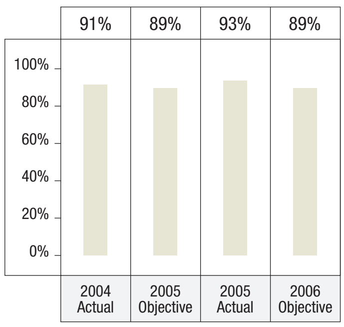
Financial Sustainability – To be profitable in order to grow while fulfilling BDC's public policy mandate [measured by the outstanding loans portfolio, the internal rate of return (IRR) of BDC Venture Capital and BDC Consulting revenue] and to generate a return on common equity (ROE) at least equal to the government's average long-term cost of funds.

PERFORMANCE AND CORPORATE OBJECTIVES

PERFORMANCE

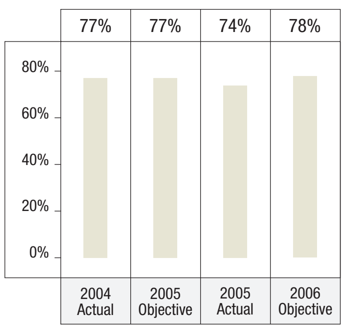
Client Satisfaction

- Innovative product offerings and continued strong client contact drove the rate of satisfied or very satisfied customers up to 93%.



Employee Commitment

- The Employee Engagement Survey showed a decline to 74% – a reduction of 3% from both 2004 and the objective of 77%.

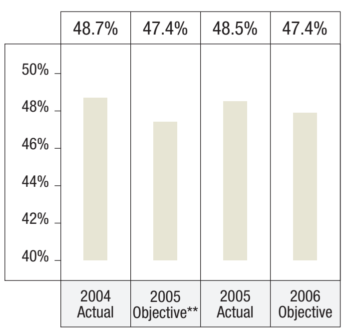


Efficiency Ratio*

- In step with the ratio from 2004.
- Operating expenses were in line with the objective.
- Reduced income from the portfolio caused by reduced loan disbursements and increased loan prepayments.

The lower the ratio, the higher the efficiency achieved.

*** 46% as per 2005 Corporate Plan. 47.4% represents new internal objective.*



2006 OBJECTIVES

Client Satisfaction:

- Client Satisfaction: 89%
- Increase the risk profile of new authorizations, which may impact client satisfaction due to pricing for risk.

Employee Commitment:

- Employee Commitment: 78%
- Foster open and honest communication.
- Promote self-motivation and career management.
- Enhance workforce diversity.

Efficiency Ratio:

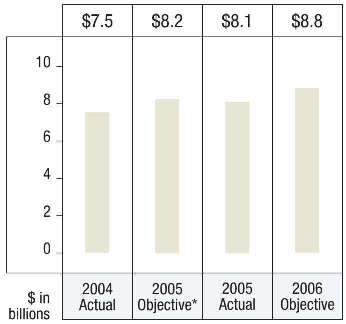
- Ratio: 47.4%
- Strive for efficiency gains through continued diligence on cost control.
- Accelerate disbursement of authorized loans.
- The implementation of a Guided Portfolio Simplification (GPS) combined with new segmentation guidelines to focus on value-added activities with existing clients.

PERFORMANCE

Outstanding Loan Portfolio

A record $2.3 billion in net loan authorizations in fiscal 2005 drove the portfolio up to $8.1 billion, an increase of $0.6 billion from 2004, but slightly under the goal of $8.2 billion.

* *$8.4 billion as per 2005 Corporate Plan. $8.2 billion represents new internal objective.*

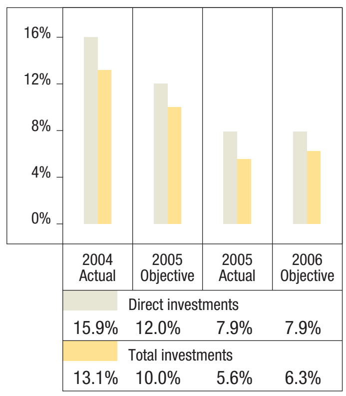


2006 OBJECTIVES

- Portfolio: $8.8 billion
- Further increase risk tolerance through Co-Vision Loans, Productivity Plus Loans and Innovation Financing.
- Partnership agreements with CFDCs and *Caisse de dépôt et placement du Québec*.

Venture Capital 10-year IRR

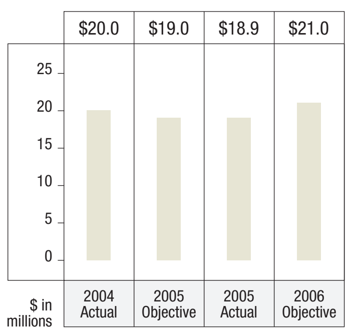
BDC Venture Capital had a difficult year – write-downs of $47 million forced the IRR on total investments to 5.6% versus 13.1% in 2004 and the planned 10%.



- Direct investments: 7.9%
- Total investments: 6.3%
- Continue to hold the course as a leader in the Canadian venture capital industry of early-stage technology.
- Seek opportunities for divestiture of profitable holdings.

Consulting Revenue

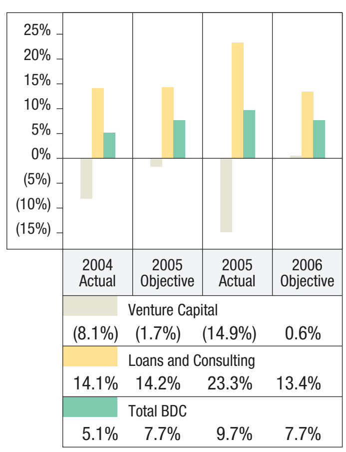
BDC recorded consulting revenues of $18.9 million, in line with plan, but slightly lower than 2004.



- Consulting revenue from activities: $21 million.
- Continued growth in revenues through the consultant in-residence program.

Return on Common Equity

- Total BDC ROE of 9.7% was nearly double the 5.1% of 2004, as a result of the strength in the loans portfolio.
- ROE on Loans and Consulting increased to 23.3%, as the low loan loss provisions drove income from loans to record levels.



- ROE: 7.7%
- Generate an ROE at least equal to the government's average long-term cost of funds.
- ROE is expected to decline as provisions for loan losses are expected to return to more normal levels.

CEDRIC E. RITCHIE, Chairman of the Board

Chairman's Message

In 2005, BDC reported excellent financial results. Net loan authorizations stood at a record high $2.3 billion, topping $2 billion for the third consecutive year. Such outstanding results are proof that BDC efficiently fulfills its mandate, a subject that was addressed in a mandate letter that the Federal Minister of Industry, David L. Emerson, wrote to BDC on December 16, 2004. Notwithstanding the fact that BDC operates at arm's length from its shareholder, there are two important issues mentioned in the Minister's letter that I would like to address: BDC's public policy mandate and corporate governance.

A REINFORCED PUBLIC POLICY ROLE

In his letter, the Minister states that he wishes BDC to strengthen its commitment to Canadian entrepreneurs in accordance with its public policy goals. In fiscal 2005, BDC continued to carry out its mandate in more ways than one. Its business solutions, designed to fill gaps in the market by targeting specific sectors and stages of growth, increased significantly in 2005 compared to the previous year. And the commitment towards women, Aboriginal and young entrepreneurs continued unabated, whether in terms of innovative financing solutions or steadfast support for timely initiatives.

Although BDC Venture Capital transactions were at an all time high in fiscal 2005, the sector's recovery is taking longer than expected. Nonetheless BDC has maintained its focus on promising knowledge-based industries (KBIs). Accounting for about 10% of the total number of transactions, BDC represents a leading player in the Canadian venture capital market. Determined to continue fulfilling the terms of its mandate, it will persist in helping create and develop KBIs throughout Canada, particularly by encouraging the commercialization of new technologies. To accomplish this task, BDC builds on its venture capital strategy, which consists of working closely with its financial partners and investees, as well as developing solid and durable networks in the financial and scientific communities.

The ongoing expansion of business partnerships represents yet another means for BDC to reaffirm its public policy role. The signing of agreements with partners that share BDC's objective of promoting the growth of Canadian small and medium-sized businesses enables BDC to reassert its long-standing commitment to Canadian entrepreneurs. In fiscal 2005, BDC signed many partnership agreements with Community Futures Development Corporations (CFDCs), thereby reiterating its support for community economic development initiatives in all regions of the country.

EFFICIENT CORPORATE GOVERNANCE POLICIES AND PRACTICES

Corporate governance represents the second crucial issue that needs to be addressed. Today more than ever, the adoption of sound corporate governance policies and practices reflects the determination of an organization to adhere to the highest standards of responsibility and integrity, as well as to maintain the trust of stakeholders and the public. I am happy to report that important work has been done in this regard by BDC during fiscal 2005.

In the past year, all employees reaffirmed BDC's core values: ethics; client connection; team spirit; accountability; and work/life balance. These values were endorsed by the Board and integrated into a revised Employee Code of Conduct, Ethics and Values. In addition, the Board adopted a new Board Code of Conduct. The two codes are based on a set of principles – including compliance with the law, trust, fairness and objectivity – that enables BDC employees and Board members to carry out their responsibilities.

I wish to extend my deepest appreciation for the active contribution of the following BDC Directors who have left the Board: Leo Cholakis, Jennifer Corson, James A. Durrell, N. Murray Edwards, Gordon J. Feeney, Oryssia Lennie, Barbara Stymiest and Jean-Claude Villiard. I also want to welcome the new Board members who have recently joined us.

2005 has been a most challenging year for all of us at BDC. Our employees' unwavering commitment to serving our clients represents a precious asset year after year, and reaffirms BDC's determination to carry out its public policy mandate in accordance with the needs of Canadian entrepreneurs.

ANDRÉ BOURDEAU, Acting President and Chief Executive Officer and Executive Vice President, Financial Services and BDC Consulting Group

President's Message

Ten years ago, when BDC's name was changed and its mandate broadened, the word *development* took on greater significance than ever before in our history. Finding creative ways to fill the gaps hindering the development of small and medium-sized enterprises (SMEs) became the single focal point of all of our strategic planning and activities. • I believe that over the past 10 years we have had resounding success in filling those gaps, in taking calculated risks and in playing our role as a complementary lender in every region of the country. Fiscal 2005 was a banner year at BDC with record loan authorizations of $2.3 billion and an efficiency ratio of 48.5%. Since 1997, BDC has paid dividends to our shareholder totalling $81.1 million and by increasing our operational efficiency, we have succeeded in creating additional equity that will allow us to finance new services. In addition, BDC will pay $16.8 million in dividends to our shareholder before June 30, 2005.

SMALLER LOANS, HIGHER RISKS

Let me illustrate the significance of our achievements with concrete examples. Not only have we significantly increased the number of businesses to which we have extended financing, from 14,400 in fiscal 1995 to over 24,000 in fiscal 2005, we have also dramatically increased our support of start-up businesses which traditionally find it difficult to obtain suitable financing in the marketplace considering that the loans they require are smaller and riskier.

Start-up businesses now represent some 10% of BDC's portfolio while surveys indicate that they make up only 5% of the total number of businesses in Canada. Today, there are more than 10,000 loans of $100,000 or less on BDC's books, an increase of 78% over the past 10 years. Over 60% of our loans are of $250,000 and less.

But the importance of BDC's role as a development bank extends beyond the amount of financing and the number of loans it authorizes. It includes as well the categories of businesses we support. Businesses in manufacturing, exporting and fast-growth sectors generally are a key target for BDC support. In addition, knowledge-based industries are cornerstones of Canada's economy, and it is BDC's role to ensure that they have the opportunity to grow and prosper.

FAST-GROWTH BUSINESSES AT BDC – TWICE THE MARKET WEIGHT

Loan financing committed to manufacturing businesses has risen by 353% over the past 10 years to $3.3 billion, while our commitment to exporters has increased eightfold from $438 million to $3.5 billion at the close of fiscal 2005. In addition, fast-growth businesses make up 28% of our loans portfolio, while their weight in the Canadian economy is only 13%.

VENTURE CAPITAL – VITAL TO KNOWLEDGE-BASED BUSINESSES

At the same time, knowledge-based industries have assumed a vital role in our economy and BDC Venture Capital's commitment to them has risen from $33 million in fiscal 1995 to over $600 million 10 years later. In the extremely volatile context of equity markets for knowledge-based businesses at the present time and over the past few years, BDC Venture Capital has indeed filled its development role, continuing to provide risk capital to promising companies. The shareholder's recent injection of $250 million to help promote BDC Venture Capital activities will greatly contribute to our ability to continue offering our support, especially for businesses at the seed and start-up stages.

In the near to medium-term, our venture capital commitment had and will continue to have a negative impact on net earnings. However, it is a clear illustration of BDC's development role and how it compensates for gaps in private sector financing.

All this to say that BDC has gone the extra mile in helping develop businesses to add value to its clients and to support Canadian SMEs that account for 43% of the Canadian economy and employ some 65% of our population.

CLIENT SATISFACTION – 93%

The positive impact is clear and encouraging. BDC authorized more than 7,500 loans in fiscal 2005, three years ahead of its objective. At the same time, we achieved a client satisfaction rate of 93%. Our commitment in venture capital to knowledge-based businesses provided much needed equity financing in the context of a downturn in equity markets. And BDC Consulting continued to play an important role in supporting and promoting quality management in SMEs, generating $19 million in revenues in fiscal 2005. All of this, while remaining profitable and increasing our dividend to the shareholder.

How did we do this? In a number of ways: we introduced new and innovative financial and consulting services and new marketing strategies to reach our clients; we reviewed our internal operations to increase efficiencies and our ability to assume risk, and we focused on developing the commitment of our employees to BDC's core values and unique development role.

INNOVATIVE PRODUCTS

Supporting growth and innovation among Canada's SMEs, a major part of our development role, demands innovative financing products and management consulting services, as well as a creative approach to marketing these services to our clients. Over the past decade, BDC has created flexible financing and consulting solutions to meet the extremely varied needs of Canada's entrepreneurs.

Through BDC Financing, we have introduced start-up loans, that we call *Co-Vision Loans*, of up to $100,000 without tangible guarantees. We also provide *Productivity Plus Loans* to improve productivity. These loans, of up to $5 million, can be used to finance the purchase of new or used machinery for up to 125% of the value of the client's project while helping to cover downtime costs and staff training. In addition, to encourage innovation, we offer working capital loans, *Innovation Financing*, of up to a maximum of $250,000 without tangible guarantees, for growth businesses, to finance product development, marketing and training. All of these products have been found useful by entrepreneurs. Overall, the volume of lending for these products increased once again in fiscal 2005 by 23%, to $264 million.

BDC CONSULTING – A LEADING RESOURCE FOR INTERNATIONAL QUALITY CERTIFICATION

Increasingly, BDC offers its financing and management consulting services to SMEs on an integrated basis. In doing so, we make a significant contribution to the quality of their management practices. Over the past decade, BDC Consulting has become one of Canada's leading resources in helping introduce SMEs to international quality certification standards, thereby facilitating their access to export markets around the world.

REACHING THE MARKET CREATIVELY AND EFFICIENTLY

Fostering business development in every part of the country, including rural areas, is a fundamental part of BDC's public policy mandate. Reaching very small businesses is another.

To extend our reach beyond BDC's more than 80 branches, we have signed partnership agreements with more than 150 Community Futures Development Corporations. We have formed alliances with these corporations because we believe that, together, we can offer small businesses, particularly in rural areas, more financing and consulting options.

We also have 19 Entrepreneurship Centers operating across Canada, maximizing our "money and more" approach, providing loans of up to $250,000 and the full range of BDC Consulting management solutions. Providing integrated financial and management consulting services for very small businesses is a vital part of our role to help develop businesses in Canada.

As part of its public policy mandate and development role, BDC also supports women, Aboriginal and young entrepreneurs. BDC created a $25-million quasi-equity fund for women entrepreneurs in 2004 and at the end of fiscal 2005, it had already authorized $11.9 million of this fund for women in business. The majority of the projects financed provided capital to support expanding businesses. Other projects included financing management buyouts and intergenerational transfers of ownership. Overall in fiscal 2005 BDC extended its lending commitment to women-owned businesses to $1.6 billion.

Nine years ago, we also created an Aboriginal Banking Unit and over the past decade BDC authorized financings of over $90 million to support Aboriginal businesses.

DEVELOPMENT ROLE REMAINS FRONT AND CENTRE FOR FUTURE

If BDC's development of Canada's business sector assumed an intensity and variety over the last decade that it had not known in the past, our goals for the future development of businesses are no less focused and intense. Growth in our portfolio will be the major means of attaining this objective. Our Corporate Plan calls for the number of clients to increase by 25% to 30,000 by 2010, with more smaller loans and an increase of more than 40% in the number of start-up businesses in our portfolio, to 4000. Our goal is also to have 30% of the portfolio in fast-growing businesses, more than twice their percentage of the Canadian business community.

OUR EMPLOYEES MAKE IT HAPPEN

All of this can only be done through the efforts and dedication of our employees. I am proud to be able to say that in fiscal 2005, BDC registered its largest response rate ever to its employee survey measuring employee commitment, a clear demonstration of how serious we all are about making BDC the best possible instrument for business development in Canada. Although the level of commitment declined somewhat from 77% in fiscal 2004 to 74% in fiscal 2005, it still represents a significant increase over the 63% level registered in 2000 in BDC's first employee survey.

Our employees clearly subscribe to the five core values of BDC: *ethics* and mutual trust among ourselves and with clients, suppliers and partners; *client connection*, caring about our clients' success and supporting them every step of the way; *team spirit*, sharing our wide range of experience to help clients succeed; *accountability*, taking responsibility for our actions both inside and outside BDC; and last, *work/life balance*, achieving a healthy balance between the demands of our personal and professional lives.

Basing itself on these values, and most particularly that of ethics, BDC lent its full cooperation to the Gomery Commission. By expressing our values in all of our activities, we will continue to demonstrate to Canadian entrepreneurs that we sincerely share their goals for success.

Before concluding, I would like to extend a warm welcome, on behalf of BDC personnel, to our newly appointed President and Chief Executive Officer, Jean-René Halde, who was appointed on May 5, 2005, and who will officially assume his position on June 20.

I wish to express my heartfelt appreciation to our employees for their remarkable work over the past year and would also like to thank the members of the Board for their support and guidance.

Economic Background

Following slower growth in 2003, Canada's economy bounced back in 2004 and, by most accounts, it was an excellent year with growth across the board. Canada once again reported one of the fastest growth rates and highest living standards among G-7 countries. The International Monetary Fund highlights successes in policy and structural reform and Canada's business-friendly environment as contributing factors to this success. Strong consumer spending and business investment led the way. Resources and, in particular energy, were also a driving force behind Canada's growth in 2004.

Overall, Canada is in a healthy fiscal position. In 2004, it reported a surplus of $9.1 billion, its seventh consecutive year of surplus. As measured by gross domestic product (GDP), Canada's growth was 2.8% for 2004. Unlike previous years, which were marked by rapid growth in some sectors and dramatic decline in others, this growth was distributed across industries. With no major industry posting a decline, this meant that small and medium-sized enterprises (SMEs) had a much more stable operating environment than in recent years.

One of the key economic trends of 2004 was the soaring Canadian dollar. The loonie reached a 12-year high of US$0.85 in November 2004 and has continued to hover above the 80-cent level. While some sectors benefited from the strength of the Canadian dollar others suffered, such as manufacturing and processed goods exporting.

A number of SMEs were able to take advantage of the strength of the Canadian dollar. A stronger dollar meant Canadian exporters could import a larger share of their input at a lower cost, which in turn helped to maintain cost competitiveness. Cheaper capital goods allowed businesses to improve productivity, while steady inflation and low and stable borrowing costs also contributed to this positive effect.

The strong demand for Canadian commodities also helped the export sector cope with the strengthened dollar. The rapid development of the global economy, such as in China, and escalating demand for commodities contributed greatly to Canada's economic growth in 2004. For instance, exports to China rose 39% in 2004, more than twice the 15% increase reported for 2003. According to Export Development Canada (EDC), 2004 was overall a strong year with export sales up by 7.9%.

Energy continues to be Canada's leading resource export. Crude oil prices increased by more than 50% in 2004. Investment in energy, including non-conventional energy sources, was far greater than in any other industry. Small and medium-sized businesses operating in this sector benefited greatly in this context.

Business investment began to recover in 2004. Real business investment in machinery and equipment rose 9.4% in 2004. There was strong spending on transportation equipment, computers and office furniture. The vibrancy of 2004's business investment climate was beneficial to SMEs servicing these needs.

Canadian corporations experienced strong balance sheets and high capacity utilization rates. The manufacturing capacity utilization rate rose to as much as 88.5% in 2004 – a record high, with 10 industries posting rates of over 90%. Businesses broadly remained optimistic about the economic outlook. However, fluctuating world prices for commodities and uncertainties relating to the rising Canadian dollar mean that Canadian businesses, including SMEs, must constantly be ready to adjust to new developments.

The Canadian economy created nearly 226,000 net new jobs. Real consumer spending grew 3.5% in 2004 compared to 3.1% in 2003.

Canada's entrepreneurial culture continues to fuel the economy. It is estimated that small and medium-sized businesses account for close to half of Canadian economic activity. In the current strong economic environment, BDC's role as a development institution is of utmost importance. Our objective is to help Canadian businesses grow and compete effectively on a global level. By continuing to support the investment decisions of Canadian entrepreneurs, BDC enables them to remain active contributors to the national economy.

Our Environmental Commitment

For more than 10 years, BDC has been a recognized leader in developing and applying environmental policies. With the enactment of Bill C-9 in October 2003, an *Act to amend the Canadian Environmental Assessment Act* (the “Act”), BDC will be subject to this Act as of June 11, 2006. The Act focuses on assessments of the environmental effects of a project and the promotion of sustainable development. A working committee, composed of BDC and Canada Environmental Assessment Agency (CEAA) representatives, has agreed on a conceptual framework for developing a regulatory variation of the Act that would tailor the public notification requirements for the environmental assessment process and balance the obligation of BDC under the Act with its confidentiality requirements and its ability to conduct business in a timely manner.

For BDC, sound environmental management is more than good business practice, it also helps build a sustainable future for generations to come. Environmental issues have never been more important than in today’s world. A growing number of governments is choosing to ratify international treaties and adopt progressive environmental legislation. Businesses are increasingly required to implement environmental standards and practices. BDC is part of this global trend.

Since the early 1990s, each and every one of BDC’s financing decisions has been subject to an internal environmental review. At that time, BDC developed its own Environment Risk Policy to ensure that all credit decisions would include an environmental assessment of clients’ installations and business activities. At BDC, we believe that good strategic environmental management brings many advantages, including improved risk management, better compliance with environmental laws, increased customer loyalty and a positive image of environmental responsibility.

THE TERMS OF OUR COMMITMENT

- Our clients must abide by all environmental legislation.
- Our clients must provide details on all environmental concerns related to each property and business activity throughout their relationship with BDC.
- Our clients can be asked to provide environmental assessments prepared by external consultants regarding their properties and business activities to confirm compliance with environmental legislation.
- Our managers perform a general internal environmental assessment that includes site inspections and a review of all existing reports specific to a business’ installations and activities.
- BDC will not extend financing if there is an environmental issue that is not or cannot be resolved by the client.

BDC will continue to support Government of Canada strategies with a two-pronged approach. The first involves financing innovation adoption by small and medium-sized businesses to ensure that the most efficient technologies available are adopted and greenhouse gas (GHG) emissions are reduced. The service offering includes the following.

- Innovation Financing
- Productivity Plus Loans to finance more productive assets
- Support for ISO 14000 implementation (environmental standards)
- Planning, market studies and marketing strategies
- Productivity diagnostics – lean manufacturing

The second approach involves supporting the development of new environmental technologies through venture capital investments. BDC continues to seek investment opportunities in new technologies and is pursuing the strategy introduced in its 2004-2008 Corporate Plan to invest $10 million in the environment sector. BDC has already surpassed the original objective by authorizing over $15 million in investments since fiscal 2003.

BDC and its Public Policy Role

A COMMERCIAL CROWN CORPORATION WITH A PUBLIC POLICY MANDATE

Ten years ago, on July 13, 1995, the Parliament of Canada adopted the *Business Development Bank of Canada Act*, which not only gave BDC its current name but also amended its mandate to allow it to act as a complementary lender to other financial institutions in delivering financial services to Canadian small and medium-sized businesses.

Under this revised mandate, BDC is required to fill gaps in the financial services market in Canada in order to better serve and stimulate the growth of certain market segments, including specific categories of entrepreneurs, technological sectors and start-up businesses. Since the *BDC Act* was enacted, it is clear that BDC is playing its role to the fullest by actively contributing to the creation and growth of Canadian small and medium-sized businesses by acting as a first-rate development institution in their business. This role could involve helping entrepreneurs improve their positioning in new markets or offering business solutions enabling them to overcome the numerous challenges they face.

Determined to reinforce its commitment to clients in accordance with its mandate and prompted to adapt itself to changing business circumstances, BDC has in recent years decentralized its operations to reach out to more entrepreneurs than ever before. In addition, BDC has extended the range of services provided to smaller businesses in its 19 Entrepreneurship Centers throughout Canada. With its comprehensive knowledge of client needs, BDC has also designed innovative business solutions aimed at stimulating their productivity and maximizing the management of their business.

In fiscal 2005, BDC's client satisfaction rate reached 93%, the highest figure ever recorded, a tangible proof that BDC's client-driven solutions are yielding results. And the overall results for fiscal 2005 are excellent. BDC's net authorizations exceeded $2.3 billion – above the $2 billion mark for the third consecutive year – while the total value of loans outstanding topped $8 billion for the first time in BDC's history. What contributes to this success is not only the fact that these solutions are customized to fit the client's timely needs but that they are also offered through an efficient operational structure that helps BDC properly fulfill its mandate.

BDC: STRUCTURED AND COMMITTED TO MEET THE NEEDS OF ENTREPRENEURS

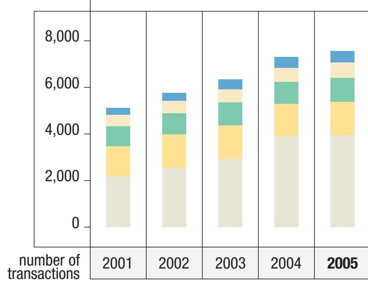
BDC is made up of the following five customer facing units to which BDC clients have access.

BDC Financing

In recent years, BDC has introduced a number of innovative financial products that continued to grow in popularity in fiscal 2005. **Co-Vision Loans** are designed to help start-up businesses obtain financing of up to $100,000 for working capital purposes. **Productivity Plus Loans**, not in excess of $5 million, are offered to finance new or used machinery to improve business productivity. **Innovation Financing**, of up to $250,000, provides working capital for early-stage and fast-growing businesses. In fiscal 2005, the financings authorized for these products grew significantly and contributed to BDC's overall financial performance. In fact, in fiscal 2005, the total amount authorized for the three business solutions combined increased by about 23%. Furthermore, BDC's role as a development institution for smaller businesses is clearly shown in the number of transactions of lending authorized where 71% of the loan transactions involved amounts of up to $250,000.

Lending Authorized – Classification by Size – Number Authorized

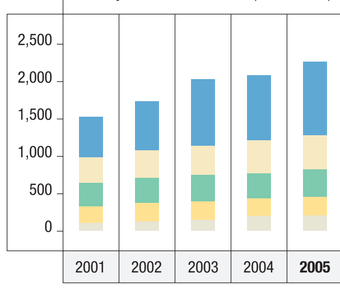
for the years ended March 31



	2001	2002	2003	2004	**2005**
$100,000 or less	2,203	2,574	2,944	3,919	**3,948**
Over $100,000 to $250,000	1,260	1,398	1,438	1,361	**1,424**
Over $250,000 to $500,000	877	918	962	940	**1,023**
Over $500,000 to $1,000,000	484	524	543	593	**650**
Over $1,000,000	278	329	439	455	**478**
Total	5,102	5,743	6,326	7,268	**7,523**

Lending Authorized – Classification by Size – Amount Authorized

for the years ended March 31 ($ in millions)



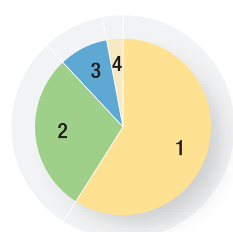
	2001	2002	2003	2004	**2005**
$100,000 or less	116	138	156	210	**216**
Over $100,000 to $250,000	219	247	247	235	**244**
Over $250,000 to $500,000	317	332	351	337	**370**
Over $500,000 to $1,000,000	343	373	390	435	**457**
Over $1,000,000	538	649	888	866	**980**
Total	1,533	1,739	2,032	2,083	**2,267**

BDC Venture Capital

In fiscal 2005, BDC Venture Capital had a record year in both the number and the value of transactions completed. However, the strategy of helping early-stage businesses commercialize their technological innovations is risky even though it is part of BDC's mandate to support these businesses at every stage of their growth. The early stage nature of BDC's venture capital portfolio, which makes divestment more difficult, combined with a high but normal rate of failing businesses led to consequent losses in fiscal 2005. Nonetheless, the injection of $250 million by the shareholder in fiscal 2005 will enable BDC Venture Capital to make new investments, particularly at the seed level and in venture capital funds to bring added support to the young but promising companies in its portfolio.

Number of Venture Capital Direct Investments Authorized – Classification by Stage of Development

for the year ended March 31, 2005

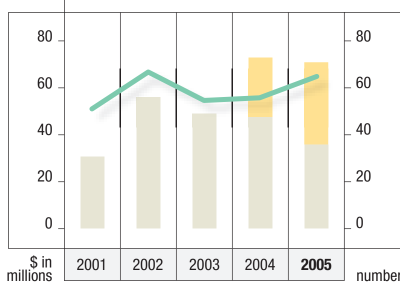


1	Start-up/Seed	**59%**
2	Development	**29%**
3	Expansion	**9%**
4	Turnaround	**3%**

BDC Subordinate Financing

Subordinate financing is a hybrid instrument incorporating elements of both debt financing and equity financing. It is offered to innovative and fast-growing businesses with promising market niches. Over the years, BDC has become a leader in subordinate financing transactions in Canada, from $250,000 to $5 million. In addition, the $300-million strategic alliance that BDC signed in fiscal 2004 with *Caisse de dépôt et placement du Québec* (CDP) reaffirmed BDC's preeminent position on the Canadian subordinate financing market. In fiscal 2005, BDC's total dollar value of subordinate financings authorized (including the CDP portion) totalled $72 million.

Subordinate Financing Authorized for the years ended March 31

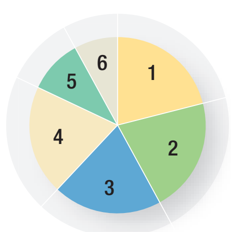


	2001	2002	2003	2004	**2005**
Amount - BDC portion	31	56	49	48	**36**
Amount - CDP portion	-	-	-	25	**36**
Number authorized	51	67	55	56	**66**

BDC Consulting

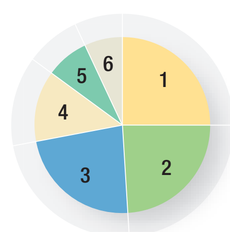
Consulting services represent an integral part of BDC's value-based client relationships and these services continued to be in high demand across the country in fiscal 2005 with about 3,000 consulting projects. All of the services offered by BDC Consulting rest on one main objective: to help maximize the management capabilities of Canadian entrepreneurs. In fiscal 2005, strategic/business planning made up a quarter of the total consulting revenues, slightly more than in fiscal 2004, whereas financial advice and operations management were among the top services in both fiscal 2004 and 2005. In addition, the services offered to clients by BDC Consulting are not only diversified, they also respond to client needs as shown by the excellent 86% client satisfaction rate for BDC Consulting services in fiscal 2005.

Consulting Revenues by Service Type
for the year ended March 31, 2004



1	Quality assurance	21%
2	Financial	21%
3	Strategic/business planning	20%
4	Operations management	20%
5	Human resources	10%
6	Marketing	8%

Consulting Revenues by Service Type
for the year ended March 31, 2005



1	Strategic/business planning	25%
2	Financial	24%
3	Operations management	23%
4	Quality assurance	13%
5	Marketing	8%
6	Human resources	7%

BDC Connex®

Clients of BDC Financing can use BDC Connex®, a secure Web site where they are offered secure access to their account information (debit notices, past payments and interest rates) and to effective business tools. BDC Connex also handles many alliances and partnerships. In fiscal 2005, more than 50% of the transactions processed by BDC Connex resulted from BDC partnership agreements with Community Futures Development Corporations (CFDCs).

BDC: STRENGTHENING ITS CLIENT CONNECTION

BDC makes a concerted effort to understand the characteristics and evolving needs of its clients. This knowledge forms the basis of BDC's approach to reaching new clients, maintaining value-added relationships with them and accompanying them during each stage of their development. This approach entails the following steps.

- Targeting (researching, understanding, prioritizing)
- Adopting a systematic and structured approach for reach and growth
- Ensuring that each interaction with BDC adds value to clients
- Tracking results and measuring successes
- Improving approaches and processes based on findings through on-going coaching

This comprehensive client-centric approach takes into account the specific needs of clients, their industry sector, market segment, place or region of business and entrepreneurial profile.

Women Entrepreneurs

Women-owned businesses have become a driving force behind Canada's economy. Acknowledging the fact that businesses managed by women are growing at twice the national average, BDC has significantly increased its lending commitment to women entrepreneurs over time. The part of BDC's portfolio that is dedicated to women-owned businesses has increased steadily to reach $1.6 billion in fiscal 2005. This comprises more than 5,500 businesses principally owned and controlled by women, twice as many as 10 years ago. BDC also created a $25-million quasi-equity fund in fiscal 2004 that is designed to increase the availability of financing for fast-growing women-owned businesses.

As at March 2005, BDC had already authorized $11.9 million of the $25 million fund for women in business. The majority of the projects financed provided capital to support expanding businesses. Other projects included financing management buyouts and intergenerational transfers of ownership.

In addition to financial support, BDC backs initiatives throughout Canada aimed at promoting women entrepreneurship, such as the Rotman Canadian Woman Entrepreneur of the Year Awards. During fiscal 2005, BDC actively contributed to creating the third Canadian chapter of the Women Presidents' Organization, a North American organization that brings together women entrepreneurs who run successful businesses.

Aboriginal Entrepreneurs

Aboriginal business clients are active in most sectors of the economy. Beyond BDC's lending to Aboriginal businesses, which experienced a significant increase during fiscal 2005, BDC was involved in many activities in the past year, such as the Aboriginal Business Development Fund that combines financing with management training and ongoing mentorship, consulting services including ISO certification and strategic planning, as well as presentations to Aboriginal entrepreneurs on how to approach lending institutions.

In fiscal 2005, the E-Spirit Aboriginal Youth Business Plan Competition was held for the fourth consecutive year and the winners were announced in May 2004. Since it was launched by BDC in 2001, this Internet-based initiative has enabled more than 2,000 Aboriginal students across Canada, from grades 10 to 12, to complete a business plan using online modules. This initiative underlines BDC's commitment to encouraging future Aboriginal entrepreneurs.

Social Economy

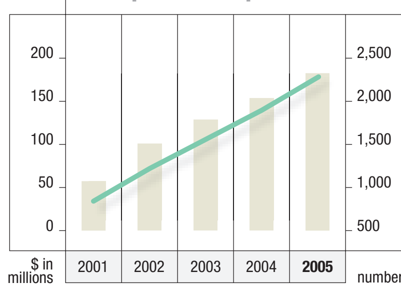
BDC provides financial support to social economy businesses, such as not-for-profit organizations and cooperatives. In order to increase its commitment to this emerging segment of the economy and in accordance with the federal government's objective of encouraging the development of the social economy, BDC is presently developing a new strategy for this target market that will be finalized during fiscal 2006.

BDC: WAYS AND MEANS TO SUPPORT CANADIAN ENTREPRENEURSHIP

Entrepreneurship Centers

More than 60% of BDC's financing portfolio is made up of loans of less than $250,000 and the 19 Entrepreneurship Centers established everywhere in Canada reaffirm BDC's commitment towards smaller businesses. The mission of Entrepreneurship Centers is to offer small businesses customized solutions, including innovative financing and sound consulting advice, to help them become more competitive in their target markets. In fiscal 2005, BDC's Market Impact Strategy, which offers mentoring programs to start-up businesses, was implemented in 10 Entrepreneurship Centers across Canada.

Entrepreneurship Center Authorizations for the years ended March 31



	2001	2002	2003	2004	**2005**
Amount	58	101	129	154	**183**
Number authorized	855	1,232	1,568	1,909	**2,293**

Strategic Partnerships

To take its mandate even further, BDC makes agreements with organizations that share similar objectives in regard to Canadian small and medium-sized businesses. During fiscal 2005, BDC partnered with Desjardins Group to create the *Chaire en gestion des produits dérivés* ("derivatives management chair") at *Université du Québec à Montréal* (UQÀM). This type of initiative is important for entrepreneurs who have to deal with fluctuations in exchange rates, interest rates and the price of raw materials on a daily basis. This Chair, for which BDC has earmarked $375,000 over five years, will help train specialists who will assist entrepreneurs in understanding and managing their financial risks better.

In 2005, BDC strengthened its partnership with CFDCs across Canada by signing many partnership agreements with these organizations. CFDCs and BDC share the same passion for small and medium-sized businesses and support the initiatives of entrepreneurs on a local and regional level.

Small Business Week®

2004 marked the 25th anniversary of Small Business Week®, an initiative that pays tribute to the accomplishments of Canadian entrepreneurs. Over the years, Small Business Week has become the annual event par excellence for Canadian entrepreneurs. The theme for 2004 was: "YOU'RE THE POWER behind the Canadian economy, let's share the energy!". With the co-operation of the Canadian Chamber of Commerce and the support of local and national partners, about 360 activities which gathered more than 20,000 people took place throughout the country between October 17 and 23, 2004.

Small Business Week also includes other initiatives, such as the Young Entrepreneur Awards and BDC Forum. The Young Entrepreneur Awards are given each year to young entrepreneurs between the ages of 19 and 35 to recognize their innovative spirit and business acumen, with one award assigned for each province and territory. The 2004 Young Entrepreneur Awards ceremony was held on October 19, 2004, in London, Ontario. On this occasion, three other prizes were also awarded: the Laurentian Bank Export Achievement Award, the Bell Creative Mind Award and BDC's Ongoing Achievement Award.

Winners of the 2004 Young Entrepreneur Awards were also invited to attend the 3rd edition of BDC Forum. During this one-day activity, young entrepreneurs had the opportunity to exchange ideas with BDC senior executives, distinguished academics and prominent business leaders. Winners were also offered information sessions by BDC Consulting professionals.

BDC Online

With BDC's Web site, Canadian entrepreneurs are only a few clicks away from a full spectrum of services, including business start-up advice, export financing and many other relevant topics. In addition, Web users may consult free of charge more than 100 articles in which they will find sound advice to help them maximize the management of their business. In fiscal 2005, more than one million visits were recorded on BDC's Web site.

***Profit$* Newspaper**

BDC's *Profit$* newspaper is published twice a year and distributed to entrepreneurs across the country. Each issue covers a different theme of interest to entrepreneurs, useful business tips and BDC client success stories. *Profit$* is intended for every industry sector, from manufacturing and tourism to knowledge-based businesses.

BDC: EMPLOYEES MAKE THE DIFFERENCE

BDC employees represent the soul of the organization and the main reason behind its success. In fiscal 2005, they responded to clients' requirements on a timely and efficient basis, and as such they strongly contributed to the outstanding client satisfaction rate of 93%. BDC understands that committed employees are a tremendous asset for the entire organization. Through its human resources strategies, BDC fosters employee engagement by ensuring continuous professional learning, promoting individual performance and developing leadership skills.

During fiscal 2005, BDC reaffirmed its core values through a consultative process that brought more than 1,200 employees out of a total of 1,400 to take part in 27 workshops held across Canada to express their views, concerns and recommendations. The high participation rate for this initiative is an indication of how much employees care about BDC's destiny. After some very stimulating discussions, consensus was reached on five core values: ethics; client connection; team spirit; accountability; and work/life balance.

These core values confirm what BDC is and what underlies its actions. These values also strengthen and enrich a unique organizational culture that has constantly reinvented itself for the past 60 years. The values that all BDC employees have in common also benefit clients because the business solutions provided to them are imbued with these values. In the final analysis, BDC's mandate is easier to carry out when it is based on sound and sustainable values that all employees share.

Atlantic Provinces

Atlantic Canada's economy continued to expand in 2004. Energy remained one of the principal industry sectors given the importance of oil and gas, as well as refined petroleum products and electric power production. Atlantic export of goods to Asia – particularly China where exports have grown tenfold in the last decade – totalled more than $1.2 billion in 2004 and were mostly made up of unprocessed fish products. Increases in the manufacturing sector combined with renewed strength in retail trade and housing also contributed to the overall growth.

MICHEL BOURRET
SENIOR VICE PRESIDENT, OPERATIONS
ATLANTIC AND QUEBEC REGION

Management	Branches	
Ross Miller Vice President and Area Manager Newfoundland and Labrador	Corner Brook Grand Falls	St. John's*
Craig Levangie Vice President and Area Manager Nova Scotia	Halifax* Sydney	Truro Yarmouth
Claude Paré Vice President and Area Manager New Brunswick and Prince Edward Island	Bathurst (N.B.) Charlottetown (P.E.I.) Edmundston (N.B.)	Fredericton (N.B.) Moncton* (N.B.) Saint John (N.B.)

* Location of Entrepreneurship Centers

Lending Authorized – Classification by Province
for the years ended March 31

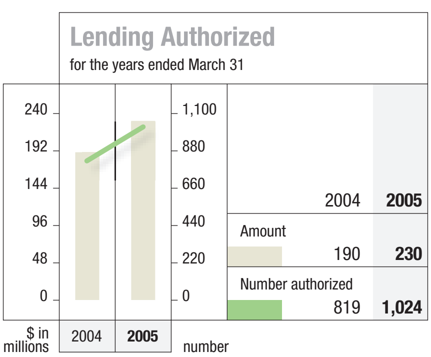
2005 Objectives: Number Authorized	2005 Objectives: Net amount ($000)		2005: Number Authorized	2005: Net amount ($000)	2004: Number Authorized	2004: Net amount ($000)
315	$ 85,000	Newfoundland and Labrador	**427**	**$ 84,494**	358	$ 85,979
25	8,500	Prince Edward Island	**23**	**6,461**	36	10,922
230	60,000	Nova Scotia	**240**	**55,937**	164	30,500
245	74,500	New Brunswick	**334**	**83,118**	261	62,543
815	$ 228,000	Total	**1,024**	**$ 230,010**	819	$ 189,944

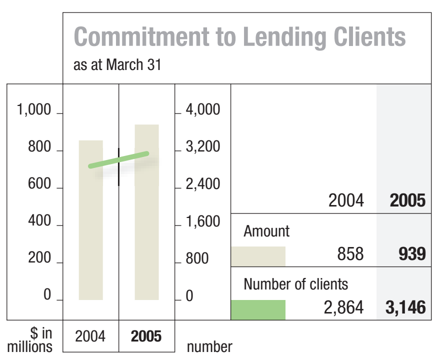
Commitment to Lending Clients – Classification by Province
as at March 31

2005 Objectives: Number of clients	2005 Objectives: Amount ($000)		2005: Number of clients	2005: Amount ($000)	2004: Number of clients	2004: Amount ($000)
1,315	$ 362,574	Newfoundland and Labrador	**1,300**	**$ 358,374**	1,147	$ 332,879
145	53,774	Prince Edward Island	**134**	**49,720**	137	50,441
715	202,184	Nova Scotia	**714**	**201,873**	648	177,313
1,005	331,868	New Brunswick	**998**	**329,441**	932	296,966
3,180	$ 950,400	Total	**3,146**	**$ 939,408**	2,864	$ 857,599

Consulting
for the years ended March 31

2005 Objective		2005	2004
$ 1,300	Revenue ($000)	**$ 1,886**	$ 1,369
n.a.	Percentage of repeat business served	**27%**	36%





Quebec

The Quebec economy grew by 2.2% in 2004. This increase in real GDP, although modest, was the result of a strong U.S. economy combined with robust domestic demand, particularly in the housing industry. In 2004, the housing market in Quebec increased by a staggering 15%. Even though the manufacturing sector posted excellent results in 2004, sharp declines in both the pharmaceutical and aircraft industries had a detrimental impact on total manufacturing output which was only up 0.4% compared to the previous year.

MICHEL BOURRET
SENIOR VICE PRESIDENT, OPERATIONS
ATLANTIC AND QUEBEC REGION

Management	Branches	
Liliane Blais Vice President and Area Manager Eastern Quebec	Chaudière-Appalaches Chicoutimi	Québec City* Rimouski
France de Gaspé Beaubien Vice President and Area Manager Southern Quebec	Drummondville	Longueuil*
Alain Gilbert Vice President and Area Manager Northern Quebec	Lower Laurentians/ Lanaudière	Laval* Rouyn-Noranda
Thierry Limoges Vice President and Area Manager Montréal	De Maisonneuve Place Ville Marie*	Saint-Léonard
Jean-Robert Lacasse Vice President and Area Manager Western Montréal	Pointe-Claire	Saint-Laurent*
France Bergeron Vice President and Area Manager Regional Quebec	Gatineau Saint-Jérôme	Sherbrooke Trois-Rivières

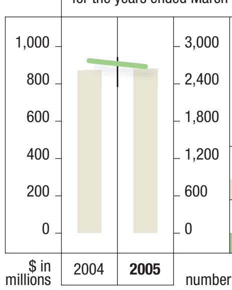
* Location of Entrepreneurship Centers

2005 Objectives		Lending Authorized for the years ended March 31	**2005**		2004	
Number Authorized	Net amount ($000)		**Number Authorized**	**Net amount ($000)**	Number Authorized	Net amount ($000)
2,430	$ 831,000	Quebec	**2,682**	**$ 881,979**	2,776	$ 873,830

2005 Objectives		Commitment to Lending Clients as at March 31	**2005**		2004	
Number of clients	Amount ($000)		**Number of clients**	**Amount ($000)**	Number of clients	Amount ($000)
8,427	$ 3,256,332	Quebec	**8,503**	**$ 3,558,014**	7,882	$ 3,310,462

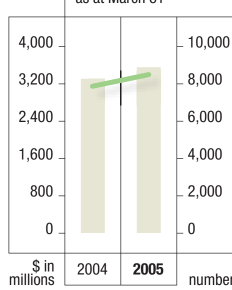
2005 Objective	Consulting for the years ended March 31	**2005**	2004
$ 7,900	Revenue ($000)	**$ 8,592**	$ 9,190
n.a.	Percentage of repeat business served	**52%**	59%

Lending Authorized
for the years ended March 31



	2004	**2005**
Amount	874	**882**
Number authorized	2,776	**2,682**

Commitment to Lending Clients
as at March 31



	2004	**2005**
Amount	3,310	**3,558**
Number of clients	7,882	**8,503**

Ontario

Exports increased by 3.6% in Ontario in 2004. These excellent results were mainly attributable to a 9.5% jump in automobile manufacturing. Unlike the trend observed in most other provinces, investment in residential structures grew by only 4.2%, which was half the national average. However, business investment in machinery and equipment rose sharply by 7.4%, a performance that may be explained by a strong Canadian dollar that made imports for these products more affordable.

JACQUES LEMOINE
SENIOR VICE PRESIDENT, OPERATIONS
ONTARIO REGION

Management	Branches	
Peter Lawler Vice President and Area Manager Eastern and Northern Ontario	Kingston	Ottawa*
Chuck Smith Vice President and District Manager Northern Ontario	North Bay Sault Ste. Marie Sudbury	Thunder Bay Timmins
Glen Ryter Vice President and District Manager Southern Ontario	London* Owen Sound	Stratford Windsor
Michel Leduc Vice President and Area Manager Toronto	Barrie Toronto*	Toronto Central Toronto North
Stéphane Bornais Vice President and Area Manager Toronto East	Durham Markham	Peterborough Scarborough*
Pat Ghany Vice President and Area Manager Mississauga	Brampton	Mississauga*
Kevin Dane Vice President and Area Manager Halton-Niagara	Halton* Hamilton	Kitchener St. Catharines

* Location of Entrepreneurship Centers

Lending Authorized

for the years ended March 31

2005 Objectives: Number Authorized	2005 Objectives: Net amount ($000)		2005: Number Authorized	2005: Net amount ($000)	2004: Number Authorized	2004: Net amount ($000)
2,212	$ 855,550	Ontario	**2,119**	**$ 707,500**	2,139	$ 681,374

Commitment to Lending Clients

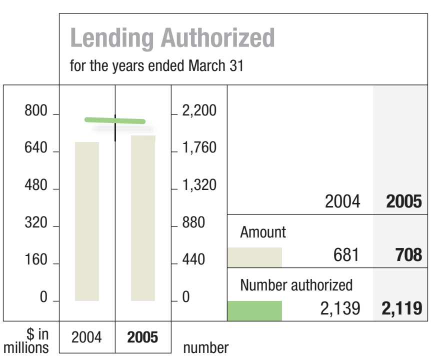
as at March 31

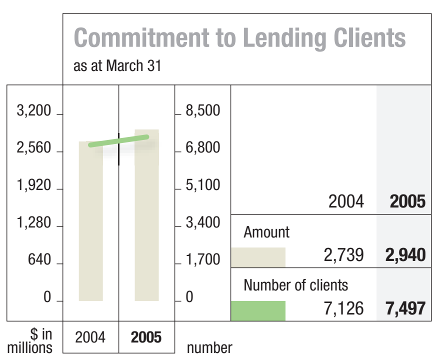
2005 Objectives: Number of clients	2005 Objectives: Amount ($000)		2005: Number of clients	2005: Amount ($000)	2004: Number of clients	2004: Amount ($000)
7,865	$ 3,084,277	Ontario	**7,497**	**$ 2,939,593**	7,126	$ 2,738,675

Consulting

for the years ended March 31

2005 Objective		2005	2004
$ 6,400	Revenue ($000)	**$ 4,789**	$ 6,052
n.a.	Percentage of repeat business served	**45%**	49%





Prairies, Northwest Territories and Nunavut

All Prairie provinces recorded excellent economic results in 2004. Manitoba's booming housing market and strong exports had a positive impact on employment. High energy prices and continued exploration and drilling activity in Alberta, as well as consistently high domestic and foreign demand for energy and potash in Saskatchewan, fueled the economies of these two provinces in 2004. Diamond mining continued to dominate the economy of the Northwest Territories this past year and had a significant impact in all sectors. Despite a depleting mining and oil and gas extraction industry, Nunavut's economy benefited from a 65% increase in non-residential construction, particularly in health care and school infrastructures.

Management	Branches	
Wellington Holbrook Vice President and Area Manager Manitoba and Saskatchewan	Brandon (Man.) Kenora (Ont.) Regina (Sask.)	Saskatoon (Sask.) Winnipeg* (Man.) Winnipeg West
Edward Straw Vice President and Area Manager Southern Alberta	Calgary (Alta.) Calgary North* (Alta.) Calgary South (Alta.)	Cranbrook (B.C.) Lethbridge (Alta.)
Steve Zink Vice President and Area Manager Northern Alberta and Northwest Territories	Edmonton* (Alta.) Edmonton South (Alta.) Fort St. John (B.C.)	Grande Prairie (Alta.) Red Deer (Alta.) Yellowknife (N.W.T.)

* Location of Entrepreneurship Centers

Lending Authorized – Classification by Province and Territory

for the years ended March 31

2005 Objectives Number Authorized	2005 Objectives Net amount ($000)		2005 Number Authorized	2005 Net amount ($000)	2004 Number Authorized	2004 Net amount ($000)
176	$ 39,300	Manitoba	**230**	**$ 55,917**	197	$ 40,320
132	29,850	Saskatchewan	**108**	**22,835**	89	19,039
616	152,500	Alberta	**549**	**178,158**	541	123,653
24	7,000	Northwest Territories and Nunavut	**23**	**6,436**	15	6,222
948	$ 228,650	Total	**910**	**$ 263,346**	842	$ 189,234

Commitment to Lending Clients – Classification by Province and Territory

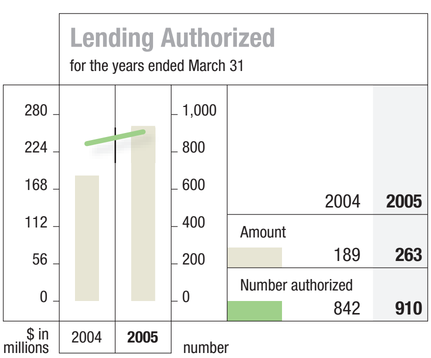
as at March 31

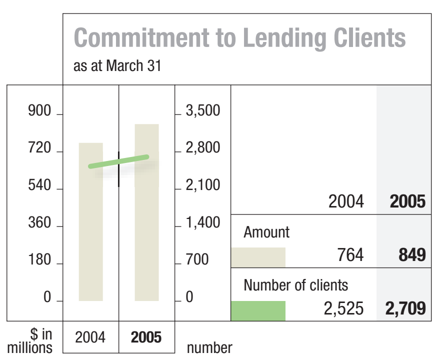
2005 Objectives Number of clients	2005 Objectives Amount ($000)		2005 Number of clients	2005 Amount ($000)	2004 Number of clients	2004 Amount ($000)
518	$ 145,534	Manitoba	**571**	**$ 160,307**	504	$ 131,671
471	115,674	Saskatchewan	**437**	**107,359**	452	111,045
1,612	540,101	Alberta	**1,636**	**548,233**	1,502	487,838
84	42,833	Northwest Territories and Nunavut	**65**	**33,243**	67	33,938
2,685	$ 844,142	Total	**2,709**	**$ 849,142**	2,525	$ 764,492

Consulting

for the years ended March 31

2005 Objective		2005	2004
$ 2,100	Revenue ($000)	**$ 2,183**	$ 1,911
n.a.	Percentage of repeat business served	**42%**	45%





British Columbia and Yukon

British Columbia's GDP went up 3.9% in 2004, the best performance among all Canadian provinces. Wood product manufacturing and residential building construction drove the provincial economy which was very strong. International imports grew by 10% while there was strong foreign demand for forestry and logging products, as well as mining products. Yukon's economy performed almost as well, with a 3.7% growth in 2004, the territory's best result in three years. The mining industry, particularly gold, led the way recording an impressive 70% increase. Other double-digit results included goods-producing industries with a 27% increase and government investment, which grew by 32%.

Management	Branches	
Scot Speiser Vice President and Area Manager B.C. North and Interior	Kamloops (B.C.) Kelowna* (B.C.) Prince George (B.C.)	Terrace (B.C.) Whitehorse (Y.T.)
Shirley Bennie Vice President and Area Manager Vancouver	Campbell River Langley Nanaimo North Vancouver	Surrey Vancouver* Victoria

* Location of Entrepreneurship Centers

Lending Authorized – Classification by Province and Territory

for the years ended March 31

2005 Objectives Number Authorized	2005 Objectives Net amount ($000)		2005 Number Authorized	2005 Net amount ($000)	2004 Number Authorized	2004 Net amount ($000)
771	$ 183,250	British Columbia	**768**	**$ 177,768**	675	$ 144,802
24	3,250	Yukon	**20**	**5,985**	17	3,463
795	$ 186,500	Total	**788**	**$ 183,753**	692	$ 148,265

Commitment to Lending Clients – Classification by Province and Territory

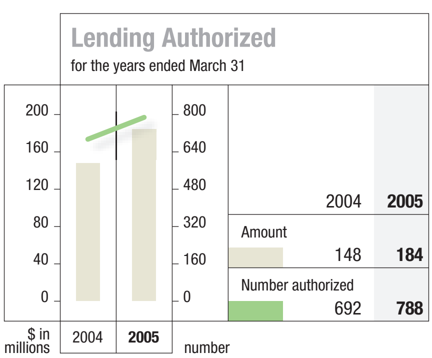
as at March 31

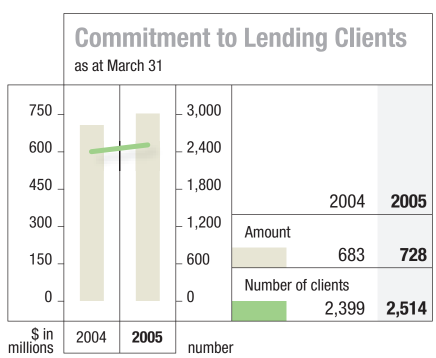
2005 Objectives Number of clients	2005 Objectives Amount ($000)		2005 Number of clients	2005 Amount ($000)	2004 Number of clients	2004 Amount ($000)
2,464	$ 713,564	British Columbia	**2,427**	**$ 702,760**	2,310	$ 660,998
79	23,021	Yukon	**87**	**25,229**	89	21,796
2,543	$ 736,585	Total	**2,514**	**$ 727,989**	2,399	$ 682,794

Consulting

for the years ended March 31

2005 Objective		2005	2004
$ 1,300	Revenue ($000)	**$ 1,474**	$ 1,484
n.a.	Percentage of repeat business served	**35%**	31%





Performance and Annual Objectives

The following table summarizes BDC's performance and objectives from 2004 through 2006. Each measurement is discussed in further detail under its appropriate heading.

BDC PERFORMANCE AND OBJECTIVES FROM FISCAL 2004 THROUGH 2006

Performance Measurements	F 2004 Actual	F 2005 Objectives	F 2005 Actual	F 2006 Objectives
Clients				
Client satisfaction	91%	89%	93%	89%
Employees				
Employee commitment	77%	77%	74%	78%
Efficiency				
Efficiency ratio	48.7%	47.4%	48.5%	47.4%
Financial sustainability				
Outstanding loans	$7.5 B	$8.2 B	$8.1 B	$8.8 B
Venture Capital 10-year IRR – Total investments	13.1%	10.0%	5.6%	6.3%
BDC Consulting revenues	$20.0 M	$19.0 M	$18.9 M	$21.0 M
ROE at least equal to government's average long-term cost of funds	5.1%	7.7%	9.7%	7.7%

Following is a discussion of BDC's actual performance as compared to its annual objectives, by performance driver.

CLIENTS

Corporate objective: To create a unique and valued relationship with Canadian entrepreneurs by supporting the creation of their businesses and accompanying their growth.

Performance Measurement	F 2004 Actual	F 2005 Objective	F 2005 Actual	F 2006 Objective
Client satisfaction	91%	89%	93%	89%

BDC's fiscal 2005 target client satisfaction rate was set at 89%, 2% lower than fiscal 2004 results. At the time it set the objective, BDC had decided to raise the risk profile of its portfolio during 2005 which would normally have resulted in higher average pricing of loans. Inasmuch as pricing is a driver of client satisfaction, BDC expected a negative reaction to higher pricing and, consequently, a lower client satisfaction level.

However, BDC was able to reach its loan objectives and increase its offering of higher risk solutions while maintaining a balance in its pricing. As a result, BDC's client satisfaction level rose to a higher level than expected.

IMPROVING SATISFACTION THROUGH STRONG CLIENT CONTACT

BDC is present in every region of Canada and its decision-making process is decentralized, enabling more than 95% of all loans to developing businesses to be authorized at the local or regional level.

COMMITTED TO LENDING CLIENTS / CLASSIFICATION BY PROVINCE OR TERRITORY

as at March 31	2005		2004	
	Number of clients	**Amount ($ in millions)**	Number of clients	Amount ($ in millions)
Newfoundland and Labrador	**1,300**	**$ 358**	1,147	$ 333
Prince Edward Island	**134**	**50**	137	50
Nova Scotia	**714**	**202**	648	177
New Brunswick	**998**	**330**	932	297
Quebec	**8,503**	**3,558**	7,882	3,310
Ontario	**7,497**	**2,940**	7,126	2,739
Manitoba	**571**	**160**	504	132
Saskatchewan	**437**	**107**	452	111
Alberta	**1,636**	**548**	1,502	488
Northwest Territories and Nunavut	**65**	**33**	67	34
British Columbia	**2,427**	**703**	2,310	661
Yukon	**87**	**25**	89	22
Total	**24,369**	**$ 9,014**	22,796	$ 8,354

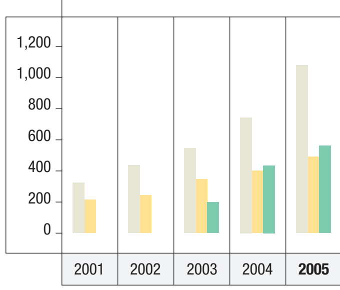
There are several possible reasons for this excellent client satisfaction rate achieved in fiscal 2005. Apart from its decentralized decision-making loan structure, BDC's business solutions significantly increased in fiscal 2005, which meant that they responded well to client needs. The flexibility of BDC's client-centric approach, which enables it to meet specific client requirements, also played a role in this 93% client satisfaction rate.

Furthermore, the signing of alliances between BDC and other partners has an impact on client satisfaction. For instance, in fiscal 2005, BDC signed many other partnership agreements with CFDCs across the country, which had the effect of strengthening support for the initiatives of entrepreneurs at the local and regional level. In addition, the client satisfaction rate for BDC Consulting clients reached an all-time high of 86% in fiscal 2005. Such a result combined with the overall 93% client satisfaction rate demonstrates that BDC clients are overwhelmingly satisfied with the services provided as a whole.

CLIENT-FOCUSED SOLUTIONS

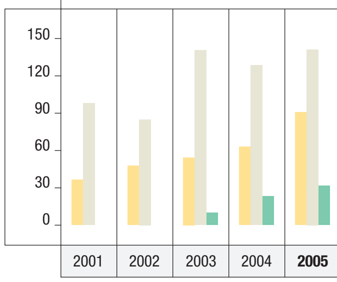
BDC Financing and BDC Venture Capital operations aim directly at filling the financing gaps in the developing business sector of the economy. For the fifth straight year, BDC increased the risk profile of its portfolio by continuing to focus on the small business market where it provides loans of under $250,000 that are often unsecured. In particular, BDC expanded the scope of Productivity Plus Loans (PPLs) and Innovation Financing over the past two years.

Net Authorizations – Number for the years ended March 31



	2001	2002	2003	2004	**2005**
Innovation Loans	326	436	549	745	**1,079**
PPLs	217	247	350	403	**493**
Co-Vision Loans	-	-	202	436	**562**

Net Authorizations – Amount for the years ended March 31 ($ in millions)



	2001	2002	2003	2004	**2005**
Innovation Loans	37	48	55	63	**91**
PPLs	98	85	141	129	**141**
Co-Vision Loans	-	-	11	24	**32**

Innovation Financing, of up to $250,000, provides working capital loans to finance growth and the development of innovation strategies. The Innovation Financing commitment outstanding increased by 30% to $193 million as at March 31, 2005. The total dollar value of Innovation Financing authorized increased to $91 million compared to $63 million in 2004.

Productivity Plus Loans (PPLs) provide financing to developing firms for new or used equipment and machinery that are geared to improve the productivity of the business. Loans are provided to a maximum of $5 million and include 100% financing to purchase equipment and tooling, to which a further 25% is added for costs related to installing and assembling the equipment, as well as training employees. The number of PPL financings authorized increased by 22% to 493 in fiscal 2005. The total dollar value increased to $141 million compared to $129 million in fiscal 2004.

Co-Vision Loans provide financing of up to $100,000 for start-up businesses that require working capital and new or used equipment. BDC increased the number of Co-Vision financings authorized by 29% to 562 in fiscal 2005. The total dollar value of these small-sized financings increased to $32 million compared to $24 million in fiscal 2004.

Term loans offer a larger percentage of asset financing extended over a longer term. Often a portion of the loan can be unsecured.

BDC Venture Capital addresses market gaps which hinder the creation and subsequent development of innovative technology businesses in Canada. It is structured as follows.

- The Technology Seed Investment Group
- Four internal specialized groups designed to fill the early-stage gap: Life Sciences, Information Technology, Telecommunications, and Advanced Technologies
- A fund-investing group set up to support private venture capital fund managers and to increase institutional investing

Subordinate Financing is a hybrid of equity and debt financing targeted at thriving, fast-growing businesses that do not have the tangible security required by traditional lenders. In fiscal 2004, BDC extended its reach in the subordinate financing market when it signed a $300-million strategic alliance with *Caisse de dépôt et placement du Québec* (CDP). Through the alliance, BDC offers subordinate financing to Canadian companies in amounts ranging from $250,000 to $10 million, with a focus on first-round financings of under $3 million. The BDC-CDP alliance participated in over 60 of these quasi-equity financings throughout Canada during fiscal 2005. BDC's total dollar value of subordinate financings authorized during fiscal 2005 (including CDP portion) totalled $72 million. The total commitment outstanding (including CDP portion) stood at $230 million as at March 31, 2005.

By increasing the availability of small-sized loans, venture capital investments to early-stage technology companies and subordinate financing to developing businesses, BDC is directly addressing the market gaps in accordance with its mandate. BDC increases client satisfaction by filling the financing void with higher risk, small-sized loans and equity investments that provide developing businesses with the opportunity to grow and succeed.

EMPLOYEES

Corporate objective: To foster a culture of engagement, learning and growth among its employees.

Performance Measurement	F 2004 Actual	F 2005 Objective	F 2005 Actual	F 2006 Objective
Employee commitment	77%	77%	74%	78%

At BDC, we believe there is a direct correlation between employee engagement, client satisfaction and business performance. The more engaged employees are with respect to BDC, the more likely they are to provide excellent service to the client, which in turn enables BDC to reach its corporate objective in that regard. Between fiscal 2001 and fiscal 2004, the rate of employee commitment rose from 63% to 77%. During the same period, client satisfaction rose from 88% to 91% and BDC loans outstanding rose in value from $5.4 billion to $7.5 billion.

During fiscal 2005, BDC employee commitment fell to 74% compared to 77% in fiscal 2004. As in past years, an analysis of these results is under way and action plans will address any relevant issues.

BDC systematically aligns human resource practices with business objectives. The Total Rewards program ensures better alignment of BDC compensation and benefits practices with the market, and improves BDC's ability to retain talent. Individual performance and contribution are increasingly recognized.

Through its Human Resources strategies, BDC strives to increase the level of engagement of employees by ensuring they are supported by high-calibre and effective leaders, and the right people management practices. Employees are encouraged to take greater ownership of their learning and professional development. Greater diversity and open and honest communications are highly valued. Listening and responding to what employees have to say is a part of BDC's culture.

High-calibre and effective leadership is a key element in the ability of the organization to support its employees. During fiscal 2005, BDC defined a set of leadership competencies that formed the basis of the leadership program. A pilot program for new leaders will be launched during fiscal 2006.

In fiscal 2005 BDC also launched an organization-wide initiative to engage the participation of all BDC employees in the reaffirmation of BDC's core values, which are: ethics, client connection, team spirit, accountability and work/life balance. BDC is committed to ensuring that all of its policies and programs are aligned with these core values.

EFFICIENCY

Corporate objective: To establish effective and efficient operating and administrative expenses to net interest income.

Performance Measurement	F 2004 Actual	F 2005 Objective	F 2005 Actual	F 2006 Objective
Efficiency ratio	48.7%	47.4%	48.5%	47.4%

BDC measures efficiency by its efficiency ratio, which is comprised of operating and administrative expenses compared to net interest income and other income. A lower ratio indicates better internal efficiency. BDC's efficiency ratio was 48.5% in fiscal 2005, compared to 48.7% in fiscal 2004 and higher than the target of 47.4%. While operating expenses were in line with objectives, net interest income and other income were reduced by lower than expected loan disbursements and higher than expected loan prepayments.

BDC is continuously seeking ways to increase efficiency and deliver quality services through enhanced internal processes. Over the past years, BDC has made significant improvements to its business development, loan authorization, disbursement and administration processes.

The new processes transferred decision-making to the branch level, and have optimized BDC's responsiveness to local market needs and individual client requirements. The gains made since that time are concrete.

- 95% of all loans are now authorized at the regional level
- Three to four days per week are now dedicated to developing new relationships with prospective clients
- Loan administration streamlining has allowed for greater time and flexibility for account managers to build solid relationships with their clients
- Significant volume gains have been realized per account manager in terms of both numbers and dollars

BDC continues to seek ways to reach more developing businesses across the country, to supplement its small business network and to leverage its resources. BDC's partnerships with more than 150 CFDCs are a good example of how BDC is extending its reach in a promising target market. The fact that BDC and CFDCs share the same objectives towards SMEs contributes greatly to supporting the initiatives of entrepreneurs at the local and regional level.

BDC Connex – BDC's "virtual" branch – is now used to handle many alliances and partnerships, as well as for businesses that choose to apply for BDC services using channels different from the formal network. In fiscal 2005, BDC Connex processed over 200 transactions valued at $28 million (net). More than 50% of these transactions resulted from BDC partnerships with CFDCs.

During fiscal 2005, BDC completed the development and implementation of its Customer Relationship Evolving Manager (CREM), an information systems tool that allows for more accurate information on prospects and clients. CREM enhances BDC's understanding of market segments and the needs of prospects and clients and enables BDC to be more systematic and efficient in dealing with them. With CREM, BDC is able to refine its service offerings and improve working relationships between branch staff and professionals in their interaction with clients. CREM will be fully deployed in 2006-2007.

A benchmark of BDC Information Technology capabilities was performed during fiscal 2005. The conclusion of this assessment is that BDC's current systems meet BDC's business requirements and the quality of services provided contributes to a high degree of satisfaction among internal users. By helping BDC employees, consultants and clients interact more effectively, BDC's systems and its Web portals have contributed to stronger relationships with the client and a more effective ability to respond to clients' needs.

FINANCIAL SUSTAINABILITY

Corporate Objective: To be profitable in order to grow while fulfilling BDC's public policy mandate.

Performance Measurements	F 2004 Actual	F 2005 Objectives	F 2005 Actual	F 2006 Objectives
Outstanding loans	$7.5 B	$8.2 B	$8.1 B	$8.8 B
Efficiency ratio	48.7%	47.4%	48.5%	47.4%
Venture Capital 10-year IRR – Total investments	13.1%	10.0%	5.6%	6.3%
BDC Consulting revenues	$20.0 M	$19.0 M	$18.9 M	$21.0 M
ROE at least equal to government's average long-term cost of funds	5.1%	7.7%	9.7%	7.7%

Each of the above performance measures will be discussed in detail under the appropriate heading in the financial results discussion that follows on page 35 of Management's Discussion and Analysis (MD&A).

However, before analyzing each performance measure, it is important to understand the integrated risk management structure that BDC has put in place to ensure responsible achievement of these objectives.

Integrated Risk Management

BDC has adopted Integrated Risk Management policies and procedures to support its financial sustainability.

Sound risk management practices are designed to help BDC achieve its objectives and execute its strategies consistent with its mandate. BDC has well-established processes for evaluating and managing its business risks. Overall business risks are grouped into three risk categories: credit, market and operational. BDC considers all of its business risks on an integrated basis when making key operating decisions. For example, last year Board and Management approved a market strategy to support the growth of mid-sized Canadian businesses. The analysis leading to and supporting the formulation of this strategy was conducted in the context of an assessment of the impact that such a market strategy could have on BDC's mandate, business model, capital adequacy and its human resources capabilities. Board and Management concluded that the risks were identified and mitigated and that sufficient controls were in place to implement the strategy. At BDC, Risk Management is integrated into strategic and corporate planning through a well-defined structure and clear accountability.

RISK MANAGEMENT STRUCTURE AND RESPONSIBILITIES

Board of Directors

- Approve broad risk policy concepts, risk appetite and strategies
- Ensure risk management and control framework is effective
- Review portfolio and major risks and management plans
- Review capital adequacy

Senior Management Team

- Establish risk and control framework
- Identify, assess, mitigate, measure and report risk
- Identify major risks and implement appropriate action plans
- Recommend risk management policies and strategies
- Identify risk owners and responsibilities and allocate resources

Asset and Liability Committee	Credit and Investment Committee	Strategic Business Council	Portfolio Outlook
Oversee Treasury funding activities and compliance with the Treasury Risk Policy, including matching of assets and liabilities	Review and approve large loan and investment transactions or recommend them to BDC's Credit and Investment Committee of the Board	Define target markets and gaps. Integrate management of projects affecting credit risk management and operations	Review loans portfolio concentrations, risk migration, overall risk assessment and quality and recommend actions

AUDIT AND INSPECTION

- Review branches and corporate units for compliance with policies and procedures

BOARD OF DIRECTORS

Through the annual Corporate Plan exercise and its annual strategic review, the Board of Directors is involved in the assessment of BDC's top business risks and can voice its opinion on Management's plans to mitigate and address these risks. Management reports to the Board on a quarterly basis on progress made in the action plans.

In addition, the Board receives regular risk reports from Management about BDC's exposure to emerging risks. The Integrated Risk and Portfolio Management Group, which reports directly to the Executive Vice President, Integrated Risk and Technology Management, coordinates these activities. It also manages the loan portfolio and determines BDC's asset and liability positions, thus supporting risk management of key operational groups such as Loans, Venture Capital, Credit Risk Management, Treasury and others.

SENIOR MANAGEMENT

The Senior Management Team is responsible for managing all risks. Each year, identification of business risks is reassessed through the Business Functional Unit Plan. Each unit is responsible for identifying the risks associated with achieving its objectives and running the business. These risks are compiled into a Corporate Integrated Risk Management Plan and Management identifies the top risks for BDC. The Board reviews these risks along with the action plan.

ASSET AND LIABILITY COMMITTEE

The Asset and Liability Committee, which includes senior officers of BDC's risk management function, periodically reviews the policies governing credit, market and liquidity risks related to BDC's treasury operations. The Committee's policies are approved by the Board and ensure financial risks are responsibly managed to safeguard BDC's capital. These policies comply with Canada's Department of Finance's financial risk management guidelines and industry best practices.

CREDIT AND INVESTMENT COMMITTEE

This committee meets on a regular basis to review and approve large loans and investments. The assessment of business risks includes the evaluation of the client's risk rating level, stage of development, management capabilities, the purpose of the proposed transaction, product, service offering, the security provided, the flexibility of the proposed solution and the markets in which the client operates.

STRATEGIC BUSINESS COUNCIL

BDC's Strategic Business Council regularly reviews the relationship between marketplace gaps, client needs, business solutions, risk appetite and credit risk assessment tools. Market strategies are enhanced or revised as required to more flexibly meet the needs of clients and BDC's risk objectives.Therefore, the Council performs a risk integration role at the market strategy level, before any implementation has been done.

PORTFOLIO OUTLOOK

On a quarterly basis, Management holds a Portfolio Outlook meeting to oversee loans portfolio trends, risk indicators, concentrations, portfolio studies and loan quality assessments. Reports reviewed and decisions recommended form the basis of Management's actions and information for the Board. The Portfolio Outlook Committee performs a loans portfolio risk integration role.

AUDIT AND INSPECTION

BDC's Audit and Inspection team reviews branches and their loans portfolios for credit risk and compliance with policies and procedures in support of BDC objectives. Seventy percent of branches reviewed received the highest rating.

It also reviews corporate units such as Systems and Technology for compliance with policies and procedures.

CATEGORIES OF RISK AT BDC

The Board and Management determine the top risks facing BDC on an annual basis. There are three broad categories of risk: Credit Risk, Market Risk and Operational Risk.

Credit Risk is the risk of financial loss that arises from the possibility of default on a loan.

Market Risk is incurred in BDC's Treasury operations and in BDC Venture Capital investing activities.

Operational Risk is the risk of potential losses arising from day-to-day errors caused by people, processes or systems, or from rare but severe events, such as natural disasters.

These categories of risk will be discussed in greater detail in the MD&A.

Management's Discussion and Analysis of Financial Results

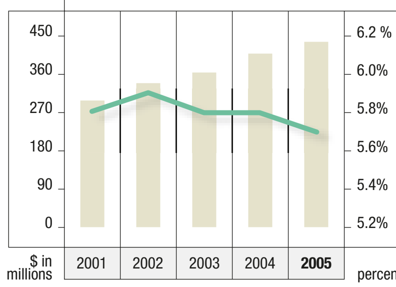
Caution Regarding Forward-Looking Statements. This section is based on Management's best estimates. Risks and uncertainties may cause actual results to differ materially from these estimates. Some of the factors that could cause such differences include general economic and market conditions, such as interest rates and currency values and the performance of venture capital investments.

Performance Measurement	F 2004 Actual	F 2005 Objective	F 2005 Actual	F 2006 Objective
Outstanding loans	$7.5 B	$8.2 B	$8.1 B	$8.8 B

The robust Canadian economy contributed to excellent financial results from BDC loan operations, with a record net income of $172.5 million in fiscal 2005, an increase of $80 million from fiscal 2004. A healthy and growing loans portfolio generated net interest and other income (NII) of $441 million, compared to $411 million in fiscal 2004. The on-going strength of the economy also continues to have a beneficial impact on the credit performance of the loans portfolio. Consequently the provision for credit losses was reduced from $118 million in 2004 to $54 million in the current year. The $64 million reduction in the provision for credit losses contributed significantly to increasing net profit in 2005.

Including BDC's 50% share of the BDC-CDP alliance for subordinate loan financing, the loans portfolio increased to $8.1 billion at March 31, 2005 from $7.5 billion at March 31, 2004. Portfolio growth is the result of disbursements of new loans, less principal repayments and write-offs.

Loan Operations Net Interest and Other Income
for the years ended March 31

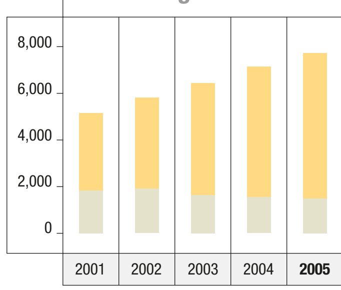


	2001	2002	2003	2004	2005
Net interest and other income (amount)	302	341	369	411	**441**
As a percentage of average portfolio (%)	5.8	5.9	5.8	5.8	**5.7**

Loans are granted to clients at either fixed or floating interest rates, at the client's option. Rates charged to clients are based on BDC's cost of funds, plus a risk factor on individual loans. The cost of funds is determined by BDC's cost of borrowing from global capital markets and the Canadian money market, which is closely monitored by BDC to manage borrowing terms and debt maturities with the maturities of lending transactions.

As at March 31, 2005, $6.2 billion of performing loans produced interest income at floating rates averaging 6.9% compared to a portfolio of $5.5 billion at rates averaging 6.7% in March 2004. The remaining $1.6 billion earned fixed rates averaging 7.8% compared to $1.6 billion at 8.2% the previous year. During fiscal 2005, interest rates generally declined on the market, and those lower rates are reflected in BDC's interest income and interest expense. However, the NII expressed as a percentage of the average portfolio was at 5.7%, slightly below the 5.8% level in 2004.

Performing Loan Portfolio as at March 31 ($ in millions)



	2001	2002	2003	2004	2005
Fixed rate portfolio	1,857	1,949	1,658	1,585	**1,590**
Floating rate portfolio	3,283	3,854	4,783	5,560	**6,161**
Total performing portfolio	5,140	5,803	6,441	7,145	**7,751**

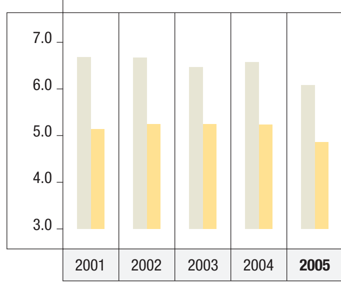
Net interest and other income must be sufficient to cover the provision for loan losses, the operating and administrative expenses, and must generate enough profit net of dividends paid to the shareholder to increase BDC's capital base through retained earnings. This capital base allows BDC to support increased future lending activities and to maintain the necessary capital-to-asset ratio, as prescribed by guidelines of the Government of Canada.

ALLOWANCE AND PROVISION FOR CREDIT LOSSES

BDC's mandate is to support Canadian entrepreneurs to start and grow their businesses. This means taking risk, as no loan is risk-free. The 2005-2009 Corporate Plan furthered the importance of Co-Vision Loans, Productivity Plus Loans (PPLs) and Innovation Financing specifically designed to support start-up, early-stage development and growth businesses. Businesses in these stages are high risk and consequently have shown higher loan loss rates than longer established enterprises. Part of the business model surrounding Co-Vision, PPL and Innovation Financing products involves reducing the amount of security required to cover possible loan losses. The probability of losses on these products is therefore greater than the mere traditional asset-backed loans.

BDC maintains its cumulative allowance for credit losses at a prudent level that reflects its long-term loss experience. The allowance of $483 million at March 2005 compared to $488 million in the previous year, and representing 6.0% of the March 2005 portfolio versus 6.5% in March 2004, reflects a better than anticipated credit performance due to a continuous strong economic cycle.

Allowance for Credit Losses as at March 31 (percentage)



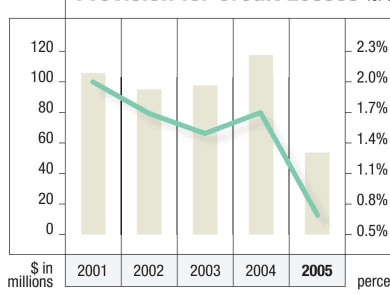
	2001	2002	2003	2004	**2005**
Total allowance as a % of total loans outstanding	6.6	6.6	6.4	6.5	**6.0**
General allowance as a % of performing loans outstanding	5.1	5.2	5.2	5.2	**4.8**

The cumulative allowance comprises a specific allowance of $111 million, covering the net exposure from identified impaired loans and a general allowance of $372 million. The general allowance represents the embedded losses that are present in the portfolio at March 31, but which cannot yet be specifically assigned to individual loans. As a result of the strong economic conditions and the favourable credit performance of the portfolio in fiscal 2005, no additional general provision has been taken in fiscal 2005. This has the effect of maintaining the cumulative general allowance at $372 million (the same amount as last year), while reducing the general allowance to 4.8% of the performing portfolio of $7.8 billion, compared to 5.2% in fiscal 2004.

Loan write-offs are charged to the specific allowance. In fiscal 2005, $61 million in loans were written off, versus $65 million in fiscal 2004.

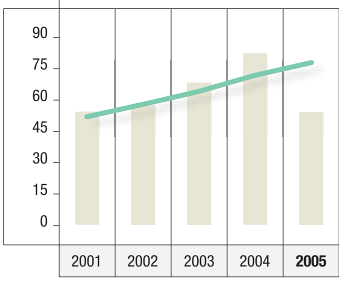
The total allowance, net of write-offs, is the cumulative result of the annual provisions for credit losses charged to operating results. The provision was $54 million in fiscal 2005, versus $118 million in fiscal 2004, compared to $140 million which had been projected in the 2005-2009 Corporate Plan.

Provision for Credit Losses for the years ended March 31

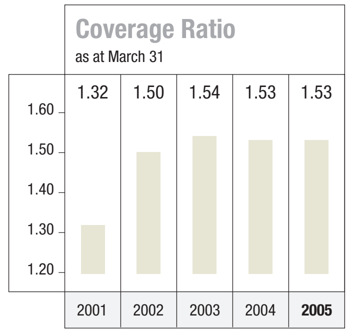


	2001	2002	2003	2004	**2005**
Provision for credit losses ($ in millions)	106	95	98	118	**54**
As a percentage of average loan portfolio (%)	2.0	1.7	1.5	1.7	**0.7**

Specific Provision for Credit Losses for the years ended March 31 ($ in millions)



	2001	2002	2003	2004	2005
Specific provision for credit losses	54	57	68	82	**54**
Average portfolio	5,194	5,749	6,402	7,136	**7,757**



LOANS PORTFOLIO RISK MANAGEMENT

***Loan Credit Risk** is the risk of financial loss that arises from the possibility of default on a loan*. BDC's mandate requires it to lend to a high-risk segment of the Canadian commercial loan sector. As the portfolio comprises a disproportionately large volume of small loans, it is not possible to attribute ratings of independent credit agencies. Thus credit decisions are based on the application of BDC's credit experience with similar customers. Policies and procedures, together with risk assessment tools, support these business decisions. All loans are assessed within a risk-rating framework that is closely linked to a risk-pricing tool. The risk rating provides the basis for understanding the degree of risk in our underwriting, and management of all loans in the portfolio. Reports are routinely provided to Management and the Board. Underwriting decisions are decentralized and subject to independent review and audit. All BDC managers across Canada are trained to assess overall credit risk.

***Loans Portfolio Concentration Risk** is the risk of several loans or borrowers in the same segment defaulting at the same time*. Within the domestic Canadian economy, BDC's loans portfolio is well diversified – geographically, by industry sector and by stage of development.

***Environmental Risk** is the risk of a financial loss resulting from a loan with an environmental hazard, including those that were unforeseen or improperly managed.* BDC has a well-defined process for identifying and evaluating environmental risk at the time of authorization of a loan and a monitoring process to ensure that potential environmental risks continue to be identified and appropriately managed throughout the term of a loan.

LOANS PORTFOLIO MANAGEMENT

A portfolio management system provides BDC with weekly information on five key risk indicators for new loans and nine portfolio performance indicators. The system allows Management to quickly identify trends. Risk indicators are broken down by industry, geographic sector, business solution, loan size, loan purpose or any combination thereof. Exception reports enable Management to focus attention on corrective action as required. This system is cutting-edge in terms of risk management best practices, which allows BDC to take on risk in line with its mission.

PORTFOLIO STRATEGIES

The Portfolio Outlook Committee analyzes data and recommends portfolio strategies. Comprised of representatives from different areas of BDC, including field operations, marketing, portfolio risk management and credit risk management, the Committee ensures a balanced and integrated view of both market and risk strategies.

LOAN IMPAIRMENT

A special loans group manages accounts which are impaired or at risk of becoming impaired due to adverse market conditions. Impaired loans amounted to $315 million as at March 31, 2005, compared to $320 million a year ago. The specific allowance for credit losses of $111 million is considered to be sufficient to cover the net loss exposure of these loans.

OPERATING AND ADMINISTRATIVE EXPENSES

Performance Measurement	F 2004 Actual	F 2005 Objective	F 2005 Actual	F 2006 Objective
Efficiency ratio	48.7%	47.4%	48.5%	47.4%

Loan operating and administrative expenses of $214 million were $14 million higher than the $200 million recorded in fiscal 2004. The increase was due to higher staff levels, increased pensioner costs, and ongoing investments in both information technologies and BDC's branch network. Salary and benefits represented 59% of the operating and administrative expenses, consistent with prior years.

BDC's pension expense for its defined benefit plans is determined actuarially and is significantly influenced by the assumptions that are used to determine the expense. These include the discount rate applied to future liabilities, the expected rate of return on fund assets, inflation rates and other factors.

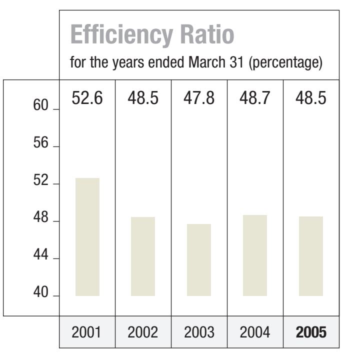
The pension expense declined slightly in fiscal 2005 to $4.4 million, as the realized gains on the pension fund assets in fiscal 2004 reduced the effect of the cumulative losses of prior years. This expense will increase in fiscal 2006, as the rate used to discount future liabilities has been reduced from 6.25% to 6.0%. The lower the interest rate used the higher the cost of the future liability. The rate of the expected return on assets has also been reduced from 7.25% to 7.0%.

The charge for other benefits, which includes the cost of post employment benefits to pensioners increased during the year to $7.1 million from $5.8 million in fiscal 2004, as the effects of higher health care costs and the effect of the lower interest rate used in the actuarial projection pushed up the cost.

BDC's systems and technology costs (including salaries and benefits, equipment and other costs) amounted to $25 million in fiscal 2005, a $2-million increase from fiscal 2004. BDC completed several major projects in 2004 and 2005, including its Customer Relationship Evolving Manager (CREM) application, two business information data marts, and upgrades to human resources and accounting software. The result was a $3.1-million increase in the amortization expense for the year.

Premises and equipment for loan operations of $31 million include the lease expense for all of BDC's operations across the country, such as the branch network. BDC's goal is to bring business and credit decisions closer to the client, and these expenses demonstrate BDC's commitment to a pan-Canadian presence.

During fiscal 2005, BDC expanded, relocated or renovated 10 offices across the country, and opened a new branch in Chaudière-Appalaches, Quebec.



Other expenses of $56 million are comprised of staff training, publicity, marketing and miscellaneous office expenses. These costs are subject to internal controls and are closely monitored. Efficiency and productivity at BDC are measured by the efficiency ratio, which compares operating expenses to net interest and other income, with a lower ratio indicating better efficiency. For fiscal 2005, the efficiency ratio improved to 48.5% from 48.7% in 2004. Notwithstanding increased efficiency, BDC's clients expressed their satisfaction with the calibre of BDC services by improving the client satisfaction rating to a record high level of 93% versus 91% in 2004.

PENSION SUMMARY

Registered pension plan funding requirements are determined by the *Pension Benefits Standards Act* of 1985 and related regulations, while funding limits are defined in the *Income Tax Act* and regulations. Employer and employee contributions to the BDC Registered Pension Plan (RPP) have been suspended since 1994 and 1997 respectively due to funding surpluses. In July 2005, employee contributions to BDC's RPP will be reinstated on a gradual basis, with full contributions beginning in July 2007. At December 2004, the RPP had a *funding deficit* due largely to the discount rate used to determine the cost of future liabilities and consequently employer contributions will be made in fiscal 2006.

During calendar 2004, the RPP surplus for *accounting* purposes decreased from $43 million to $24 million. The latest actuarial projections show that the RPP accounting cost will increase from $4.4 million in fiscal 2005 to $5.7 million in fiscal 2006 as a result of a reduction in the discount rate used to determine the accounting cost of future liabilities, and a reduction in the expected rate of return on the fund's assets.

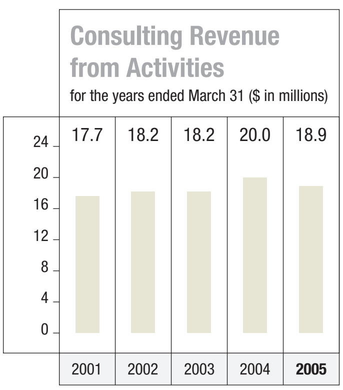
The supplemental pension plans are largely non-funded and the actuarial accounting deficit of these plans was $36 million at December 2004. Funding of these plans is currently under consideration and may be introduced in the future.

CONSULTING OPERATIONS

Performance Measurement	F 2004 Actual	F 2005 Objective	F 2005 Actual	F 2006 Objective
BDC Consulting revenue	$20.0 M	$19.0 M	$18.9 M	$21.0 M

BDC Consulting offers a comprehensive range of unique business solutions to support the innovation, productivity and operational efficiency of Canadian small and medium-sized businesses and entrepreneurs.

For the year ended March 31, 2005, BDC Consulting operations recorded $18.9 million in revenue, in line with the 2005 target, but $1.1 million lower than last year. However, compared to fiscal 2004, operating and administrative expenses were $1.3 million favourable; consequently, the net loss for fiscal 2005 was reduced by $0.2 million i.e., from $3.1 million to $2.9 million.



As BDC's client base expands, its integrated approach to client relationship management should facilitate a proportionate growth in consulting services. Measures have been included in the 2006-2010 Corporate Plan to strengthen BDC Consulting and to increase consulting support to developing businesses in Canada. Consequently, revenue is expected to increase gradually to the $25-million range by 2010. Net income is expected to remain close to breakeven as consulting operations grow over the next five years.

The demand for BDC services is directly related to those issues which are of interest or present an opportunity for developing businesses in Canada – particularly those with limited financial and human resources. Employees from BDC's consulting and lending operations review clients' needs to ensure their financial and knowledge requirements are appropriately serviced. For many developing businesses, BDC Consulting is the most reliable and focused national source of supply of such services, which are billed to clients at market rates.

VENTURE CAPITAL OPERATIONS

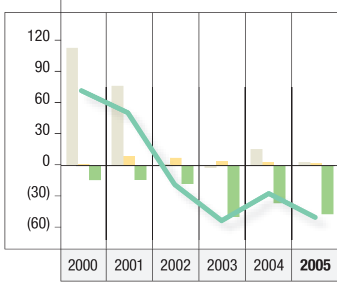
BDC's public policy mandate is to support Canadian entrepreneurship by providing financial and consulting services. In carrying out its activities, BDC must give particular consideration to the needs of small and medium-sized developing businesses. Part of BDC's mandate is therefore to fill market gaps created by a lack of high-risk and small-sized financing sources in the Canadian market. As an alternative to high-risk lending, BDC Venture Capital addresses the high-risk, small-sized financing gap by taking equity positions in developing businesses.

Performance Measurement	F 2004 Actual	F 2005 Objective	F 2005 Actual	F 2006 Objective
Venture Capital 10-year IRR – Total investments	13.1%	10.0%	5.6%	6.3%

Venture Capital operations reported a loss of $56 million for the fiscal year ending March 31, 2005 compared to a loss of $30 million for the same 12-month period in 2004. A persistent lack of divestiture opportunities in both years constrained investment income to $4.7 million in 2005 versus $17.6 million in 2004. Meanwhile the write-down of investments suffering permanent impairment amounted to $47 million in 2005 compared to write-downs of $37 million in fiscal 2004.

The financial results from BDC Venture Capital undertakings are therefore volatile and dependent on both the success of individual investments, and prevailing market conditions. Divestiture opportunities in particular are dependent on market conditions for takeovers or initial public offerings (IPOs). The IPO market and takeover activity have been very limited for the last three years and continue to lag, which has significantly affected BDC's 10-year internal rate of return. The accompanying chart illustrates the extreme volatility of the profitability of BDC Venture Capital operations. During fiscal 2000 and fiscal 2001, BDC Venture Capital operations recorded profits of $80 million and $56 million respectively; however, since then market conditions have resulted in operating losses in each of the past four years.

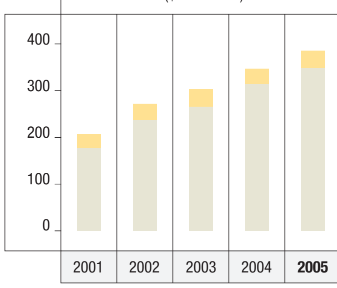
Venture Capital Operations for the years ended March 31 ($ in millions)



	2000	2001	2002	2003	2004	**2005**
Net gains (losses) on investments	112.7	75.8	1.7	(1.9)	14.9	**3.1**
Other income	1.6	8.4	7.0	4.0	2.7	**1.6**
Write-down of investments	(14.7)	(13.3)	(18.9)	(50.0)	(36.8)	**(47.4)**
Venture Capital operating profit (loss)	80.0	56.2	(21.0)	(59.5)	(30.3)	**(56.1)**

BDC's public policy mandate and providing service and support to developing companies mean that BDC continues to meet the demand for its services and make equity investments in start-up and developing companies, despite the downturn in the market.

Venture Capital – Total Investments Outstanding
as at March 31 ($ in millions)

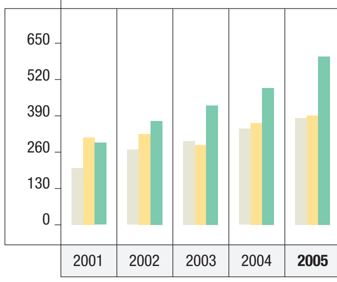


	2001	2002	2003	2004	**2005**
Direct investments	178	237	265	314	**348**
Venture funds	28	34	37	32	**36**
Total investments +	206	271	302	346	**384**

BDC has played a leadership role in the Canadian venture capital marketplace, authorizing 78 direct investments valued at $118 million in 2005, compared to 68 direct investments valued at $87 million in 2004. The direct investments authorized in fiscal 2005 included $22 million in technology seed investments compared to $8 million in fiscal 2004 to assist these embryonic businesses to reach the commercialization stage. In addition, $25 million were committed during fiscal 2005 to third-party venture capital funds.

Valuation of Venture Capital – Total Investments

as at March 31 ($ in millions)



	2001	2002	2003	2004	**2005**
Carrying value	206	271	302	346	**384**
Fair market value	314	327	288	366	**393**
Commitment	296	374	430	491	**604**

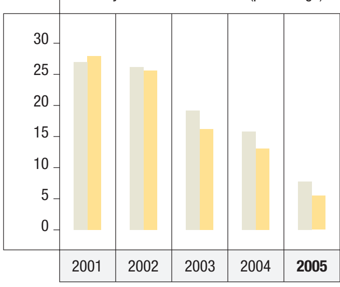
Venture capital investing is by nature a high-risk operation and a significant proportion of investments will not be successful and will be written off – frequently within a relatively short timeframe. Conversely, the rewards from successful investments can be high, although the divestiture opportunities of such success stories may take significantly longer to realize – invariably beyond BDC's five-year planning horizon.

Internal rate of return (IRR) is an industry standard performance measure used by BDC and other venture capital investors to measure the relative performance of their investment portfolios. IRR is the rate at which the present value of the cash flows from the portfolio equals the cost of the original investment and it is also assumed that the estimated fair value of the portfolio assets at year-end will ultimately be realized. BDC uses a 10-year moving IRR.

As a result of the loss, BDC Venture Capital's overall IRR, including both direct and indirect investments, fell to 5.6% as at March 31, 2005 compared to 13.1% in fiscal 2004 and BDC's fiscal 2005 target IRR of 10%. BDC's 10-year internal rate of return on direct investments during fiscal 2005 was 7.9% versus an IRR on direct investments of 15.9% at March 31, 2004. The chart below illustrates the impact of the operating losses and depressed market values on the IRR. The profits in 2000 and 2001 offset the losses in more recent years, and without them the returns would be reduced, as illustrated in the forward-looking 5-year IRR chart below.

Venture Capital 10-year Internal Rate of Return

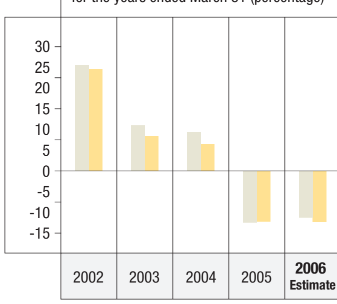
for the years ended March 31 (percentage)



	2001	2002	2003	2004	**2005**
Direct investments	26.9	26.1	19.2	15.9	**7.9**
Total investments	27.9	25.6	16.3	13.1	**5.6**

Venture Capital 5-year Internal Rate of Return

for the years ended March 31 (percentage)



	2002	2003	2004	2005	**2006 Estimate**
Direct investments	25.6	11.0	9.5	(12.2)	**(11.0)**
Total investments	24.7	8.6	6.7	(12.0)	**(12.1)**

Compared to the early stage venture capital industry in Canada, as compiled by Canada's Venture Capital and Private Equity Association (CVCA), BDC's Venture Capital performance compares favourably with the industry as a whole.

IRR Comparison of Early Stage Venture Capital Market as at December 31, 2004

	BDC Performance	Industry Performance*
1-Year	(7.6%)	(5.0%)
5-Year	(2.2%)	(6.5%)
10-Year	7.3%	1.4%

*Source: CVCA
IRRs are calculated on a monthly basis

BDC's 2005-2009 Corporate Plan projected an operating loss from venture capital operations of $5 million for fiscal 2005. Actual losses of $56 million were disappointing, as the predicted recovery in markets did not materialize. In this context, BDC Venture Capital assumed the complementary role it is asked to play and took on a proportionately greater share of Canada's venture capital investments, continuing to support Canadian businesses despite the unfavourable environment. However, new investing activity levels continue to be strong, which augurs well for future years when market conditions finally return to more normal levels and successful investments reach maturity.

Demand for BDC Venture Capital funds is expected to increase steadily in fiscal 2006 and beyond as BDC sets out to productively leverage the $250-million venture capital injection received from the shareholder in fiscal 2005. Direct investment authorizations are projected to be $113 million in 2006 and BDC will also expand its activity in specialized funds.

MARKET RISK – VENTURE CAPITAL RISK MANAGEMENT

As mentioned above, venture capital investments are innately high risk. The return on the investment portfolio depends on the divestitures of successful investments, which are realizable privately or through transactions on public financial markets that depend on equity prices.

BDC mitigates the risks of venture capital investments by undertaking a detailed due diligence process prior to executing the transaction. Due diligence focuses on the product, on management and the markets in which the company operates. BDC investigates a company's products and/or services before investing, and favours breakthrough technology platform products which demonstrate uniqueness or have clear advantages over existing solutions. BDC also assesses the experience, expertise and commitment of management, as these factors are key in understanding the risk of a venture capital investment. Finally, BDC studies the size and dynamics of the market in which the target company is operating, as well as any competition that might exist or that may develop in the foreseeable future. Where it is deemed to be prudent, BDC hires external resources to independently validate any or all aspects of BDC's own due diligence efforts.

BDC attempts to further lower the risk of its venture capital investments by applying conservative valuations, syndicating most of its investments with external venture capital funds and through regular monitoring. BDC divests its holdings on a phased basis, taking into account market conditions in order to avoid disturbing the market.

VENTURE CAPITAL PORTFOLIO MANAGEMENT

In such a fast-moving and high-risk sector as venture capital, it is vital for BDC to periodically evaluate the position and market impact of investee companies in its venture capital portfolio. On average, BDC has five companies per investment director in its portfolio. Acknowledging the importance of closely monitoring the activities of investees, BDC has set up semi-annual updates on each investee and a semi-annual review of investees carrying values. Both processes are reviewed by a team within the Senior Management Team.

ACCOUNTING POLICY CHANGE FOR VENTURE CAPITAL OPERATIONS

In fiscal 2006, pursuant to new Canadian GAAP requirements, it is intended to prospectively adopt CICA Accounting Guideline 18 (AcG-18) for BDC Venture Capital operations, which will require the incorporation of a separate legal entity. Consequently, venture capital activities will be valued at fair value rather than cost. Accordingly it can be expected that the financial results of BDC Venture Capital investments will in future fluctuate in line with prevailing market conditions, which could be volatile. The change will be applied prospectively and the impact in fiscal 2006 cannot be calculated at this time, as the income effect will be dependent on future market values.

OPERATIONAL RISK

***Operational Risk** is the risk of potential losses arising from day-to-day errors caused by people, processes or systems, or from rare but severe events, such as natural disasters*. BDC has well-defined internal control systems and processes in place for its business transactions. A comprehensive set of policies and procedures governs information processing, loan operations, human resources management and other key operational functions. BDC's review of its top risks includes action plans intended to govern operational risks.

BDC has a comprehensive business recovery planning process to ensure continuity of its key business functions in case of disaster, and continues to review and improve its contingency planning.

BDC manages the risks associated with technology and telecommunications failures through programs for replacement of computer systems and equipment. Security and control procedures are in place to respect privacy standards and to ensure that information is managed accurately and efficiently, and these are tested regularly to ensure reliability.

Written-off accounts are reviewed and any operational risks associated with loan operations are identified. From a compilation of these risks, internal control procedures can be modified if necessary.

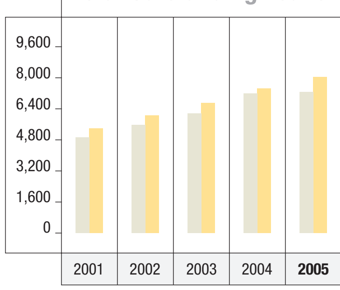
BALANCE SHEET

BDC's total assets increased by $636 million in fiscal 2005 to $9.4 billion, which is mainly attributable to the $643-million increase in the net portfolios.

BDC must operate within government-established liquidity parameters to ensure that sufficient funds are available to meet customer needs, and maintain appropriate cash and capital balances for operations. Cash, short-term investments and securities at year-end totalled $903 million, compared to $865 million as at March 31, 2004.

BDC's principal assets are its net loans and venture capital portfolios, and its liquidity assets. At March 31, 2005, these assets totalled $8.9 billion, funded by borrowings of $7.3 billion and shareholder's equity of $1.6 billion. Included in shareholder's equity are $250 million of new common shares, issued to BDC's shareholder in January 2005. Net portfolios increased by $0.6 billion. This growth in the portfolios was mostly funded by $250 million of new common shares, a $0.1-billion increase in borrowings and $0.1-billion increase in retained earnings.

Total Outstanding Loans vs Borrowings as at March 31 ($ in millions)



	2001	2002	2003	2004	**2005**
Borrowings	4,949	5,597	6,174	7,181	**7,288**
Loans	5,412	6,071	6,721	7,465	**8,066**

Fixed assets of $41 million are comprised of furniture, leasehold improvements and capitalized information technology investments, net of appropriate amortization.

Unrealized gains and amounts receivable on derivative related assets of $449 million and pension-related assets make up the balance of BDC's remaining assets. Unrealized losses and amounts payable on derivative-related liabilities of $229 million and other liabilities of $139 million, which are primarily related to pension, make up the remainder of BDC's liabilities.

Total shareholder's equity at March 31, 2005 was $1,569 million, including the $250-million increase in common shares and the $101 million increase in retained earnings, net of dividends declared. BDC pays dividends on both its common and preferred shares that are outstanding at year-end. Preferred share dividends are declared based on predetermined per share rates. The common share dividend is payable only on those shares issued after fiscal 2002, and is declared based on a payout ratio of BDC's annual profit.

For the ninth consecutive year, BDC declared a dividend payable to its shareholder. The total amount in fiscal 2005 was $12.3 million, i.e., $9.0 million on preferred shares and $3.3 million on common shares based on BDC's fiscal 2004 performance. As at March 31, 2005, a total of $81 million in dividends has been paid to the shareholder since fiscal 1997.

In addition, based on BDC's 2005 performance, a $7.8-million common dividend was declared after March 31, 2005, which will be paid and recorded in fiscal 2006.

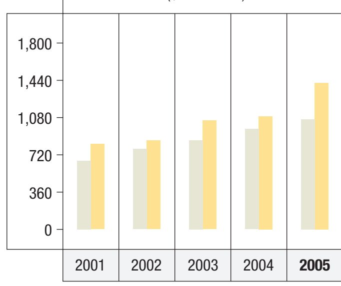
BDC's regulatory capital is the amount of capital necessary to support its various loan and investment products as prescribed by the Government of Canada. These capital adequacy amounts are calculated based on the following loan/investment to capital ratio.

- Commercial lending 10:1
- Subordinate Financing 4:1
- Venture Capital 1:1

The graph below shows that BDC operates within its capital adequacy guidelines.

Capital Adequacy

as at March 31 ($ in millions)



	2001	2002	2003	2004	**2005**
Regulatory	740	869	962	1,083	**1,182**
Actual	923	960	1,170	1,219	**1,570**

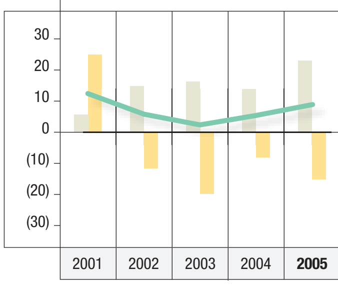
For the year ended March 31, 2005, BDC operated within all the statutory limits stipulated in the *Business Development Bank of Canada Act*. The debt-to-equity ratio was 4.6:1, significantly under the required statutory limit of 12:1.

RETURN ON COMMON EQUITY

Performance Measurement	F 2004 Actual	F 2005 Objective	F 2005 Actual	F 2006 Objective
ROE at least equal to government's average long-term cost of funds	5.1%	7.7%	9.7%	7.7%

The return on common equity in fiscal 2005 was strong, increasing to 9.7% from the 5.1% recorded in fiscal 2004. The increase was created by the strong results in loan operations, partially offset by venture capital losses. The return on equity for Loans and Consulting operations, calculated on a stand-alone basis, was 23.3% for fiscal 2005 versus 14.1% in fiscal 2004.

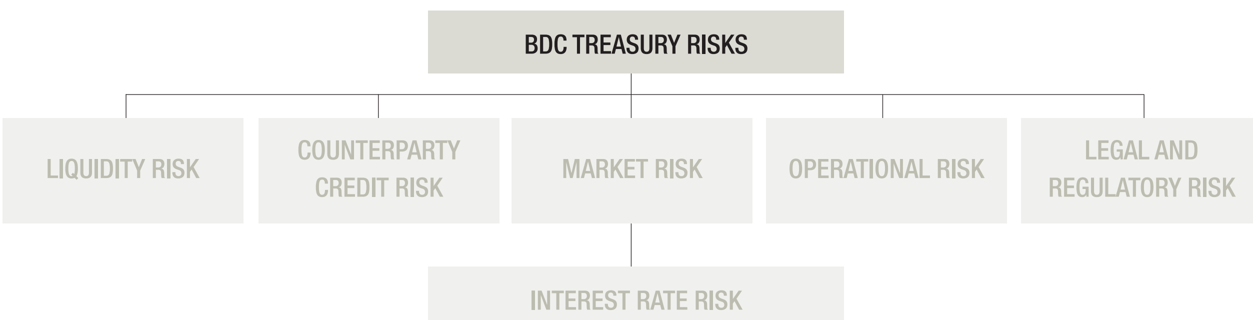
Return on Common Equity for the years ended March 31 (percentage)



	2001	2002	2003	2004	**2005**
Loans and Consulting	5.5	15.1	16.5	14.1	**23.3**
Venture Capital	25.2	(11.6)	(19.9)	(8.1)	**(14.9)**
Total BDC	12.6	5.7	2.5	5.1	**9.7**

TREASURY RISK MANAGEMENT

***Treasury Risks** are market risks arising from the funding of BDC's balance sheet and operations*. The Treasury Risk Framework at BDC provides for identification, measurement, control and mitigation of treasury risks, which include liquidity risk, market risk, credit risk, operational risk and legal/regulatory risk.



***Liquidity Risk** is the risk that BDC would be unable to honour all contractual cash outflows as they become due.*

BDC's Treasury operations' primary responsibility with liquidity management is to ensure that BDC has the capacity to meet its payment obligations on a timely and cost-effective basis. BDC has a well-defined liquidity and investment management policy, which includes liquidity limits that are monitored daily by the Treasury Risk Management Unit. BDC's policy also provides clear guidelines for issuing institutions, all of which are rated above A-. This ensures that BDC's short-term investments are placed in liquid assets in order to be accessible when needed. In addition, at least 75% of short-term investments are to be invested within a term of three months. As at March 31, 2005, 84% of BDC's liquidity investments were to mature within three months.

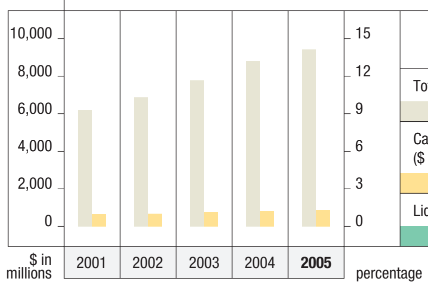
RISK EXPOSURE IN CASH, SHORT-TERM INVESTMENTS AND SECURITIES

as at March 31, 2005 ($ in millions)

	Term to maturity		
Credit Rating*	Less than 3 months	3 months to 1 year	1 to 5 years
AAA	0	0.0	0
AA- to AA+	494.2	14.0	131.5
A to A+	262.8	0.0	0
Total	757.0	14.0	131.5

* From major credit agencies

Liquidity Ratio as at March 31



	2001	2002	2003	2004	**2005**
Total assets ($ in millions)	6,226	6,897	7,791	8,809	**9,445**
Cash, short-term investments and securities ($ in millions)	674	715	794	865	**903**
Liquidity ratio (%)	11	10	10	10	**10**

***Market Risk** is the risk that the value of assets, liabilities or other financial instruments will vary because of adverse changes in market conditions, resulting in losses for BDC.*

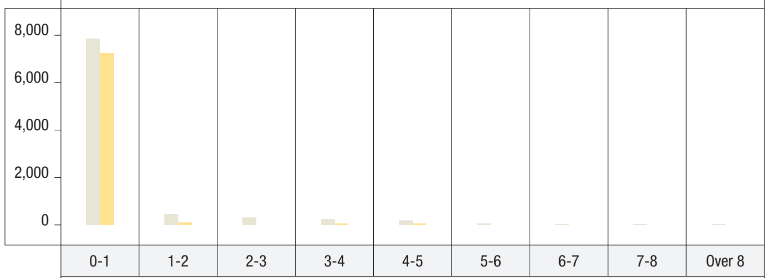
BDC funds its operations by issuing commercial paper and mid to long-term notes. BDC is permitted by law to issue debt in the domestic and foreign markets, under various types of currencies and structures, as long as the exposure to the currencies are hedged in Canadian dollars and the underlying instruments to the structure are swapped into Canadian floating or fixed interest rates. All hedging transactions are completed with approved high-quality counterparties.

***Interest Rate Risk** is the risk that market interest rate fluctuations lead to a loss in the value of financial instruments.*

An asset/liability mismatch occurs when the terms of BDC's interest-rate-sensitive liabilities are not matched with the terms of its interest-rate-sensitive assets. BDC uses borrowing strategies and derivative instruments to manage the gaps. The following graph shows the asset/liability position as at March 31, 2005, after taking into account derivative transactions.

Interest Rate Sensitivity Asset and Liability Gap

as at March 31, 2005 ($ in millions)



years	0-1	1-2	2-3	3-4	4-5	5-6	6-7	7-8	Over 8
Assets*	7,644	454	294	231	184	42	31	24	40
Liabilities	7,328	90	0	50	50	0	0	0	0

* Before allowance for credit losses

The Treasury Market Risk Management Policy provides guidance for the proactive management of market risk exposure arising from potential adverse movements in interest rates. The purpose of the policy is to minimize the impact of these variations on net interest income and BDC's economic value. Latitudes have been set on the sensitivity of the net interest income projected over the next 12 months when subject to a parallel movement of the Canadian yield curve of 200 basis points. Adequate asset/liability matching is also achieved by targeting the duration of BDC's equity.

Issuer/Counterparty Risk *is the risk of a possible downgrade of the credit worthiness of a counterparty or its possible default resulting in a loss in the value of outstanding instruments and contractual obligations with this counterparty.*

To adequately mitigate the credit risk inherent in Treasury activities, the Treasury Risk Management Unit (TRMU) identifies and measures the current credit risk exposure with issuers and derivative counterparties. The TRMU also ensures that BDC enters into prescribed derivative transactions with counterparties of an acceptable credit rating, with whom an International Swaps and Derivatives Association (ISDA) Master Agreement is duly signed. The ISDA agreement also includes a Credit Support Annex which defines a limit over which a collateral transfer is required from the counterparty to bring back the value of its credit risk exposure under the threshold amount. Finally, the TRMU ensures the liquidity portfolio is composed of securities issued or guaranteed by entities of acceptable credit rating.

COUNTERPARTY CREDIT RISK EXPOSURE

as at March 31, 2005 ($ in millions)

	Term to maturity						
	Gross exposure						
Credit Rating*	Less than 3 months	3 months to 1 year	1 to 5 years	Gross exposure	Netting agreements**	Collateral held	Net exposure
AAA	0.0	0.0	0.0	0.0	0.0	0.0	0.0
AA- to AA+	5.0	44.0	174.3	223.3	(77.7)	(79.4)	66.2
A to A+	24.2	27.1	67.2	118.5	(47.9)	(52.0)	18.6
Total	29.2	71.1	241.5	341.8	(125.6)	(131.4)	84.8

* From major credit agencies.

** Impact of master netting agreements.

Operational Risk *is the risk of losses resulting from inadequate internal systems and communications devices, lack of controls and sound processes, fraud, human error or external events.*

Although the occurrence of this risk may never be fully eliminated, Treasury limits the severity of operational risk by adopting procedures and controls for daily operational management of treasury operations, for the settlement and accounting of every transaction, and for the maintenance of systems supporting treasury activities.

Legal and Regulatory Risk *arises when transacting with a counterparty lacking the legal or regulatory authority to engage in a transaction, when adverse changes in legislation affect the value of a set of transactions or because of non-existent or inappropriate derivatives documentation (ISDA Master Agreement).*

CORPORATE PLAN DISCUSSION

Comparison with Fiscal 2005 Plan

New loan authorizations of $2.3 billion were on target and met the Plan's objectives, but the loans portfolio of $8.1 billion at year-end was slightly lower than the objective level of $8.2 billion because actual disbursements were slower than anticipated, and loan prepayments were higher than normal, reflecting the strength of the economy. Consequently the net interest income and other income generated by the portfolio was $441 million, $14 million lower than planned.

Net income from loans of $173 million was significantly better than the Plan's $105 million, as the provision for loan losses came in at $54 million versus a Plan level of $140 million, reflecting the good credit performance of the portfolio in the strong economy, while operating and administrative expenses of $214 million were slightly higher than planned. The productivity ratio of 48.5% was therefore higher than the objective of 47.4%, due to the combination of lower net interest income and other income and higher operating expenses.

Offsetting the strong profit performance from Loan operations, Venture Capital fell short of its Plan objectives with a loss of $56 million compared to the planned loss of $5 million, due to market conditions – a persistent lack of divestiture opportunities produced income of $4.7 million versus the Plan's $30 million, while write-downs of $47 million exceeded the Plan level of $20 million. However, the level of direct investment activities was higher than planned, with 78 deals authorized for $118 million versus $102 million in the Plan.

The consolidated net income of $113 million was better than the $97-million objective in the Corporate Plan. In line with the Corporate Plan, BDC will be paying a total dividend of $16.8 million to its shareholder, including a $7.8-million common dividend based on fiscal 2005 performance that was declared after March 31, 2005.

2006 Corporate Plan Outlook

The 2006 Corporate Plan projects a steady demand for BDC services, and a growth in the loans portfolio to $8.8 billion. The Corporate Plan anticipated net interest income of $473 million, but the operating budget anticipates a slightly lower revenue figure of $470 million. The Corporate Plan projected a return to normal levels of loan losses, with a provision for loan losses of $136 million. The budget follows this return to normalcy, but at a level of $128 million. The net income from loans in the operating budget is $117 million, versus the 2005 actual of $173 million.

Operating and administrative expenses of $225 million will increase commensurate to the volume increase, mainly as a result of the recruitment of additional staff to maintain the high rate of customer satisfaction.

The 2006 Corporate Plan projected a return to profitability of BDC Venture Capital, with investment income of $59 million, write-downs of $40 million and a profit of $5 million. It is now evident that in 2006, BDC Venture Capital will continue to experience a lack of divestiture opportunities, the revised outlook for investment income has been reduced to a $20-million level. Potential write-downs of $35 million will generate a loss of $30 million, a better result than the loss of $56 million in 2005, but less than the Corporate Plan.

Venture Capital activity levels will remain strong, with $113 million of direct investments, plus an $85-million additional commitment to venture capital funds.Consequently, the portfolio will increase from $384 million to $419 million in 2006, and as market conditions improve in subsequent years, and when successful investments reach maturity, the Corporate Plan anticipates a return to profitability.

BDC anticipates that dividends payable to the shareholder will be approximately $17 million in 2006.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

BDC's accounting policies are summarized in Note 2 of the Audited Financial Statements. The policies discussed below are considered to be significant as they can materially impact the financial results and require that Management make certain decisions based on assumptions and estimates which reflect information available at the date of the financial statements. BDC has established internal control procedures, including formal representations and certification by senior officers, to ensure that operating and accounting policies are applied consistently to *fairly present* the financial results. At BDC, critical accounting estimates include the allowance for loan losses, the write-down of venture capital investments that have suffered permanent impairment, and the estimate of fair value of venture capital investments. Assumptions made for pension and other benefit plans are detailed in the **Employee Future Benefits** Note 19 to the financial statements.

General Allowance for Credit Losses

The loans portfolio at year-end contains loans which have suffered impairment but which cannot be identified or measured on an individual loan basis at that time. Management judgement is necessary to determine the magnitude of the probability of default, the loss in the event of default and the amount potentially recoverable from any underlying security on such loans. To the maximum extent possible, exercise of such judgement is mitigated by modelling the potential migration of loans from performing to impaired, taking into account long-term loss experience, changes in economic conditions, and assessments of credit at the time of loan authorization.

BDC's General Allowance is maintained at a prudently conservative level in recognition of the relatively high-risk profile of its lending activities under its mandate.

Write-downs of Venture Capital Investments

Equity investments in early-stage and entrepreneurial enterprises involve a significantly high degree of risk, and constitute much of BDC's Venture Capital activities. When such an enterprise is unsuccessful and suffers permanent impairment it is necessary to write down the value of BDC's investment. The success of individual enterprises is influenced by a number of factors including the prevailing economic circumstances and is reviewed in detail by BDC management during the year and at year-end to determine whether each individual investment has experienced permanent impairment. In unfavourable economic times, investment income from venture capital investments may also suffer from a shortage of opportunity for the divestiture of successful mature investments.

Fair Value Estimates for Venture Capital Investments

Venture capital investments are carried at cost in fiscal 2005, and the fair value of those investments is reported in Note 8 to the financial statements. ***Note: In future fiscal periods the Accounting Policy will change and such investments will be valued at fair value, with changes in fair value from year to year being brought into income.*** The calculation of the Internal Rate of Return (IRR) includes the fair value estimate at year-end, and the estimate of future IRR is materially dependent on the estimates of fair values in future fiscal periods.

NEW ACCOUNTING POLICIES

Accounting Guideline 13

On April 1, 2004, BDC prospectively adopted Accounting Guideline 13 (AcG-13) that establishes certain qualifying conditions for the use of hedge accounting, that are more stringent and formalized than under prior standards. The new accounting standards require reporting entities to recognize derivative financial instruments on the balance sheet at their fair value with changes in fair value reflected in net income, unless the derivative financial instrument is hedging exposures as specified in the new accounting standards. Substantially all of the hedging relationships established by BDC meet these new requirements that specify when hedge accounting can be used. The effect on BDC's results for the year ended March 31, 2005 is not significant.

Asset Retirement Obligations

Effective April 1, 2004, BDC adopted *CICA Section 3110, Asset Retirement Obligations*. This standard requires the recognition of liabilities for the legal obligations related to the retirement of tangible long-lived assets, such as fixed and leased assets. The effect on BDC's Financial Statements of adopting this standard was not significant.

Generally Accepted Accounting Principles (GAAP)

Effective April 1, 2004, BDC adopted *CICA Section 1100, Generally Accepted Accounting Principles*. This standard stipulates the primary and other sources of GAAP to use when selecting accounting policies and determining appropriate disclosures in financial statements. Adoption of this standard had no significant effect on BDC's financial statements.

FUTURE ACCOUNTING CHANGES

Venture Capital Investments

In fiscal 2006, BDC intends to prospectively apply Accounting Guideline 18 (AcG-18). This guideline requires investment companies to carry investments at fair value and present them on this basis in its financial statements. Changes in the fair value of the investments will be taken into income. Fair value is considered to be the amount two willing third parties would agree upon in an arm's length transaction. If these changes had been applied in fiscal 2005, the effect on BDC's 2005 results would have been a combined $9.5 million gain resulting from the initial implementation of the standard and the fair market value adjustment for the year.

Financial Instruments, Hedges and Comprehensive Income

The CICA has issued three new accounting standards.
Section 3855, Financial Instruments – Recognition and Measurement
Section 3865, Hedges
Section 1530, Comprehensive Income

These standards must be adopted by BDC in April 2007 at the latest. These pronouncements establish standards for the recognition and measurement of financial instruments. BDC is currently assessing the impact of these standards. Detailed information on the effects of these changes can be found in Note 3 of the March 31, 2005 financial statements.

Management's Responsibility for Financial Information

The financial statements of the Business Development Bank of Canada were prepared and presented by Management in accordance with Canadian generally accepted accounting principles on a basis consistent with that of the preceding year, except for the changes in accounting policies adopted in the current year as explained in Note 3 to the financial statements. The information contained therein normally includes amounts requiring estimations which have been made based upon informed judgement as to the expected results of current transactions and events. The financial information presented elsewhere in this annual report is consistent with the financial statements.

In discharging its responsibility for the integrity, fairness and quality of the financial statements and for the accounting systems from which they are derived, Management maintains a system of internal control designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal control is augmented by audit and inspection staff who conduct periodic reviews of different aspects of the Bank's operations. In addition, the Vice President, Audit and Inspection and the independent auditors have full and free access to the Audit Committee of the Board of Directors which is responsible for overseeing and reviewing Management's internal control and reporting responsibilities. The Board of Directors, through the Audit Committee which is comprised of Directors who are not employees of the Bank, is responsible for reviewing and approving the audited annual financial statements.

The Bank's independent auditors, KPMG LLP, Chartered Accountants and the Auditor General of Canada have audited the Bank's financial statements and their report indicates the scope of their audit and their opinion on the financial statements.

André Bourdeau
Acting President and Chief Executive Officer

Alan B. Marquis
Senior Vice President, Finance
and Chief Financial Officer

Montréal, Canada
May 20, 2005

Auditors' Report

To the Minister of Industry:

We have audited the balance sheet of the Business Development Bank of Canada as at March 31, 2005 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Bank's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Bank as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied, except for the changes in accounting policies adopted in the current year as explained in Note 3 to the financial statements, on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Bank that have come to our notice during our audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Business Development Bank of Canada Act* and the by-laws of the Bank.

KPMG LLP
Chartered Accountants

Montréal, Canada
May 20, 2005

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
May 20, 2005

BALANCE SHEET

as at March 31 ($ in thousands)

	2005	2004
ASSETS		
Cash and short-term investments (Note 4)	**$ 756,355**	$ 773,365
Securities (Note 5)	**146,348**	92,084
	902,703	865,449
Loans, net of allowance for credit losses (Notes 6 and 7)	**7,582,838**	6,977,544
Venture capital investments (Note 8)	**383,649**	345,624
	7,966,487	7,323,168
Fixed assets, net of accumulated amortization (Note 9)	**41,147**	40,669
Derivative-related assets	**448,638**	503,561
Other assets (Note 10)	**86,186**	76,371
	575,971	620,601
TOTAL ASSETS	**$ 9,445,161**	$ 8,809,218
LIABILITIES AND SHAREHOLDER'S EQUITY		
Accounts payable and accrued liabilities	**$ 75,650**	$ 58,297
Accrued interest on borrowings	**144,255**	121,329
	219,905	179,626
Borrowings (Note 11)		
Short-term notes	**3,378,569**	3,383,398
Long-term notes	**3,909,687**	3,797,704
	7,288,256	7,181,102
Derivative-related liabilities	**228,689**	101,740
Other liabilities (Note 12)	**138,742**	128,291
SHAREHOLDER'S EQUITY		
Share capital (Note 13)	**1,038,400**	788,400
Contributed surplus	**27,778**	27,778
Retained earnings	**503,391**	402,281
	1,569,569	1,218,459
Guarantees, contingent liabilities and commitments (Note 18)		
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	**$ 9,445,161**	$ 8,809,218

The accompanying Notes to Financial Statements are an integral part of this statement.

Approved by the Board:

Terry B. Grieve, CA
Director
Chairperson Audit Committee

André Bourdeau
Director
Acting President and Chief Executive Officer

STATEMENT OF INCOME AND RETAINED EARNINGS

For the years ended March 31 ($ in thousands)

		2005		2004
LOANS				
Interest income				
Loans	**$**	**538,323**	$	540,859
Short-term investments and securities		**24,357**		27,194
		562,680		568,053
Interest expense		**160,319**		189,911
Net interest income		**402,361**		378,142
Provision for credit losses (Note 7)		**54,232**		118,000
Net interest income after provision for credit losses		**348,129**		260,142
Other income		**38,140**		32,534
Income before operating and administrative expenses		**386,269**		292,676
Operating and administrative expenses (Note 14)		**213,751**		200,121
Income from Loans		**172,518**		92,555
CONSULTING				
Revenue		**18,924**		20,006
Operating and administrative expenses (Note 14)		**21,811**		23,141
Loss from Consulting		**(2,887)**		(3,135)
VENTURE CAPITAL				
Interest and dividends		**1,039**		1,410
Net realized gains on investments		**12,743**		12,749
Unrealized gains (losses) on temporary investments		**(9,680)**		2,196
Other		**597**		1,242
Investment income		**4,699**		17,597
Write-down of investments		**47,384**		36,770
Net investment loss		**(42,685)**		(19,173)
Operating and administrative expenses (Note 14)		**13,458**		11,126
Loss from Venture Capital		**(56,143)**		(30,299)
NET INCOME		**113,488**		59,121
RETAINED EARNINGS				
Beginning of year		**402,281**		353,839
Dividends on common shares		**(3,348)**		(397)
Dividends on preferred shares		**(9,030)**		(10,282)
END OF YEAR	**$**	**503,391**	$	402,281

The accompanying Notes to Financial Statements are an integral part of this statement.

STATEMENT OF CASH FLOWS

For the years ended March 31 ($ in thousands)

	2005	2004
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES		
Net income	**$ 113,488**	$ 59,121
Adjustments to determine net cash flows:		
Net realized gains on venture capital investments	**(12,743)**	(12,749)
Unrealized losses (gains) on venture capital temporary investments	**9,680**	(2,196)
Provision for credit losses and write-down of venture capital investments	**102,141**	155,471
Amortization of fixed assets	**12,088**	9,004
Changes in operating assets and liabilities:		
Change in interest receivable on loans	**322**	(513)
Change in accrued interest on borrowings	**(1,265)**	(11,633)
Translation adjustment on borrowings and securities	**(216,499)**	122,646
Change in derivative-related assets	**54,923**	(200,996)
Change in derivative-related liabilities	**151,139**	(33,121)
Net change in other assets and other liabilities	**18,718**	1,518
NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	**231,992**	86,552
CASH FLOWS USED IN INVESTING ACTIVITIES		
Purchases of securities	**(70,600)**	(28,825)
Maturities of securities	**10,112**	(3,966)
Additions in securities purchased under resale agreements	**–**	(97,493)
Maturities of securities purchased under resale agreements	**97,493**	74,977
Disbursements for loans	**(2,148,754)**	(2,074,051)
Disbursements for venture capital investments	**(104,206)**	(91,171)
Repayments of loans	**1,488,905**	1,267,656
Proceeds on sales of venture capital investments	**21,861**	25,667
Acquisition of fixed assets	**(12,566)**	(15,961)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	**(717,755)**	(943,167)
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES		
Issue of long-term notes	**1,140,264**	1,716,473
Repayment of long-term notes	**(814,007)**	(883,182)
Net change in short-term notes	**3,620**	55,243
Proceeds from issue of common shares	**250,000**	–
Dividends paid on common and preferred shares	**(13,631)**	(11,787)
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	**566,246**	876,747
Net increase in cash and cash equivalents	**80,483**	20,132
Cash and cash equivalents at beginning of year	**675,872**	655,740
Cash and cash equivalents at end of year (Note 4)	**$ 756,355**	$ 675,872
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Amount of interest paid in the year	**$ 161,585**	$ 201,544

The accompanying Notes to Financial Statements are an integral part of this statement.

1 - ACT OF INCORPORATION, OBJECTIVES AND OPERATIONS OF THE CORPORATION

The Business Development Bank of Canada (BDC) is a Crown corporation which 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 on July 13, 1995. The Bank is wholly-owned by the Government of Canada and is exempt from income taxes.

The objectives of the Bank are to promote and assist in the establishment and development of business enterprises in Canada, especially small and medium-sized businesses, by providing a wide range of lending, investment and consulting services complementary to those of commercial financial institutions. The Bank offers Canadian companies services tailored to meet the current needs of small and medium-sized businesses while earning an appropriate return on investment capital, which is used to further the Bank's activities.

To finance these objectives, the Bank issues debt instruments which are secured by the Government of Canada. The *Business Development Bank of Canada Act* (BDC Act) also allows the issuance of hybrid capital instruments to provide the capital required for meeting the growing financial needs of Canadian small and medium-sized businesses. The Crown would not be liable for payment of amounts owing under such capital instruments, of which none were outstanding as at March 31, 2005.

The Bank is for all purposes an agent of Her Majesty in right of Canada. The Bank is also named in Part I of Schedule III to the *Financial Administration Act*.

2 - SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. As such, the preparation of financial statements requires that Management make estimates and assumptions that affect reported amounts and disclosures in these statements. Actual results could differ significantly from those estimates. Significant estimates include allowances for losses on loans and consideration of write-downs and disclosure of fair values of venture capital investments. A variation in the quality of the portfolio or economic conditions under which these estimates are made could result in a significant change in these Management judgements. The significant accounting policies used in the preparation of these financial statements are summarized below.

Securities

The Bank holds securities for liquidity purposes based on policies approved by the Board of Directors. Section 18(3) of the BDC Act defines the nature of the debt securities which can be held by the Bank.

Debt securities are purchased with the intention of being held to maturity and are carried at amortized cost with premiums and discounts amortized over the period to maturity. Where there has been a decline in value of a security that is other than temporary, the carrying value of the security is appropriately reduced. Interest revenue, gains and losses on disposal and adjustments to record any impairment in value that is other than temporary are included in income.

Loans

Loans are stated at principal amounts including accrued interest receivable, net of allowance for credit losses. Interest on loans is recorded as income on an accrual basis except for loans which are considered impaired.

Joint venture investments in loan portfolios are recorded using the proportionate consolidation method whereby the Bank's prorata share of each of the assets, liabilities, revenues and expenses that are subject to joint control is combined with similar items in the financial statements.

Loans are classified as impaired when there is a deterioration in credit quality to the extent that the Bank no longer has reasonable assurance that the full amount of principal and interest will be collected. When a loan becomes impaired, recognition of interest income ceases and any previously accrued interest that is unpaid is reversed against interest income. Any interest received on impaired loans is applied to the carrying amount of the loan unless the loan is fully secured and does not require a specific allowance, in which case interest income is recognized on a cash basis.

For impaired loans measured on the basis of expected future cash flows, the increase in present value attributable to the passage of time is recorded as interest income.

Allowance for credit losses

The allowance for credit losses is maintained at a level considered adequate to absorb the credit losses existing in the Bank's portfolio. It reflects Management's best estimate of losses existing in the loan portfolio at the balance sheet date. The allowance is increased by an annual provision for credit losses which is charged against income and is reduced by write-offs, net of recoveries. Loans are written off when all collection efforts have been exhausted and no further prospect of recovery is likely.

The allowance for credit losses is comprised of specific and general allowances.

Specific allowances are established on a loan-by-loan basis for impaired loans. The carrying amount of an impaired loan is reduced to its estimated realizable value by discounting the expected future cash flows at the effective interest rate inherent to the loan or, if cash flows cannot be reasonably determined, by using the estimated fair value of any underlying security, net of realization costs. Initial allowances as well as subsequent changes thereto are recorded through the provision for credit losses as an adjustment to the specific allowance.

2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

The general allowance represents the best estimate of probable impairment attributable to the deterioration of credit quality in the remaining portfolio for which specific allowances cannot yet be determined. The amount is estimated based on historical loss experience and Management's assessment of general economic and business conditions affecting the lending operations, recent loan loss experiences and trends in the credit quality of the loan portfolio.

Venture capital investments

Essentially all venture capital investments are recorded at cost, whereby interest and dividends are included in income when received. Investments in specialized funds and seed capital funds over which the Bank has joint control or significant influence are accounted for using the proportionate consolidation or equity accounting method, respectively. Under these methods, the Bank accrues its share of the undistributed income or expenses of the funds. Gains or losses on disposal of investments are recognized in income when realized. However, when the value of an investment is permanently impaired, the investment is written down to recognize the loss.

Non-cash consideration received on disposal of investments is presented as temporary investments within venture capital investments and recorded at the lower of the value at the date of sale of the venture capital investment and current market value at the balance sheet date.

Fixed assets and amortization

Fixed assets are recorded at cost and amortized over their estimated useful lives, using the straight-line method as follows:

Computer equipment and telecommunication	3 years
Furniture, fixtures and equipment	5 years
Leasehold improvements	over the term of the lease, maximum 15 years
Corporate project development costs	3-7 years

Derivative-related assets

Derivative-related assets include unrealized gains and amounts receivable on derivative financial instruments that are receivable from counterparties under derivative contracts and generally correspond to foreign currency and other adjustments in the underlying borrowings.

Derivative-related liabilities

Derivative-related liabilities include unrealized losses on derivative financial instruments and amounts payable to counterparties under derivative contracts and generally correspond to foreign currency and other adjustments in the underlying borrowings.

Premiums, discounts and debt issue expenses

Premiums, discounts and expenses related to the issue of debt are amortized on a straight-line basis over the term of the obligations to which they pertain and are charged to interest expense.

Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing on the balance sheet date. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at average exchange rates for the year.

All exchange gains and losses are included in determining net income for the year.

Derivative financial instruments

The Bank enters into derivative financial instruments to manage the interest rate, foreign exchange rate and equity market exposures arising from on-balance sheet positions. The Bank's policy is not to use derivative financial instruments for trading or speculative purposes. The Bank formally documents all relationships between hedging instruments and hedged items. This process includes linking all derivatives to specific assets and liabilities on the balance sheet. The bank also formally assesses the effectiveness of the hedging relationships at the hedge's inception as well as on a quarterly basis.

Derivative financial instruments such as interest rate swaps and forward rate agreements are used to manage exposure to interest rate risk resulting from the repricing of assets and liabilities. Derivative financial instruments such as cross-currency interest rate swaps, equity-linked swaps, and forward foreign exchange contracts are used as hedges for foreign currency and equity market risk resulting from foreign currency denominated or equity-linked borrowings. The Bank designates its interest rate hedge agreements as hedges of underlying borrowings. Highly effective derivatives used for hedging interest rate risks are accounted for on an accrual basis with the related interest revenue or expense recognized over the life of the hedged position as an adjustment to interest expense and presented in derivative-related assets or in derivative-related liabilities.

Unrealized foreign exchange and equity translation gains and losses on highly effective cross-currency or equity-linked derivative financial instruments are respectively accrued in derivative-related assets or derivative related liabilities on the balance sheet and are recognized in income, offsetting the respective translation gains and losses on the underlying foreign currency or equity-linked borrowings. Highly effective derivatives accomplish the objectives of offsetting changes in the fair value or cash flows attributable to the risk being hedged both at inception and over the life of the hedge. Derivative financial instruments not associated with effective hedging relationships are carried at fair value on the balance sheet, with any change in the fair value charged or credited to the income statement. Deferred gains or losses associated with derivative instruments, which have been terminated or cease to be effective prior to maturity, are recognized in income in the period in which the underlying hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, any previously deferred gain or loss on such derivative instrument is immediately recognized in income (interest expense).

2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

The forward premium or discount on forward foreign exchange contracts is amortized as an adjustment of interest expense over the term of the forward contract. Premiums paid or received with respect to derivative financial instruments are deferred and amortized to interest expense over the lives of the derivative contracts.

Employee future benefits

The Bank maintains defined benefit pension plans for eligible employees. Annual valuations, as at December 31, are performed by independent actuaries to determine the present value of accrued pension benefit obligation using the projected benefit method prorated on service and Management's best estimate of expected plan investment performance, compensation escalation, retirement ages of employees and other factors. The discount rate used to determine present value is based on market interest rates for long-term high-quality debt instruments. Pension Fund assets are valued at fair value for the purpose of calculating the expected return on plan assets. The Bank also maintains, non-funded, supplemental pension plans and other benefits for eligible employees.

Components of the change in the Bank's benefit obligations from year to year and the calculation of the pension cost are as follows:

Current service cost represents benefits earned in the current year. These are determined with reference to the current employees and to the amount of benefits they will be entitled to upon retirement, based on the provisions of the Bank's benefit plans.

Interest cost on benefit obligation represents the increase in the pension obligations that results from the passage of time.

Actuarial gains or losses may arise in two ways. First, each year the Bank's actuaries recalculate the benefit obligations and compare them to those estimated as at the prior year-end. The differences that arise from changes in assumptions or from plan experience being different from what was expected by management at the prior year-end are considered actuarial gains or losses. Secondly, actuarial gains or losses are created when there are differences between expected and actual returns on plan assets. At the beginning of each fiscal year, the Bank determines whether the cumulative actuarial loss (gain) is more than 10% of the greater of the fair value of the pension plans asset or the accrued benefit obligation balances. Any amount that exceeds this 10% corridor is amortized to expense over the average remaining service period of the Bank's active employees. The average remaining service period of the active employees covered by the Registered pension plan is 8.2 years (8.2 years in 2004). The average remaining service period of the active employees covered by the Supplemental pension plan is 8.2 years (8.3 years in 2004). Amounts that fall within the 10% corridor are not amortized.

Expected return on plan assets represents Management's best estimate of the long-term rate of return on assets applied to the fair value of plan assets. Differences between expected and actual returns on plan assets are included in the actuarial gains and losses described above.

Amortization of transitional assets relates to a change in an accounting policy that came into effect on April 1, 2000. At that date, the Bank had a transitional asset that is being amortized to income on a straight-line basis over the average remaining service period of the Bank's active employees expected to receive benefits under the benefit plans as of April 1, 2000. This period ranged from 8.5 years for the Registered Plan to 13 years for the other plans.

Pension and Other Employee Future Benefit Assets

Assets are set aside to satisfy the Bank's pension obligation related to BDC's registered pension plan. Retirement benefits for the other supplemental plans are paid out of operations. The Other plans, which include the Employee Future Benefit Liability, are unfunded.

3- CHANGES IN ACCOUNTING POLICIES

Accounting Changes Adopted in the Current Year

a) Hedging relationships

Accounting Guideline 13 - Hedging Relationships (AcG-13) and Emerging Issues Committee Abstract 128 - Accounting for Trading, Speculative or Non-hedging Derivative Financial Instruments (EIC-128).

On April 1, 2004, the Bank prospectively adopted AcG-13 that establishes certain qualifying conditions for the use of hedge accounting, that are more stringent and formalized than under prior standards. These qualifying conditions include the formal documentation of the effectiveness of relationships between hedging instruments and hedged items, as well as the risk management objectives and strategies for undertaking various hedge transactions. It requires assessment of effectiveness both at the hedge's inception and on a quarterly basis.

Substantially all of the hedging relationships established by the Bank meet these new requirements that specify when hedge accounting can be used. Under EIC-128, derivative financial instruments that do not qualify for hedge accounting must be carried at fair value on the balance sheet, and any change in the fair value must be charged or credited to the income statement.

The effect on the Bank's results for the year ended March 31, 2005 is not significant.

($ in thousands except as otherwise indicated)

3- CHANGES IN ACCOUNTING POLICIES (continued)

b) Generally accepted accounting principles (GAAP)

Effective April 1, 2004, the Bank adopted CICA Section 1100, Generally Accepted Accounting Principles. This standard stipulates the primary and other sources of GAAP to use when selecting accounting policies and determining appropriate disclosures in financial statements. Adoption of this standard had no significant effect on the Bank's financial statements.

Future Accounting Changes

a) Financial Instruments, Hedges and Comprehensive Income

The CICA has issued three new accounting standards:

- Section 3855, *Financial Instruments – Recognition and Measurement*
- Section 3865, *Hedges*
- Section 1530, *Comprehensive Income*

These standards must be adopted by the Bank beginning April 2007, at the latest. The principal effects of the standards are as follows:

- New Section 3855 prescribes standards for recognizing and measuring financial instruments on the balance sheet and how related gains or losses are to be presented. Under this standard, the carrying value of certain financial instruments will change from cost to fair value.
- New Section 3865 modifies the timing of recognizing gains or losses under Section 3855 to permit the matching of gains and losses in the Statement of Income for financial instruments included in highly effective hedging transactions.
- New Section 1530 introduces a new component of Shareholder's Equity and a new Statement of Comprehensive Income that will present certain gains and losses arising from the application of Sections 3855 and 3865, before they are transferred to the Statement of Income.

The Bank has not completed its analysis of the effect of adopting these new standards on its financial statements.

b) Venture Capital Investments

For the year ending March 31, 2006, the Bank intends to prospectively apply Accounting Guideline 18 (AcG-18), *Investment Companies*. This standard requires defined investment companies or the parent company, or equity investor in such investments companies to account for all of its investments at fair value and exempts such entities from the consolidation or equity accounting requirements that would otherwise apply.

4 - CASH AND SHORT-TERM INVESTMENTS

		2005		2004
Bank account balances, net of cheques outstanding	**$**	**(12,142)**	$	(13,157)
Short-term bank notes		**768,497**		689,029
Cash and cash equivalents		**756,355**		675,872
Securities purchased under resale agreements		**–**		97,493
	$	**756,355**	$	773,365

Short-term bank notes have maturities at the original acquisition date of less than 90 days.

The Bank enters into short-term agreements, whereby it purchases and simultaneously commits to resell securities at a specified price on a specified date. These transactions, which are a form of secured investing by the Bank, produce interest income over the term of the investments.

($ in thousands except as otherwise indicated)

5 - SECURITIES

	Term to maturity			2005	2004
	Within 1 year	1 to 3 years	Over 3 years	**Total**	Total
Financial Institutions					
Carrying value	$ 15,038	$ 78,346	$ 52,964	**$ 146,348**	$ 92,084
Yield	4.47%	2.74%	2.41%	**2.79%**	2.31%
Fair value	$ 15,100	$ 78,554	$ 53,151	**$ 146,805**	$ 92,834
Swap Contracts					
Notional amount	$ 15,000	$ 84,600	$ 56,500	**$ 156,100**	$ 95,500
Adjusted yield [1]	2.81%	2.74%	2.80%	**2.77%**	2.45%
Amounts denominated in foreign currencies included in the carrying value of securities					
		US dollars - 2004	$ 51,050		$ 66,934
		US dollars - 2005	**$ 51,050**		
		Eurodollars - 2005	**$ 44,400**	**$ 131,310**	

[1] After adjusting for the effect of related derivatives (see Note 16).

All securities held as at March 31 were issued by Canadian entities at fixed and floating rates. Yields are based upon carrying values and contractual interest rates adjusted for amortization of premiums and discounts. Term to maturity classifications are based upon the contractual maturity of the security. Fair value is based on market quotes when available and may not be realized on sale. If quoted market prices are not available, fair values are estimated using quoted market prices of similar securities. Where appropriate, the Bank has entered into cross-currency interest rate and interest rate swaps to hedge the interest rate and the foreign exchange risks associated with the above securities.

6 - LOANS

The following table summarizes the repricing or maturity dates, whichever is earlier, and the effective interest rates of loans outstanding as at March 31. The effective interest rates are computed on a weighted average basis.

	2005		2004	
Performing - floating	**$ 6,160,777**	**6.88%**	$ 5,560,591	6.67%
Performing - fixed				
Under one year	**445,238**	**7.58%**	462,250	7.50%
1 to 2 years	**309,232**	**7.60%**	299,372	8.41%
2 to 3 years	**202,217**	**7.88%**	236,969	8.49%
3 to 4 years	**221,364**	**8.15%**	171,783	8.94%
4 to 5 years	**169,030**	**8.09%**	218,395	8.35%
Over 5 years	**242,766**	**7.94%**	196,162	8.73%
Performing	**7,750,624**		7,145,522	
Impaired	**315,388**		319,672	
Total loans	**8,066,012**		7,465,194	
Allowance for credit losses				
General	**(372,458)**		(372,458)	
Specific	**(110,716)**		(115,192)	
	(483,174)		(487,650)	
Loans, net of allowance for credit losses	**$ 7,582,838**		$ 6,977,544	

($ in thousands except as otherwise indicated)

6 - LOANS (continued)

The average amount of loans, net of allowance for credit losses, was of $7,226,299 in 2005 ($6,649,149 in 2004).

The concentrations of the total loans outstanding by province and territory as at March 31 are set out in the table below. The largest concentration in one individual or closely related group of clients is less than 1%.

Geographic Distribution	**2005**		2004	
Newfoundland and Labrador	**$ 328,877**	**4.1%**	$ 300,660	4.0%
Prince Edward Island	**46,217**	**0.6%**	45,625	0.6%
Nova Scotia	**184,292**	**2.3%**	165,849	2.2%
New Brunswick	**296,270**	**3.7%**	265,975	3.6%
Quebec	**3,230,537**	**40.0%**	3,018,833	40.4%
Ontario	**2,575,797**	**31.9%**	2,386,339	32.0%
Manitoba	**136,729**	**1.7%**	113,759	1.5%
Saskatchewan	**101,521**	**1.2%**	102,284	1.4%
Alberta	**474,694**	**5.9%**	430,786	5.8%
British Columbia	**636,129**	**7.9%**	583,122	7.8%
Yukon	**24,158**	**0.3%**	20,770	0.3%
Northwest Territories and Nunavut	**30,791**	**0.4%**	31,192	0.4%
Total loans outstanding	**$ 8,066,012**	**100.0%**	$ 7,465,194	100.0%

7 - ALLOWANCE FOR CREDIT LOSSES

The following table summarizes the changes in the allowance for credit losses as at March 31:

	2005	2004
Balance at beginning of year	**$ 487,650**	$ 432,739
Write-offs	**(61,207)**	(64,756)
Interest income due to accretion	**(3,956)**	(3,877)
Recoveries	**6,455**	5,544
	428,942	369,650
Provision for credit losses	**54,232**	118,000
Balance at end of year	**$ 483,174**	$ 487,650

($ in thousands except as otherwise indicated)

8 - VENTURE CAPITAL INVESTMENTS

The Bank maintains a portfolio of venture capital investments which is focused on companies having promising competitive positions in their respective marketplaces and strong growth potential. The concentrations of venture capital investments are listed below. The largest single investment within these sectors is 3.1% of total venture capital investments.

	2005		2004	
Industry Sector	**Carrying value**	**Fair value**	Carrying value	Fair value
Biotechnology/Medical/Health	**$ 108,033**	**$ 115,350**	$ 91,640	$ 120,595
Information Technology	**76,021**	**70,559**	52,032	57,096
Seed Funds	**9,277**	**9,277**	12,440	12,440
Specialized Funds	**26,753**	**26,753**	19,572	19,626
Electronics	**80,927**	**79,614**	76,185	67,630
Communications	**68,476**	**71,087**	79,228	72,223
Energy	**1,300**	**1,300**	3,975	3,975
Industrial	**9,574**	**9,698**	6,715	6,819
Consumer-related	**2,538**	**2,538**	2,537	2,537
Other	**750**	**7,022**	1,300	3,030
Venture capital investments	**$ 383,649**	**$ 393,198**	$ 345,624	$ 365,971

(See Note 15 for determination of fair value)

The preceding table includes $11,491 ($10,458 in 2004) of temporary investments, with a fair value of $11,491 ($10,458 in 2004). The average carrying value of venture capital investments was $374,017 in 2005 ($321,818 in 2004).

Investments are generally held 4 to 7 years. Divestitures are made through listings of investee shares on public markets or the sale of the Bank's shares to other existing shareholders or to third parties. Investment yields vary from year to year due to the amount and timing of dividend and interest income received and divestitures made. Below is a summary of the venture capital portfolio by type of investment.

Carrying value	**2005**	**2004**
Common shares	**$ 122,382**	$ 122,456
Preferred shares	**202,044**	178,398
Debentures	**59,223**	44,770
Venture capital investments	**$ 383,649**	$ 345,624

The Bank has invested in T^2C^2 Bio, T^2C^2 Info, Western Technology and Eastern Technology seed funds over which it has joint control. Below is a summary of the Bank's recorded proportionate share of the assets, liabilities, revenues, expenses and cash flows of these funds.

	2005	2004
Current assets	**$ 1,754**	$ 2,045
Venture Capital investments	**7,145**	9,375
Other assets	**3**	7
Current liabilities	**47**	10
Investment income	**81**	638
Write-down on investments	**2,554**	8,170
Operating and administrative expenses	**480**	577
Loss from Venture Capital	**$ (2,953)**	$ (8,109)
Cash flows from (used in):		
Operating activities	**$ (350)**	$ (345)
Investing activities	**(522)**	209
Financing activities	**600**	(30)

($ in thousands except as otherwise indicated)

9 - FIXED ASSETS

		2005		2004
	Cost	Accumulated Amortization	Carrying Value	Carrying Value
Furniture, fixtures and equipment	**$ 37,138**	**$ 33,472**	**$ 3,666**	$ 3,047
Computer equipment and telecommunication	**25,891**	**21,304**	**4,587**	5,595
Corporate project development costs	**34,398**	**16,110**	**18,288**	16,436
Leasehold improvements	**38,365**	**23,759**	**14,606**	15,591
	$ 135,792	**$ 94,645**	**$ 41,147**	$ 40,669

10 - OTHER ASSETS

	2005	2004
Accrued benefit asset	**$ 60,696**	$ 60,831
Unamortized debt issue expenses on long-term notes	**1,536**	1,291
Other	**23,954**	14,249
	$ 86,186	$ 76,371

11 - BORROWINGS

The Bank issues debt instruments in world money and capital markets to fund its loan portfolio. Foreign currency and equity market risk is hedged through the use of derivatives, such that essentially all of the Bank's borrowings are effectively denominated in Canadian dollars and bear interest at Canadian fixed or floating rates. In addition, where appropriate, the Bank enters into interest rate and cross-currency interest rate swap contracts to hedge the related interest rate risks. The table below shows the outstanding notes as at March 31.

			2005		2004	
Maturity date	**Effective rate***		**Principal amount**	**Carrying value**	Principal amount	Carrying value
Short-term notes						
2005		USD			$ 435,430	$ 566,884
		CDN			2,825,448	2,816,514
2006	2.37 % - 2.87%	USD	**$ 962,560**	**$ 1,159,603**		
		CDN	**2,229,262**	**2,218,966**		
Total short-term notes				**$ 3,378,569**		$ 3,383,398

($ in thousands except as otherwise indicated)

11 - BORROWINGS (continued)

			2005		2004	
Maturity date	**Effective rate***		**Principal amount**	**Carrying value**	Principal amount	Carrying value
Long-term notes						
2005		USD	**$ –**	**$ –**	$ 3,000	$ 7,123
		CDN	**–**	**–**	216,025	216,025
2006	2.67%	USD	**14,500**	**17,539**	–	–
	2.19% - 4.87%	CDN	**272,348**	**273,191**	234,340	237,853
2007	2.14% - 3.79%	CDN	**259,440**	**261,774**	262,271	268,652
2008	2.30% - 2.41%	CDN	**265,600**	**265,600**	265,600	265,600
2009	2.25%	USD	**43,000**	**52,013**	43,000	56,379
	2.15% - 2.37%	CDN	**252,524**	**255,785**	256,032	263,919
2010	2.28% - 2.34%	USD	**40,000**	**48,384**	15,000	19,667
	2.15% - 2.33%	CDN	**268,736**	**274,465**	186,461	202,590
2011		YEN	**–**	**–**	800,000	10,050
	2.29%	USD	**10,000**	**12,074**	10,000	13,321
	2.14% - 2.32%	CDN	**477,790**	**449,341**	472,790	489,249
2012	2.30%	USD	**10,000**	**12,096**	–	–
	2.14% - 2.21%	CDN	**355,244**	**356,696**	341,090	346,743
2013	2.33% - 2.35%	USD	**16,000**	**19,354**	36,000	47,201
	2.33%	CDN	**5,000**	**5,000**	5,000	5,000
2014	2.31% - 2.35%	YEN	**4,400,000**	**49,650**	12,000,000	150,759
	2.28% - 2.38%	USD	**93,200**	**112,735**	183,800	240,201
	2.31% - 2.33%	CDN	**20,000**	**20,000**	–	–
2015	2.30% - 2.37%	YEN	**9,200,000**	**103,814**	1,000,000	12,563
	2.30% - 2.35%	USD	**65,000**	**78,624**	–	–
2016	2.32% - 2.36%	YEN	**2,500,000**	**28,210**	2,500,000	31,408
2017	2.29% - 2.34%	YEN	**6,800,000**	**76,732**	–	–
	2.29%	USD	**3,000**	**3,629**	–	–
2018	2.31% - 2.41%	YEN	**26,300,000**	**296,772**	27,300,000	342,973
2019	2.28% - 2.39%	YEN	**38,900,000**	**438,952**	38,800,000	488,706
	2.36%	USD	**21,632**	**26,166**	62,329	81,722
2020	2.27% - 2.37%	YEN	**32,000,000**	**361,091**	–	–
	2.41%	CDN	**10,000**	**10,000**	–	–
Total long-term notes				**$ 3,909,687**		$ 3,797,704

* The effective rates on long-term notes are after giving effect to swap contracts when applicable and refer to yield to maturity for fixed rate issues, and yield to reset for floating rate issues.

The preceding table includes $3,851,247 in 2005 and $3,672,679 in 2004 of long-term notes payable which have been the subject of interest rate, cross-currency interest rate and equity-linked swap contracts and options with other financial institutions. These borrowings fund a portion of the Bank's floating interest rate loan portfolio and bear interest at effective rates that are reset monthly or quarterly. The remaining long-term notes payable bear interest at fixed rates.

The maturity dates for callable and extendable notes are presented based on their first option date.

($ in thousands except as otherwise indicated)

11 - BORROWINGS (continued)

The Bank has issued a number of structured notes for which interest and/or principal at maturity is linked to fluctuations in equity indices, currency rates, swap rates and other market references. Other notes may be called prior to maturity, or have their maturity extended, upon exercise of call or extension options by the Bank or the noteholders. The type of notes included in the previous table are as follows:

	2005	2004
Interest-bearing notes	**$ 225,654**	$ 369,985
Fixed and inverse floating rate notes	**1,015,579**	929,886
Managed futures	**1,108,946**	1,110,170
Notes linked to equity indices	**736,695**	801,257
Notes linked to currency rates	**278,717**	216,086
Notes linked to swap rates	**94,787**	47,740
Notes extendible beyond maturity	**–**	10,000
Other structured notes	**449,309**	312,580
	$ 3,909,687	$ 3,797,704

Long-term notes of $2,321,871 may be called prior to maturity (in 2004: $1,376,751).

As at March 31, 2005, the payment requirements and maturities of long-term notes are as follows:

2006	**$ 290,730**
2007	**261,774**
2008	**265,600**
2009	**307,798**
2010	**322,849**
2011 and later	**2,460,936**
	$ 3,909,687

The Bank has an overdraft facility of $ 75 million, whereby all the Bank's cash accounts are totalled together. When the daily balance outstanding is in an overdraft position, interest charges are accumulated at prime. At March 31, 2005, the Bank was not in an overdraft position.

The Bank also has a line of credit for $ 50 million which was not used throughout fiscal 2005.

12 - OTHER LIABILITIES

	2005	2004
Deferred income	**$ 410**	$ 482
Accrued benefit liability	**112,031**	103,732
Other	**26,301**	24,077
	$ 138,742	$ 128,291

($ in thousands except as otherwise indicated)

13 - SHARE CAPITAL AND STATUTORY LIMITATIONS

Share Capital

Authorized:

(a) An unlimited number of preferred shares without par value, non-voting, issuable in series;

(b) An unlimited number of common shares, having a par value of $100 (one hundred dollars) each.

Outstanding		**2005**			2004	
	Number of shares	**Amount**	**Dividend rate**	Number of shares	Amount	Dividend rate
Preferred shares						
Class A - Series 1	**500,000**	**$ 50,000**	**4.585%**	500,000	$ 50,000	4.585%
- Series 2	**500,000**	**50,000**	**4.365%**	500,000	50,000	4.365%
- Series 3	**500,000**	**50,000**	**3.965%**	500,000	50,000	5.515%
- Series 4	**400,000**	**40,000**	**3.610%**	400,000	40,000	3.610%
- Series 5	**400,000**	**40,000**	**2.820%**	400,000	40,000	2.820%
		230,000			230,000	
Common shares	**8,084,000**	**808,400**		5,584,000	558,400	
Total Outstanding Share Capital		**$ 1,038,400**			$ 788,400	

Class A Preferred Shares have a fixed, preferential and cumulative dividend and are exchangeable at the option of the holder, with the approval of the Minister of Finance, for fully-paid common shares on the basis of one common share for each Class A Preferred Share. All dividends accumulated or declared and unpaid as at the date of exchange are payable by the Bank on a pro rata basis, as if such dividends had accrued from day-to-day. The dividend rates on Class A Preferred shares are for periods ranging from two to five years and are adjusted at the beginning of the subsequent period to equal the consolidated revenue fund lending rate published by the Minister of Finance, plus a specified premium ranging from 0.250% to 0.375%.

Statutory Limitations

The aggregate of borrowings and contingent liabilities of the Bank in the form of guarantees given by it may not exceed twelve times the shareholder's equity of the Bank.

Moreover, the paid-in capital of the Bank, the contributed surplus and any proceeds that have been prescribed as equity must not at any time exceed $1.5 billion.

14 - OPERATING AND ADMINISTRATIVE EXPENSES

		2005			2004	
	Loans	**Consulting**	**Venture Capital**	Loans	Consulting	Venture Capital
Salaries and staff benefits	**$ 126,258**	**$ 16,896**	**$ 8,935**	$ 116,038	$ 19,280	$ 6,815
Premises and equipment	**31,136**	**657**	**1,098**	27,056	679	1,236
Other expenses	**56,357**	**4,258**	**3,425**	57,027	3,182	3,075
	$ 213,751	**$ 21,811**	**$ 13,458**	$ 200,121	$ 23,141	$ 11,126

($ in thousands except as otherwise indicated)

15 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The amounts set out below represent the fair values of on- and off-balance sheet financial instruments held or issued by the Bank using the valuation methods and assumptions referred to below. The estimated fair value amounts represent approximate amounts at which the instruments could be exchanged between willing parties. However, many of the financial instruments lack an available trading market. Therefore, in these cases fair values are estimated using present value and other valuation techniques which are significantly affected by the assumptions used. As such, the derived fair value estimates should not be interpreted as realizable values in an immediate settlement of the instruments.

The carrying values of on-balance-sheet financial instruments are not adjusted to reflect increases or decreases in fair values resulting from fluctuations in interest rates, as generally it is the Bank's intention to realize the value of these financial instruments over time by holding them to maturity.

		2005			2004	
	Carrying value	**Fair value**	**Fair value over (under) carrying value**	Carrying value	Fair value	Fair value over (under) carrying value
Balance Sheet						
Assets						
Cash and short-term investments	**$ 756,355**	**$ 756,355**	**$ –**	$ 773,365	$ 773,365	$ –
Securities (Note 5)	**146,348**	**146,805**	**457**	92,084	92,834	750
Loans, net of allowance for credit losses	**7,582,838**	**7,595,197**	**12,359**	6,977,544	7,022,150	44,606
Venture capital investments (Note 8)	**383,649**	**393,198**	**9,549**	345,624	365,971	20,347
Other assets	**269,291**	**269,291**	**–**	259,203	259,203	–
	$ 9,138,481	**$ 9,160,846**	**$ 22,365**	$ 8,447,820	$ 8,513,523	$ 65,703
Liabilities						
Accounts payable and accrued liabilities	**$ 75,650**	**$ 75,650**	**$ –**	$ 58,297	$ 58,297	$ –
Accrued interest on borrowings	**19,549**	**19,549**	**–**	19,380	19,380	–
Short-term notes	**3,378,569**	**3,378,569**	**–**	3,383,398	3,383,398	–
Long-term notes	**3,909,687**	**4,115,687**	**206,000**	3,797,704	3,995,389	197,685
Other liabilities	**8,717**	**8,717**	**–**	6,148	6,148	–
	$ 7,392,172	**$ 7,598,172**	**$ 206,000**	$ 7,264,927	$ 7,462,612	$ 197,685
			$ (183,635)			$ (131,982)
Derivative financial instruments (Note 16)	**$ (168,749)**	**$ 37,071**	**$ 205,820**	$ 48,729	$ 240,841	$ 192,112
Total			**$ 22,185**			$ 60,130

Fair values are based on a range of valuation methods and assumptions which are as follows:

Financial instruments valued at carrying value - The estimated fair value of the following assets and liabilities is assumed to approximate carrying value as the items are short-term in nature:

- Cash and short-term investments
- Other assets
- Accounts payable and accrued liabilities
- Accrued interest on borrowings
- Short-term notes

($ in thousands except as otherwise indicated)

15 - FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Securities - The fair value of securities is provided in Note 5 to the financial statements.

Loans - For performing variable rate loans, estimated fair value is assumed to equal carrying value. For performing fixed rate loans, estimated fair value is determined using a discounted cash flow calculation that uses market interest rates currently charged for similar new loans at March 31 to expected maturity or repricing. For impaired loans, fair value is equal to carrying value in accordance with the valuation methods described in Note 2 under *Allowance for credit losses.*

Venture capital investments - For venture capital investments made during the current year, estimated fair value is assumed to equal the carrying value. For investments in publicly traded companies, fair value is the quoted share price at March 31. The fair value of other investments is estimated using established earnings multiples.

Long-term notes - The fair value of long-term notes is based on quoted market prices for similar issues, or current rates offered to the Bank for notes of the same remaining maturity.

Derivative financial instruments - The fair value of derivative financial instruments is provided in Note 16 to the financial statements.

16 - DERIVATIVE FINANCIAL INSTRUMENTS

As described in Note 2, the Bank uses derivative financial instruments to manage the financial risk of certain on-balance sheet positions. These instruments are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, equity investment or index and depending on the circumstances, may include the following:

Swaps

Swaps involve the exchange of cash flow obligations on a specific notional amount, for a predetermined period. *Interest rate swaps* involve exchange of fixed and floating interest payments. *Cross-currency interest rate swaps* involve the exchange of both interest and notional amounts in two different currencies. For *equity-linked swaps*, one of the payments exchanged represents the variation in the equity index over time, and the other is based on agreed fixed or floating rates.

Forwards and Futures

Forwards and futures are contractual agreements to either buy or sell currencies or financial instruments at specified prices and dates in the future.

The following table provides the fair value of the Bank's derivatives portfolio as at March 31 as presented by positive and negative fair values.

	2005			2004		
	Positive	**Negative**	**Net amount**	Positive	Negative	Net amount
Derivative financial instruments						
Interest rate swap contracts	**$ 3,857**	**$ 8,129**	**$ (4,272)**	$ 8,173	$ 1,990	$ 6,183
Equity-linked swap contracts	**324,755**	**76,238**	**248,517**	377,346	85,069	292,277
Forward rate agreements	**–**	**3**	**(3)**	106	29	77
Cross-currency interest rate swap contracts	**11,940**	**200,314**	**(188,374)**	27,384	75,067	(47,683)
Currency forward contracts	**1,326**	**20,123**	**(18,797)**	73	10,086	(10,013)
Total fair value	**$ 341,878**	**$ 304,807**	**$ 37,071**	$ 413,082	$ 172,241	$ 240,841
Less impact of master netting agreements	**125,646**	**125,646**	**–**	116,843	116,843	–
Total	**$ 216,232**	**$ 179,161**	**$ 37,071**	$ 296,239	$ 55,398	$ 240,841

The fair value of derivatives is determined using various methodologies including quoted market prices, where available, prevailing market rates for instruments with similar characteristics and maturities, and net present value analysis or other pricing methodologies as appropriate.

Credit risk

The notional amounts of derivative financial instruments held by the Bank are not indicative of the credit risk exposure associated with the contracts. This risk of loss is related to the possibility that a counterparty to a transaction does not perform as agreed. In the event of default by a counterparty, the risk to the Bank in these transactions would be limited to the prevailing currency and/or interest rate differentials as represented by the positive fair values of transactions that are in an unrealized gain position. The Bank limits its exposure to this type of risk by dealing only with financial institutions having credit ratings in accordance with the Department of Finance guidelines, and believes it does not have any significant concentrations in any individual financial institution.

($ in thousands except as otherwise indicated)

16 - DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The Bank continually monitors its position and the credit ratings of its counterparties and seeks to limit its credit exposure by entering into master netting agreements with counterparties. The credit risk associated with contracts in a favourable position is eliminated by a master netting agreement only to the extent that contracts in an unfavourable position with the same counterparty will not be settled before the favourable contracts. The Bank's overall exposure to credit risk on derivative instruments can change substantially within a short period since it is affected by each transaction subject to the arrangement.

Counterparty Credit Risk Exposure	**Counterparty Ratings**			
	AAA	**AA- to AA+**	**A to A+**	**Total**
Gross positive replacement cost	**$ –**	**$ 223,441**	**$ 118,437**	**$ 341,878**
Impact of master netting agreements	**–**	**(77,826)**	**(47,820)**	**(125,646)**
Replacement cost (after master netting agreements)	**$ –**	**$ 145,615**	**$ 70,617**	**$ 216,232**
Replacement cost (after master netting agreements) - 2004	$ 387	$ 212,615	$ 83,237	$ 296,239
Number of counterparties				
March 31, 2005	**0**	**4**	**2**	
March 31, 2004	1	5	9	

The following table summarizes the notional amount by terms to maturity or repricing dates and replacement costs on derivative financial instruments:

	Term to maturity or repricing								**2005**		2004	
	Within 1 year	%	1 to 3 years	%	3 to 5 years	%	Over 5 years	%	**Notional amount**	**Replacement cost**	Notional amount	Replacement cost
Interest rate contracts												
$CDN payable - fixed	$ 15,000	5.60	$ –	–	$ –	–	$ –	–	**$ 15,000**	**$ –**	$ 25,000	$ –
$CDN receivable - fixed	130,000	5.00	105,000	3.68	90,000	3.70	10,000	5.36	**335,000**	**1,849**	139,355	3,812
$US receivable - fixed	–	–	–	–	–	–	10,499	5.58	**10,499**	**–**	41,201	459
Basis swaps	75,000	n.a.	–	–	–	–	–	–	**75,000**	**–**	1,017,000	274
Equity-linked swap contracts	155,193	n.a.	582,431	n.a.	877,815	n.a.	1,345,426	n.a.	**2,960,865**	**324,755**	2,900,115	377,346
Other swap contracts	–	–	18,812	n.a.	–	–	27,861	–	**46,673**	**2,009**	18,812	3,628
	375,193		706,243		967,815		1,393,786		**3,443,037**	**328,613**	4,141,483	385,519
Forward rate agreements	10,000	n.a.	–	–	–	–	–	–	**10,000**	**–**	620,000	106
Cross-currency interest rate swap contracts	–	–	84,600	n.a.	178,051	n.a.	1,901,506	n.a.	**2,164,157**	**11,939**	1,674,868	27,384
Total interest rate contracts	385,193		790,843		1,145,866		3,295,292		**5,617,194**	**340,552**	6,436,351	413,009
Foreign exchange contracts												
Currency forward contracts	1,192,280	n.a.	–	–	–	–	–	–	**1,192,280**	**1,326**	588,995	73
Total foreign exchange contracts	1,192,280		–		–		–		**1,192,280**	**1,326**	588,995	73
Total	$ 1,577,473		$ 790,843		$ 1,145,866		$ 3,295,292		**$ 6,809,474**	**$ 341,878**	$ 7,025,346	$ 413,082
Less impact of master netting agreements	–		–	–	–	–	–	–	**–**	**125,646**	–	116,843
Total	$ 1,577,473		$ 790,843		$ 1,145,866		$ 3,295,292		**$ 6,809,474**	**$ 216,232**	$ 7,025,346	$ 296,239

n.a. – not applicable or weighted rates are not significant

The notional amount represents the amount at which a rate or price is applied in order to calculate the exchange of cash flows.

Replacement cost represents the cost of replacing, at current market rates, all contracts in an unrealized gain position.

The rates represent the weighted average interest rates that the Bank has contracted to pay or to receive up to maturity or repricing. The floating side for almost all of the Canadian dollar swap contracts is based on one- or three-month Canadian Bankers' Acceptance. All amounts in U.S. dollars are converted into the Canadian dollar equivalent.

17 - INTEREST RATE SENSITIVITY

Interest rate risk occurs when a liability is settled or re-priced at a time in the future that does not offset the asset that it is funding. These differences in duration cover both on- and off-balance sheet financial instruments. The Bank uses borrowing strategies and derivative instruments to continuously manage this risk with the objective of minimizing such differences.

18 - GUARANTEES, CONTINGENT LIABILITIES AND COMMITMENTS

Guarantees

The various guarantees and indemnifications that the Bank provides to its customers and other third parties are presented below.

Derivative instruments

As part of its financing operations, the Bank has entered into a written credit derivative contract under which a counterparty is compensated for losses on a specified portfolio of loans, if a default or other defined triggering event occurs. Typically, a corporate or government entity is the counterparty to the written credit derivative contract that meet the characteristics of guarantees described above. The maximum potential amount of future payments on this written credit default swap is $33,251 and is included in the Balance Sheet under Derivative-related liabilities.

Indemnifications

In the ordinary course of business, the Bank enters into many contracts which contain indemnification provisions, such as purchase contracts, employment contracts, service agreements and leasing arrangements. In such contracts, the Bank may indemnify counterparties to the contracts for certain aspects of the Bank's past conduct if other parties fail to perform, or if certain events occur, such as changes in laws and regulations (including tax legislation), changes in financial condition of third parties, infringements and breaches of representations and warranties, undisclosed liabilities, and loss caused by the actions of third parties, or as a result of litigation claims by third parties. These indemnification provisions will vary based upon the contract. In many cases, there are no pre-determined amounts or limits included in these indemnification provisions and the occurrence of contingent events that will trigger payment under them is difficult to predict. The nature of these indemnification contracts is such that the Bank cannot reasonably estimate the maximum potential future amount that may be payable to counterparties. Historically, the Bank has not made any significant payments under these indemnities.

Contingent liabilities

A class action recourse has been launched by some of the Bank's pensioners for surplus amounts and reimbursement of certain expenses in the Bank's Pension Plan. BDC has a meritorious defence to these claims. However, at this stage, it is too early to predict the outcome of this matter.

The former President and Chief Executive Officer of the Bank, who was released from his duties in February 2004, has instituted proceedings against the federal government for the recovery of damages allegedly resulting from the termination of this employment. Although named in the lawsuit as an impleaded party, the Bank is not a target of the litigation and no monetary or other demands have been made against it.

Due to the uncertainty of the outcome and amount of financial settlement, if any, with respect to the above-noted legal claims, no provisions have been recorded by the Bank.

Various legal proceedings arising from the normal course of business are pending against the Bank. Management believes that should the Bank be found liable pursuant to one or more of these proceedings, the aggregate liability resulting from such proceedings would not be material.

Commitments

Undisbursed amounts of authorized loans are approximately $958,000 at March 31, 2005. These loan commitments are for an average period of three months ($83,500-fixed rate; $875,300-floating rate). The effective interest rates on these loan commitments vary from 4.7% to 18.0%. These include the Bank's share of undisbursed amounts of authorized joint venture financings which is approximately $18,000 at March 31, 2005. The undisbursed amounts on authorized venture capital investments approximated $112,900 at March 31, 2005.

($ in thousands except as otherwise indicated)

18 - GUARANTEES, CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Future minimum lease commitments under operating leases related to the rental of Bank premises are approximately as follows:

2006	**$ 20,178**
2007	**19,564**
2008	**17,454**
2009	**15,875**
2010	**13,820**
2011 - 2020	**86,719**
	$ 173,610

19 - EMPLOYEE FUTURE BENEFITS

The Bank maintains defined benefit pension plans for eligible employees ("pension plan"), which provide post-retirement benefits based on number of years of service and average final pay and is fully indexed to the Consumer Price Index. The Bank also provides health care benefits, life insurance and other benefit for employees and eligible retirees.

The following tables present, in aggregate, information on a calendar year basis concerning the employee future benefit plans:

	Registered pension plan		Supplemental pension plans		Other plans	
	2005	2004	**2005**	2004	**2005**	2004
Change in accrued benefit obligation						
Balance at beginning of year	**$ 410,936**	$ 380,192	**$ 36,637**	$ 30,862	**$ 85,126**	$ 81,567
Current service cost	**15,715**	13,935	**1,029**	854	**3,398**	3,079
Interest cost on benefit obligation	**26,116**	26,030	**2,308**	2,127	**5,820**	5,465
Employee contributions[1]	**509**	–	**–**	–	**–**	–
Benefits paid	**(18,105)**	(16,988)	**(1,426)**	(417)	**(4,988)**	(3,594)
Actuarial (gain) loss	**22,302**	7,767	**39**	3,211	**10,849**	(1,391)
Balance at end of year	**457,473**	410,936	**38,587**	36,637	**100,205**	85,126
Change in fair value of plan assets						
Balance at beginning of year	**$ 453,920**	$ 422,309	**$ 3,377**	$ 3,607	**$ –**	$ –
Employee contributions[1]	**509**	–	**–**	–	**–**	–
Employer contributions	**–**	–	**1,027**	151	**4,988**	3,594
Actual return on plan assets during the year	**44,909**	48,599	**17**	36	**–**	–
Benefits paid	**(18,105)**	(16,988)	**(1,426)**	(417)	**(4,988)**	(3,594)
Balance at end of year	**481,233**	453,920	**2,995**	3,377	**–**	–
Surplus (deficit) at end of year	**$ 23,760**	$ 42,984	**$ (35,592)**	$ (33,260)	**$ (100,205)**	$ (85,126)
Employer contributions after December 31	**–**	–	**195**	532	**313**	750
Unamortized transitional obligation (asset)	**(47,044)**	(60,485)	**1,049**	783	**1,578**	1,775
Unamortized net actuarial loss	**83,980**	78,332	**7,529**	8,048	**13,102**	2,766
Accrued benefit asset (liability) at end of year[2]	**$ 60,696**	$ 60,831	**$ (26,819)**	$ (23,897)	**$ (85,212)**	$ (79,835)

1 Employees of the Bank are currently not required to contribute to the Pension Plans for current service. The Bank has the ultimate responsibility for ensuring that pension obligations are adequately funded over time. In specific circumstances, employees are allowed to contribute amounts to the Pension Plans for the recognition of years of service that are not already recognized.
2 Net amount recognized in balance sheet as "Other liabilities" or "Other assets", as appropriate.

($ in thousands except as otherwise indicated)

19 - EMPLOYEE FUTURE BENEFITS (continued)

The unamortized net actuarial loss in the Bank's registered pension plan is $83,980 which exceeds 10% of the fair value of the plan assets by $35,857 at December 31, 2004. The unamortized net actuarial loss in the supplemental pension plans is $7,529 which exceeds 10% of the benefit obligation balance by $3,670 at December 31, 2004. These excess amounts will be amortized to pension cost over the expected average remaining service period of active employees, commencing April 1, 2005. As a result of these changes and other factors, pension cost for the Registered pension plan and the Supplemental pension plan is expected to increase by approximately $1.6 million in fiscal 2006. Amortization of accumulated net actuarial losses in periods subsequent to March 31, 2006 will be affected principally by the discount rate used to estimate benefit obligations and by the difference between future investment results and the expected return on plan assets.

Pension and other post-retirement costs are included in Salaries and Staff benefits and are as follows:

	Registered pension plan		Supplemental pension plans		Other plans	
	2005	2004	**2005**	2004	**2005**	2004
Defined benefit cost						
Current service cost	**$ 15,715**	$ 13,935	**$ 1,029**	$ 854	**$ 3,398**	$ 3,079
Interest cost	**26,116**	26,030	**2,309**	2,127	**5,820**	5,465
Actual return on plan assets	**(44,909)**	(48,599)	**(17)**	(36)	**–**	–
Actuarial loss (gain) on benefit obligation	**22,302**	7,767	**39**	3,211	**(1,971)**	288
Costs arising in the period	**19,224**	(867)	**3,360**	6,156	**7,247**	8,832
Differences between costs arising in the period and costs recognized in the period in respect of:						
Return on plan assets	**12,637**	17,563	**(98)**	(94)	**–**	–
Actuarial loss (gain)	**(18,285)**	(1,480)	**618**	(2,849)	**2,483**	(310)
Transitional obligation (asset)	**(13,441)**	(13,441)	**(267)**	(267)	**197**	197
Defined benefit cost for the year ended March 31	**$ 135**	$ 1,775	**$ 3,613**	$ 2,946	**$ 9,927**	$ 8,719

Included in the above accrued benefit obligation and value of plan assets at year-end are the following amounts in respect of plans that are not fully funded:

	Supplemental pension plans		Other plans	
	2005	2004	**2005**	2004
Fair value of plan assets	**$ 2,995**	$ 3,377	**$ –**	$ –
Accrued benefit obligation	**38,587**	36,637	**100,205**	85,126

As at December 31, 2004, the fair value of assets in the Bank's registered pension plan is as follows:

Cash and short-term investment	**$ 2,687**	0.6%
Bonds	**185,906**	38.6%
Common and preferred shares	**292,295**	60.7%
Other assets less liabilities	**345**	0.1%
Net assets available for benefits	**$ 481,233**	100.0%

($ in thousands except as otherwise indicated)

19 - EMPLOYEE FUTURE BENEFITS (continued)

The significant actuarial assumptions adopted in measuring the Bank's accrued benefit obligations and annual benefit cost (weighted averages) are as follows:

	Registered pension plan		**Supplemental pension plans**		**Other plans**	
	2005	2004	**2005**	2004	**2005**	2004
Significant actuarial assumptions used to determine the accrued benefit obligations						
Discount rate at beginning of year	**6.25%**	6.75%	**6.25%**	6.75%	**6.25% - 6.75%**	6.75%
Discount rate at end of year	**6.00%**	6.25%	**6.00%**	6.25%	**6.00%**	6.25% - 6.75%
Expected long-term rate of return on plan assets [1]	**7.25%**	7.50%	**3.63%**	3.75%	**–**	–
Significant actuarial assumptions used to determine the annual benefit cost						
Discount rate at beginning of year	**6.25%**	6.75%	**6.25%**	6.75%	**6.25% - 6.75%**	6.75%
Discount rate at end of year	**6.00%**	6.25%	**6.00%**	6.25%	**6.00%**	6.25% - 6.75%
Expected long-term rate of return on plan assets [1]	**7.25%**	7.50%	**3.63%**	3.75%	**–**	–

[1] The expected long-term return on plan assets is calculated using assets valued at fair value.

The average rate of compensation increase is expected to be inflation which is assumed to be 2.75% (in 2004, 3.25%) plus a 0.5% productivity gain plus an adjustment for merit and promotion.

For measurement purposes, medical costs were assumed to be 7.25% in 2005 reducing by 0.75% each year to 4.25% in 2009 and subsequent years (8% in 2004 reducing by 0.75% each year to 4.25% in 2009 and subsequent years).

The Bank has two benefit obligations: one for pension benefits and the other for other employee future benefits. These benefit obligations represent the amount of pension and other employee future benefits that the Bank's employees and retirees have earned by the December 31st prior to year-end. The Bank's pension cost is calculated at this date for the March 31st that follows. Post-retirement benefits are based on valuations at March 31 of the prior year. Post-employment benefits are calculated as at March 31, 2005.

The Bank's actuaries prepare annual valuations of benefit liabilities for pension and other employee future benefits that the employees and retirees of the Bank have earned as at March 31. These valuations are based on Management's assumptions about discount rates, salary growth, expected average remaining service period of active employees, mortality and health care cost trends. The discount rate is determined by Management with reference to market conditions in place at the December 31st immediately prior to the new fiscal year (April 1). Other assumptions are determined with reference to long-term expectations.

($ in thousands except as otherwise indicated)

Sensitivity of Assumptions

The impact of a one-percentage-point increase and a one-percentage-point decrease in the key weighted-average economic assumptions used in measuring the pension benefit liability, the supplemental pension plans and the other plans liabilities and their related costs are summarized in the table below.

	Registered pension plan cost	Supplemental pension plans cost	Other plan cost
Increase (decrease) in			
Expected rate of return on assets	7.25%	3.63%	n.a.
Impact of: 1% increase	(4,451)	(16)	n.a.
1% decrease	4,451	16	n.a.
Discount rate	6.25%	6.25%	6.25%
Impact of: 1% increase	(7,211)	(692)	(12)
1% decrease	12,238	841	81
Rate of compensation increase	3.85%	3.85%	3.85%
Impact of: 0.25% increase	677	49	21
0.25% decrease	(658)	(47)	(22)
Assumed overall health care cost trend			
Impact of: 1% increase	n.a.	n.a.	9,870
1% decrease	n.a.	n.a.	(6,848)

20 - RELATED PARTY TRANSACTIONS

The Bank is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Bank entered into transactions with these entities in the normal course of business, under terms and conditions similar to those that apply to unrelated parties.

21 - SEGMENTED RESULTS OF OPERATIONS

The operations of the Bank are grouped into two principal business segments comprising Loans and Venture Capital activities. Disclosure of each segment's revenues, expenses and net income is set out in the Statement of Income and the average assets of the Loan and Venture Capital portfolios are disclosed in Notes 6 and 8 respectively.

22 - COMPARATIVE FINANCIAL DATA

Certain comparative figures have been reclassified to conform with the presentation adopted in 2005.

Five-Year Operational and Financial Summary

for the years ended March 31 ($ in thousands)

OPERATIONAL STATISTICS	2005	2004	2003	2002	2001
LOANS AND VENTURE CAPITAL					
Total financing committed					
as at March 31					
Amount	**$ 9,618,535**	$ 8,844,758	$ 8,025,719	$ 7,201,137	$ 6,352,838
Number of clients	**24,571**	22,966	21,897	20,780	19,664
Committed to lending clients					
as at March 31					
Amount	**$ 9,014,146**	$ 8,354,022	$ 7,595,964	$ 6,826,948	$ 6,056,761
Number of clients	**24,369**	22,796	21,733	20,625	19,533
Committed to investment clients					
as at March 31					
Amount	**$ 604,389**	$ 490,736	$ 429,755	$ 374,189	$ 296,077
Number of clients	**202**	170	164	155	131
Total financing authorized					
Net amount	**$ 2,409,707**	$ 2,191,459	$ 2,124,596	$ 1,845,425	$ 1,647,032
Number	**7 603**	7,338	6,387	5,806	5,173
Lending authorized					
Net amount	**$ 2,266,588**	$ 2,082,647	$ 2,031,907	$ 1,739,404	$ 1,532,870
Number	**7,523**	7,268	6,326	5,743	5,102
Investments authorized					
Net amount	**$ 143,119**	$ 108,812	$ 92,689	$ 106,021	$ 114,162
Number	**80**	70	61	63	71
FINANCIAL STATISTICS					
Net interest income and other income as a percentage of average loan portfolio	**5.7%**	5.8%	5.8%	5.9%	5.8%
Provision for credit losses as a percentage of average loan portfolio	**0.7%**	1.7%	1.5%	1.7%	2.0%
Operating and administrative expenses as a percentage of average loan portfolio	**2.8%**	2.8%	2.8%	2.9%	3.1%
Efficiency ratio	**48.5%**	48.7%	47.8%	48.5%	52.6%
CONSULTING REVENUE	**$ 18,924**	$ 20,006	$ 18,221	$ 18,189	$ 17,724

Five-Year Operational and Financial Summary

($ in thousands)

FINANCIAL INFORMATION		2005		2004		2003		2002		2001
STATEMENT OF INCOME for the years ended March 31										
Net Income (loss)										
Loans	**$**	**172,518**	$	92,555	$	94,507	$	80,458	$	37,254
Consulting	**$**	**(2,887)**	$	(3,135)	$	(3,142)	$	(5,748)	$	(5,100)
Venture Capital	**$**	**(56,143)**	$	(30,299)	$	(59,485)	$	(20,977)	$	56,168
Net Income	**$**	**113,488**	$	59,121	$	31,880	$	53,733	$	88,322
BALANCE SHEET as at March 31										
Loans, net of allowance for credit losses	**$**	**7,582,838**	$	6,977,544	$	6,288,636	$	5,669,513	$	5,054 254
Venture capital investments, net of accumulated write-down of investments	**$**	**383,649**	$	345,624	$	301,945	$	271,064	$	206,360
Total assets	**$**	**9,445,161**	$	8,809,218	$	7,791,359	$	6,897,204	$	6,225,518
Total shareholder's equity	**$**	**1,569,569**	$	1,218,459	$	1,170,017	$	960,320	$	923,304
Total liabilities	**$**	**7,875,592**	$	7,590,759	$	6,621,342	$	5,936,884	$	5,302,214
Average loan portfolio	**$**	**7,756,821**	$	7,136,429	$	6,402,284	$	5,749,376	$	5,194,279

Corporate Governance

CORPORATE GOVERNANCE: STRENGTHENING CONTROLS AND ACCOUNTABILITY

BDC's corporate governance is founded on ethics and the collective will of our Directors, Management and employees to express our corporate values in their professional conduct.

BDC is committed to strong governance and has improved its structure and processes in recent years. In the face of the significant evolution of governance and ethics in the private sector, as well as the findings of the Auditor General's November 2003 audit report on the Sponsorship Program, the Board implemented in fiscal 2005 a wide range of measures to further strengthen BDC's transparency, oversight and accountability regime.

The Auditor General, in her special examination report of BDC made public in July 2004 (available on BDC's Web site under Governance), stated that BDC "has the core elements of a good governance framework" and that it "has invested a significant amount of effort in developing and modernizing its governance structure."

When the Treasury Board of Canada issued its Report on the *Review of the Governance Framework for Canada's Crown Corporations* in February 2005, BDC was pleased to have been able to report that it had implemented most of the measures applicable to Crown corporations.

BOARD STEWARDSHIP

BDC governance policies are designed to help the Board supervise Management and approve the direction in which Management proposes to take BDC, while keeping in mind BDC's public policy mandate, as well as its culture of sound and ethical business principles.

The 12-member Board derives its strength from the background, diversity, qualities, skills and experience of its members.

The Board is responsible for the following matters.

STRATEGIC PLANNING

The Board participates annually in a strategic planning session organized and managed by the Senior Management Team. This is a key milestone of BDC's annual strategic planning process that culminates in the tabling with the shareholder of BDC's Board-approved annual five-year Corporate Plan. The Corporate Plan sets out BDC's goals for operating commercially and profitably on a pan-Canadian basis, and helping to create and foster the development of Canadian SMEs.

Throughout the year, the Board monitored the implementation and effectiveness of the Corporate Plan.

RISK MANAGEMENT

Recognizing that evaluation of risk is a dynamic exercise and that the environment BDC operates in is in a state of constant evolution, the Board examined the principal credit, market and operational risks which may impact BDC and approved the process proposed by Management to monitor and manage them. The Board also conducted a comprehensive review of the "group limits" i.e., the lending limits offered to businesses according to their risk rating level and adopted new guidelines.

A Treasury Risk Policy governing the measurement, monitoring and mitigation of financial and business risks in Treasury activities was also reviewed and approved by the Board.

SUCCESSION PLAN AND EVALUATION OF MANAGEMENT PERFORMANCE

The Succession Plan, updated annually, was reviewed by the Human Resources Committee and approved by the Board. It identified all critical and key positions and provided for the selection of potential candidates and the development of personnel for these positions. The evaluation and compensation of the top management team was also approved by the Board.

INTEGRITY OF INTERNAL CONTROLS AND MANAGEMENT INFORMATION SYSTEM

The Board reviewed and enhanced the Audit Committee Terms of Reference and confirmed its commitment to the principle of independence by confirming the direct reporting of all audit functions (internal and external) to the Audit Committee.

The Board delegated to the Audit Committee the responsibility to oversee the review of complaints regarding all disclosure of wrongdoing. Reports on the results of investigations of wrongdoing are to be provided to the Audit Committee on an ongoing basis.

The Board monitored the implementation of the CREM project which will significantly improve the client management information systems.

COMMUNICATION AND STAKEHOLDER RELATIONS

A comprehensive communication plan entitled "Trust and Confidence – Earning it Back" was communicated to the Board. The plan is aimed at developing and maintaining a productive and harmonious relationship with the shareholder and other stakeholders. Monitoring of progress against this plan was performed by the Board through regular management reports on this matter at Board meetings.

The Board ensures open disclosure of financial information by approving the Annual Report on BDC's operations and, as required by law, submitting it to the shareholder and, ultimately, to Parliament.

GOVERNANCE IN GENERAL

The Board made numerous enhancements to BDC's framework of governance in 2005. It approved early in fiscal 2005 a plan of action and incorporated practices drawn from the private sector making BDC a leader in the field.

First, BDC employees reaffirmed their fundamental values (ethics, client connection, team spirit, accountability, work/life balance). The Board subsequently approved a new Board Code of Conduct, as well as an improved and updated Employee Code of Conduct, Ethics and Values which incorporates BDC's fundamental values. The Employee Code of Conduct applies to all employees, including the President and CEO. These two codes set out the principles that guide and shape our business activities: compliance with the law, honouring trust, fairness, objectivity, integrity and corporate and individual responsibility. These codes also contain provisions for dealing with sensitive and complex situations, such as disclosure of information on wrongdoing.

The Board reviewed and approved the rules on personal trading of employees, maintaining the strictest standards for BDC employees. It is also reviewing and updating the personal trading rules and processes applying to Directors. In response to the Auditor General's audit report on the Sponsorship Program released in November 2003, the Board approved a policy relative to any transaction involving BDC and other government departments and agencies so as to ensure that any such transactions are brought to the Board for approval.

Very early in fiscal 2005, a Nominating Committee and a Special Committee were created and their terms of reference approved. The Nominating Committee identified criteria and competencies required for its Chairperson, Directors, President and CEO positions and communicated them to the shareholder. After accomplishing its mission, the Special Committee was dissolved later in the year.

Improvements to timely access to relevant information needed by Directors to discharge their duties were made by Management throughout the year. Directors receive a comprehensive package of information before each Board and committee meeting, as well as executive summaries. After each committee meeting, the full Board receives a report on the committee's work.

The Board met 12 times during the year. These meetings were held in four different locations across Canada. As shown in Board reports, attendance levels at Board meetings are very high.

The Board continued to promote open communications with Management, enabling senior management to participate in Board meetings. The Board also held in-camera sessions at the conclusion of each meeting to foster open and frank discussions outside the presence of Management.

Once they are appointed, directors attend a briefing session and meet all members of senior management to receive the information they need about BDC's operations to properly carry out their responsibilities. In addition, directors can contact members of senior management at any time to obtain the additional information they require to fulfill their mandate. They are invited to participate in activities and professional development workshops on corporate governance or other topics related to their responsibilities. The Board approved a new Policy on Director Orientation and Continuing Education to formalize its commitment to excellence and allow it to discharge its responsibilities effectively.

The Board delegates part of its work to seven committees.

- Governance Committee
- Audit Committee
- Human Resources Committee
- Pension Fund Committee and the Trustees of the Pension Fund
- Credit/Investment Committee
- Special Committee (dissolved December 8, 2004)
- Nominating Committee

The Board ensures that five out of these seven committees are composed exclusively of Directors who are not part of Management. However, the Credit/Investment Committee includes the President and CEO whereas the Pension Fund Committee and the Trustees of the Pension Fund include the President and CEO, two BDC officers and one pensioner. These committees review and supervise various matters that the Board refers to them. All committees report regularly to the Board on their activities and submit their recommendations and resolutions to the Board for approval. A brief description of their main responsibilities and achievements for fiscal 2005 follows.

BDC BOARD COMMITTEES

Governance Committee

The Governance Committee met six times in fiscal 2005.

The Committee was responsible for reviewing the following policies which were adopted by the Board in 2005.

- Internal Disclosure of Information Concerning Wrongdoing in the Workplace
- Employee Code of Conduct, Ethics and Values
- Board Code of Conduct

It reviewed and approved new terms of reference for the following committees.

- Audit Committee
- Nominating Committee
- Special Committee
- Governance Committee

It conducted a formal evaluation of the effectiveness of the Board, its committees and its Chairperson, and submitted the conclusions to the Board. It reviewed and recommended for Board approval, the Orientation and Continuing Education Policy for Directors and the Policy on Personal Trading for Employees.

The composition of various committees was assessed and recommendations were made to the Board in that regard.

Chairperson: Cedric E. Ritchie
Members: Cynthia Desmeules-Bertolin, Louis J. Duhamel, John Hyshka, Kelvin K. M. Ng, Valerie Payn
(Composition as at May 24, 2005)

Nominating Committee

In accordance with Treasury Board instructions, the Board established at its May 27, 2004 meeting a Nominating Committee to follow a new merit-based appointment process for its CEO.

Chairperson: Terry B. Grieve, CA
Members: Louis J. Duhamel, James A. Durrell, Roslyn Kunin, Cedric E. Ritchie
(Composition as at March 30, 2005)

The Nominating Committee merged with the Governance Committee on May 24, 2005.

Audit Committee

The Audit Committee met seven times in fiscal 2005 and oversaw the finalization of the Special Examination. BDC is required by the *Financial Administration Act* to undergo a special examination performed by its auditors every five years. The Committee received periodic updates and reviewed the final report together with Management's action plans. During the year, Committee members completed the enhancement to their Terms of Reference and work plan. As part of its responsibility for setting the tone for internal control, the Committee reviewed the revised BDC Code of Conduct, Ethics and Values. In addition, the Committee examined the Internal Disclosure of Information Concerning Wrongdoing in the Workplace, as well as the requirement for reporting to the Committee and monitoring. Responsible for overseeing financial reporting, the Committee assists the Board by reviewing quarterly financial results, the independence of the external auditors and their involvement in the annual financial audit. The financial statements and Management's Discussion and Analysis (MD&A) in the Annual Report are reviewed prior to Board approval. The internal audit and inspection team provides an annual work plan and quarterly reports outlining the results of its work. During the year, the Committee met with the external auditors three times and the internal auditor once in private sessions.

Chairperson: Terry B. Grieve, CA
Members: Trevor Adey, Stan Bracken-Horrocks, Léandre Cormier, John Hyshka, Roslyn Kunin, Leo Ledohowski
(Composition as at May 24, 2005)

Human Resources Committee

The Human Resources Committee is responsible for reviewing and recommending for Board approval programs and practices of Directors with respect to the effective management of human resources and for ensuring their alignment with BDC's corporate objectives while sustaining shareholder value.

On an annual basis, the Committee reviews and recommends the following.

- Human Resources Strategic Plan and objectives
- Major compensation policies and programs, annual corporate performance objectives and achievement against these objectives
- Succession Plan for critical and key positions at BDC
- Summary of performance assessments and annual compensation payments to senior executives.

During fiscal 2005, the Human Resources Committee held six meetings during which several key initiatives were reviewed and approved. The Human Resources Strategic Plan, the implementation of Total Rewards (designed to offer BDC employees a compensation more closely aligned to market practices, as well as more flexibility regarding the BDC Pension Plan) and the introduction of the new pension plan design, the re-design of certain incentive-based plans, BDC's Succession Plan and the annual performance assessments and compensation payments to senior executives were some of the key matters brought to the Board.

Chairperson: Louis J. Duhamel
Members: Trevor Adey, Léandre Cormier, Terry B. Grieve, Kelvin K. M. Ng, Valerie Payn
(Composition as at May 24, 2005)

Pension Fund Committee and the Trustees of the Pension Fund

The Pension Fund Committee and the Trustees of the Pension Fund monitor the activities of the pension fund, ensure that it is administered and financed in accordance with applicable legislation, and verify that any changes to the fund reflect the Committee's terms of reference.

The Committee met four times during fiscal 2005 to review the performance of the fund's investment managers, the financial statements and the actuarial assumptions of the pension plan. Changes were made to the management structure to enhance the fund's financial performance and stability.

Due to improved domestic and international stock markets, the fund reported a positive return on its assets for the year ended December 31, 2004.

Chairperson: Louis J. Duhamel
Members: André Bourdeau, Clément Albert, Cynthia Desmeules-Bertolin, Mary Karamanos, Roslyn Kunin, Leo Ledohowski, Yves Milette, Cedric E. Ritchie
(Composition as at May 24, 2005)

Credit/Investment Committee

The Credit/Investment Committee met 26 times in fiscal 2005. It approved loans and venture capital investments that exceeded Management's delegated authority.

Chairperson: Cedric E. Ritchie
Members: André Bourdeau, Stan Bracken-Horrocks, Léandre Cormier, Terry B. Grieve, Roslyn Kunin
(Composition as at May 24, 2005)

Special Committee

The duties of the Special Committee were basically to assure proper follow-up on matters that could arise concerning a previous President and CEO and to monitor the consequences of the replacement of the President and CEO. After these two outstanding issues were settled, the Special Committee was dissolved at the December 8, 2004 Board meeting.

Cedric E. Ritchie | Roslyn Kunin | André Bourdeau | Valerie Payn | Louis J. Duhamel | Kelvin K. M. Ng

Board of Directors*

CEDRIC E. RITCHIE, O.C.

CHAIRMAN OF THE BOARD, BDC
TORONTO, ONTARIO

Cedric E. Ritchie, O.C., has been Chairman of BDC since January 2001. Mr. Ritchie was Chairman and CEO of The Bank of Nova Scotia from 1974 until his retirement in 1995. He sits on the boards of several organizations including Canada Post Corporation, Mercedes-Benz Canada and Twin Mining Corporation. Mr. Ritchie is a Fellow of the Institute of Canadian Bankers and Officer of the Order of Canada. He was inducted into the Canadian Business Hall of Fame in 2000.

ROSLYN KUNIN, PH.D., C.M.

PRESIDENT
ROSLYN KUNIN & ASSOCIATES INC.
VANCOUVER, BRITISH COLUMBIA

Dr. Roslyn Kunin joined the BDC Board of Directors on May 25, 1999. She is President of Roslyn Kunin & Associates Inc., an economic consulting firm. Previously, she was a regional economist with Employment and Immigration Canada and held several academic positions. Dr. Kunin is past Chair of the Vancouver Stock Exchange and former Executive Director of the Laurier Institution. Dr. Kunin is a Member of the Order of Canada.

ANDRÉ BOURDEAU

ACTING PRESIDENT AND CHIEF EXECUTIVE OFFICER AND EXECUTIVE VICE PRESIDENT, FINANCIAL SERVICES AND BDC CONSULTING GROUP
MONTRÉAL, QUEBEC

André Bourdeau has been with BDC since 1973 in positions of increasing responsibility. Among his previous positions, he was responsible for heading up Quebec Operations, was Senior Vice President, Operations for the national network, had responsibility for Management Services in Quebec and was Executive Assistant to the President. Mr. Bourdeau holds a Master's Degree in Business Sciences, Finance, from the *Université de Sherbrooke*.

VALERIE PAYN

PRESIDENT
HALIFAX CHAMBER OF COMMERCE
HALIFAX, NOVA SCOTIA

Valerie Payn, who joined the BDC Board of Directors on March 24, 2005, is President of the Halifax Chamber of Commerce, a position she has held since the Chamber was formed in January 1995. Previously, she was the General Manager of the Halifax Board of Trade, making her the first woman to hold the position since its establishment in 1750. Ms. Payn holds an MBA from Saint Mary's University in Halifax, Nova Scotia.

* Our sincere appreciation is extended to the following Directors who have left the Board since our last Annual Report: Leo Cholakis, Jennifer Corson, James A. Durrell, N. Murray Edwards, Gordon J. Feeney, Oryssia Lennie, Barbara Stymiest and Jean-Claude Villiard.

LOUIS J. DUHAMEL

PARTNER
TAKTIK (DIVISION OF SECOR CONSEIL INC.), MONTRÉAL, QUEBEC

Louis J. Duhamel, who became a BDC Director on April 30, 2003, has held various positions with Secor Conseil Inc., one of Canada's leading management consulting groups. He is currently a partner in Secor's SME division, Taktik, which he co-founded.

KELVIN K. M. NG

PRESIDENT
NG NORTH INC., EDMONTON, ALBERTA

Kelvin Ng, who joined the BDC Board of Directors on April 21, 2005, is President of Ng North Inc., a management consulting firm. Previously, he served as a member of the Legislative Assembly for the constituency of Cambridge Bay in Nunavut as well as being the first Deputy Premier, Minister of Finance and Chair of the Financial Management Board in the Government of Nunavut. Mr. Ng also served two terms in the Legislative Assembly of the NWT as well as holding numerous portfolios in the Government of the NWT. Prior to his involvement in territorial politics, he held numerous senior positions in the private sector in addition to being actively involved in local/territorial chambers of commerce, municipal politics and non-profit organizations. Mr. Ng is the recipient of the Queen's Golden Jubilee Award, awarded for Civic Service in 2002.

Léandre Cormier | Cynthia Desmeules-Bertolin | Leo Ledohowski | Stan Bracken-Horrocks | Terry B. Grieve | Trevor B. Adey

Board of Directors

LÉANDRE CORMIER

PRESIDENT AND OWNER
WEST-WOOD INDUSTRIES LTD.
SCOUDOUC, NEW BRUNSWICK

Léandre Cormier became a Director of BDC on August 15, 2002. He is President and owner of West-Wood Industries Ltd. of Scoudouc, New Brunswick which produces high-end custom windows and doors and other value-added wood products for Canadian and U.S. markets. From 1987 to 2000, Mr. Cormier was the president and owner of Georgetown Timber Ltd., of Georgetown, P.E.I.

CYNTHIA DESMEULES-BERTOLIN

SENIOR ADVISOR, MÉTIS NATION OF ALBERTA EDMONTON, ALBERTA

Cynthia Desmeules-Bertolin, who joined the BDC Board on March 12, 2002, is the legal advisor to the Métis Nation of Alberta on the Aboriginal Rights agenda. Ms. Desmeules-Bertolin is a National Jurist for the PAR (Progressive Aboriginal Relations) Program at the Canadian Council for Aboriginal Business. She has served as a Vice-Chair of the National Aboriginal Economic Development Board federally and as a Director for Apeetogosan Métis Development Inc.

LEO LEDOHOWSKI

PRESIDENT
CANAD INNS, WINNIPEG, MANITOBA

Leo Ledohowski joined the BDC Board of Directors on March 24, 2005. He is President and CEO of Canad Inns, which owns and operates seven hotels in Winnipeg, one in Portage La Prairie and one in Brandon, Manitoba. Previously, Mr. Ledohowski served as a University professor in the Faculty of Commerce at both Carleton University in Ottawa and at the University of Manitoba. He received his Certified Hotel Administrator designation in 1990. Mr. Ledohowski received the Distinguished Service Award from the University of Manitoba in May 2003 and his FCMA, a designation recognizing outstanding contributions to the profession, in October 2003.

STAN BRACKEN-HORROCKS

INCORPORATED PARTNER
PRICEWATERHOUSECOOPERS,
VANCOUVER, BRITISH COLUMBIA

Stan Bracken-Horrocks, who joined the BDC Board of Directors on April 7, 2005, is leader of the Global Forest and Paper Industry Practice at PricewaterhouseCoopers. He studied at the University of British Columbia and later received his Chartered Accountant designation. He has worked with PricewaterhouseCoopers since 1962 and gained extensive experience with board of directors of public companies and their audit and finance committees. Mr. Bracken-Horrocks is a past president of the Institute of Chartered Accountants. He is active in his community, having served on a number of boards of directors and is currently on the board of the Vancouver Police Foundation.

TERRY B. GRIEVE, CA

PRINCIPAL, VENTURES WEST
MANAGEMENT INC. SASKATOON,
SASKATCHEWAN

Terry B. Grieve, who joined the BDC Board on April 30, 1996, is a native of Saskatchewan and a principal of Ventures West Management Inc., a private, professional venture capital management firm. He is also Executive Vice President of the Saskfund group of companies.

TREVOR B. ADEY

CEO
CONSILIENT®, ST. JOHN'S,
NEWFOUNDLAND & LABRADOR

Trevor Adey, who joined the BDC Board of Directors on April 21, 2005, is CEO of Consilient, a global developer of software for mobile devices and phones. Previously, he was Director of Sales for NewEast Technologies, which grew and evolved into Stratos Global where he was Vice President of Sales and Business Development. Earlier, Mr. Adey was Director of Sales with Infosat Telecommunications in Vancouver, B.C. In May 2005, Mr. Adey was named one of Canada's Top 40 Under 40. Mr. Adey also received the "Emerging Entrepreneur of the Year" Award from Ernst & Young in 2004.

André Bourdeau | Edmée Métivier | Guy G. Beaudry | Michel Ré | Mary Karamanos | Alan B. Marquis

Senior Management Team

ANDRÉ BOURDEAU

ACTING PRESIDENT AND CHIEF EXECUTIVE OFFICER AND EXECUTIVE VICE PRESIDENT, FINANCIAL SERVICES AND BDC CONSULTING GROUP
MONTRÉAL, QUEBEC

André Bourdeau has been with BDC since 1973 in positions of increasing responsibility. Among his previous positions, he was responsible for heading up Quebec Operations, was Senior Vice President, Operations for the national network, had responsibility for Management Services in Quebec and was Executive Assistant to the President. Mr. Bourdeau holds a Master's Degree in Business Sciences, Finance, from the *Université de Sherbrooke*.

EDMÉE MÉTIVIER

EXECUTIVE VICE PRESIDENT
INTEGRATED RISK AND TECHNOLOGY MANAGEMENT

Edmée Métivier joined BDC in 2000. She is responsible for Systems and Technology, Credit Risk Management, Treasury, Integrated Risk and Portfolio Management and Aboriginal Banking Services. She came to BDC following a 20-year career with RBC Financial Group. Ms. Métivier is a Board member of Shad International, the Montréal Women's Y Foundation and Precarn Incorporated. She holds an M.A. in Practicing Management from University of Lancaster, England.

GUY G. BEAUDRY

SENIOR VICE PRESIDENT
CORPORATE AFFAIRS
AND CHIEF PLANNING OFFICER

Guy G. Beaudry joined BDC in October 2001. He is responsible for Corporate Planning and Research, Marketing and E-business, Public Affairs, Shareholder Relations and Advertising, Legal Affairs and Corporate Secretariat. Previously, he was Chairman and Chief Executive Officer of Wavepath, a Silicon Valley wireless telecom business unit of Groupe Vidéotron and, earlier, Senior Vice-President, Corporate Affairs, of Groupe Vidéotron. Mr. Beaudry, a Law graduate of the *Université de Montréal*, is a past Chairman of the Board of the Canadian Cable Television Association and an alumnus of Canada's Top 40 Under 40.

MICHEL RÉ

EXECUTIVE VICE PRESIDENT
INVESTMENTS

Michel Ré is responsible for subordinate financing and venture capital activities. He has more than 30 years of experience at BDC, where he has held a wide variety of positions in Financial Services gaining an in-depth knowledge of the needs of entrepreneurs in many sectors of the economy. Mr. Ré holds a Bachelor of Administration degree from the *Université du Québec à Montréal*. He is a governor of the Quebec Venture Capital Association, Board member of Sommet Capital 2000 and was a member of the Board of the Canadian Venture Capital Association.

MARY KARAMANOS

SENIOR VICE PRESIDENT
HUMAN RESOURCES

Mary Karamanos, who joined BDC in October 2002, is responsible for the development and implementation of BDC's human resources strategy. She has over 20 years' experience in strategic human resources and has held senior positions at Corby Distilleries in Canada and Allied Domecq, Spirits and Wine, U.S.A. She holds a B.A. in Industrial Relations from McGill University and a CCP designation (Certified Compensation Professional) from World at Work. She is active in the community and supports a number of children's charities.

ALAN B. MARQUIS

SENIOR VICE PRESIDENT
FINANCE AND CHIEF FINANCIAL OFFICER

Alan B. Marquis joined BDC in 1995. His responsibilities include Financial Reporting and Control, Financial Planning, Loan Accounting, Middle and Back Office Operations and Real Estate Facilities Management. Before joining BDC, Mr. Marquis was Executive Vice-President of Cast North America Inc., responsible for Finance, Container Operations and Logistics. Previously, he was Chief Financial Officer at Canadair Limited. Mr. Marquis holds a Bachelor of Commerce degree from the University of Edinburgh, Scotland and is a member of the Institute of Chartered Accountants of Scotland.

Glossary

ALLOWANCE FOR CREDIT LOSSES
Represents an amount deemed adequate by Management to fully provide for impairment in the existing loan portfolio. Allowance for credit losses can be specific or general and is recorded on the balance sheet as a deduction from loans.

CONSULTING REVENUE
Fees from services provided by BDC's national network of consultants to assess, plan, and implement result-driven, cost-effective management solutions.

DEBT TO EQUITY RATIO
A measure to ensure BDC operates within its statutory limitations on debts, calculated as the aggregate of the borrowings and contingent liabilities over the total shareholder's equity. The statutory limitations of BDC's debt to equity ratio may not exceed 12:1.

DERIVATIVES FINANCIAL INSTRUMENTS
Contracts whose value is "derived" from interest or foreign exchange rates, or equity or commodity prices. Use of derivatives allows for the transfer, modification or reduction of current or expected risks from changes in rates and prices.

DIRECT INVESTMENTS
Represents the investments made by BDC directly in the investee companies.

EFFICIENCY RATIO
A measure of the efficiency with which BDC incurs expenses to generate income on its loan operations. It is calculated as operating and administrative expenses as a percentage of net interest and other income. A lower ratio indicates improved efficiency.

GENERAL ALLOWANCE
Established by Management to recognize credit losses in the existing performing loan portfolio, which have occurred as at the balance sheet date, but have not yet been specifically identified on an individual loan basis.

HEDGING
A risk management technique used to insulate financial results from market, interest rate or foreign currency exchange risk (exposure) arising from normal banking operations.

IMPAIRED LOANS
Loans where, in Management's opinion, there has been a deterioration of credit quality such that there is no longer reasonable assurance of the timely collection of the full amount of principal and interest.

INVESTMENT INCOME
Income generated from BDC's venture capital investments, such as interest, dividends, and net realized gains on divestitures.

MASTER NETTING AGREEMENT
Is a standardized bilateral contract that enables trading counterparties to agree to net collateral requirements; and, in a close-out situation, settlement amounts related to underlying master trading contracts relating to sales and purchases of financial instruments. The Master Netting Agreement offsets positive balances of one transaction with negative balances of another.

NET INTEREST AND OTHER INCOME
The difference between what is earned on loan portfolio assets and securities, and what is paid on borrowings.

NET MARGIN
Is the net interest and other income earned by the performing loan portfolio, expressed as a percentage of the total average loan portfolio.

PERFORMING PORTFOLIO
Loans for which there is reasonable assurance of the timely collection of principal and interest.

PERMANENT IMPAIRMENT
Investments become permanently impaired, in Management's opinion, when one or more of the following conditions apply: (i) a prolonged period during which the quoted market value of the investment is less than carrying value; (ii) suspension of trading in the investee securities; (iii) continued and severe losses that were not planned for at time of investing; (iv) liquidity or going concern problems that cannot be resolved in the immediate future; (v) material negative deviation from budget or plan. This would include not only financial data but also qualitative data about investee and all aspects of its business, e.g.: product, markets, technology, etc.

PROVISION FOR CREDIT LOSSES
A charge to income that represents an amount deemed adequate by Management to fully provide for impairment in the existing loan portfolios, given the composition of the loan portfolios, the probability of default on the loans, the economic environment and the allowance for credit losses already established.

RETURN ON COMMON EQUITY (ROE)
Net income, less preferred share dividends, expressed as a percentage of average common equity.

SPECIFIC ALLOWANCE
Established by Management to recognize credit losses in the existing loan portfolios, which have occurred and are identified on an individual loan basis, as at the balance sheet date.

SWAPS
Interest rate swaps are agreements to exchange streams of interest payments; typically one at a floating rate, the other at a fixed rate, over a specified period of time, based on notional principal amounts. Cross-currency swaps are agreements to exchange payments in different currencies over pre-determined periods of time.

WRITE-DOWN
To recognize the loss when the value of a venture capital investment is permanently impaired.

BDC Overview

BDC FINANCING

BDC Financing offers the right type of financing at all stages of development, from start-up to expansion. Specialized financing solutions provide support for fast-growing clients in market segments, such as manufacturing, exporting, and knowledge-based sectors.

TERM FINANCING

Financing for a complete range of longer-term needs for capital expenditure or liquidity, such as plant expansion or new machinery and equipment.

CO-VISION LOANS

Financing for start-ups aimed at supporting entrepreneurs who need equipment or working capital (up to $100,000) to start their business.

PRODUCTIVITY PLUS LOANS

Financing (up to $5 million) for new or used equipment and machinery geared to improve the productivity of the business.

INNOVATION FINANCING

Working capital loans (up to $250,000) to finance business growth and support the development and implementation of innovation strategies.

CORPORATE FINANCE

BDC's Corporate Finance strategy ensures that BDC can accompany the growth of its clients. It also provides support for medium-sized firms that fall outside the risk appetite of other lenders.

BDC CONSULTING

BDC Consulting offers a wide range of customized consulting services supporting the operational efficiency, quality, management and growth aspects of SMEs. These services are delivered via a national network of private consultants.

BUSINESS, STRATEGIC AND FINANCIAL PLANNING

A comprehensive plan offered to start-ups and more mature businesses, and that includes solutions to help assess current operations, improve company management and evaluate the financial viability of projects and financial needs.

SUCCESSION PLANNING

Succession Planning targets small businesses or family enterprises whose principals are planning to retire in the next 3 to 5 years. It includes a leadership analysis, a company analysis and a complete action plan to deal with this situation.

LEAN MANUFACTURING (INCLUDES REVIEW OF OPERATIONAL PROCESSES, KAIZEN, PLAN LAYOUTS)

The Review of Operational Processes (ROP) is a consulting service that supports the productivity improvements of a business by providing an in-depth assessment of a firm's operations management process, which involves an action plan specifically tailored to the firm's needs.

MARKETING

Companies seeking concrete information on their industry, competition and market opportunities can benefit from a Market Research solution. It helps firms to successfully launch a new product or tap into new markets.

HUMAN RESOURCES PLANNING AND DEVELOPMENT

Establishes effective organizational structures, HR policies and procedures - hiring, compensation, benefits, performance management, and job training – to match growth and help firms attract, retain, and develop employees.

GROWTH POTENTIAL ASSESSMENT

BDC's unique growth potential assessment (GPA) provides an objective, cost-effective and time-friendly diagnosis of a company, from top to bottom. The objective is to show where improvements can be made and how to maximize business strengths and minimize weaknesses that could hinder success.

QUALITY MANAGEMENT: ISO AND HACCP

BDC offers specialized solutions – including ISO certification and HACCP – to export-based companies or those seeking new exporting opportunities in the food, automotive and aerospace industries, as well as those whose operations have an impact on the environment.

GOING GLOBAL – EXPORTING STRATEGY

Going Global's step-by-step approach to exporting provides practical, authoritative information to help evaluate export potential and readiness. This solution is offered through group seminars or individual counselling with an export advisor who helps adapt the concepts to a specific firm.

BDC INVESTMENTS

BDC Investments offers its services via two branded customer facing units: venture capital **(BDC Venture Capital)** and subordinate financing **(BDC Subordinate Financing)**.

BDC Venture Capital Investments works as a complementary lender and investor in the Canadian marketplace. It offers both venture capital and subordinate financing solutions.

BDC Venture Capital operates as an "evergreen" source that has the financial capacity to support young technology companies from the seed stage to public market. It acts as a catalyst in the venture capital industry through direct and indirect investing. Through direct investments, BDC Venture Capital leverages capital from other venture capitalists to finance early-stage new technology Canadian companies. Through indirect investments, BDC Venture Capital supports the development of a broader base of new private fund managers in Canada.

BDC Venture Capital is the only venture capitalist with a pan-Canadian presence. It has more than 35 dedicated professionals with specialized backgrounds who operate throughout the country. BDC Venture Capital is an early-stage technology investor that focuses on the smaller end of the market i.e., first round investments between $500,000 and $3 million.

Subordinate financing is being offered via **BDC Subordinate Financing**. It is a hybrid instrument incorporating elements of both debt financing and equity financing. BDC Subordinate Financing has consistently played a leadership role in this market and complements the small number of lenders by focusing on fast-growing, innovative companies.

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