Banking on Canadian entrepreneurs

Annual Report

April 2005 – March 2006

Entrepreneurship The ability to **create** and **grow** where others fail to see the opportunity to do so. The **willingness** to take calculated risks to reach goals.

Development **Developing** your idea or innovation into a business plan and a successful company. BDC accompanies Canadian entrepreneurs through every stage of their business' **development:** new processes and innovation for greater productivity, new and expanded markets, exports, successful transitions. *Good planning brings* **development** *and growth.*

Canada

MANDATE

BDC's mandate, as set out in the *Business Development Bank of Canada Act* (BDC Act) of 1995, is to support Canadian entrepreneurship by providing financial, consulting and venture capital services.

MISSION

To help create and develop Canadian small and medium-sized businesses through timely and relevant financial, venture capital 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 core values that define BDC and strengthen its corporate culture: ethics, client connection, team spirit, accountability and work/life balance.

Table of contents

WHO WE ARE

Business Development Bank of Canada (BDC) is a Crown corporation created by Parliament and wholly owned by the Government of Canada. We are accountable to Parliament through the Minister of Industry.

WHAT WE DO

We promote entrepreneurship by providing financing, consulting and venture capital services to Canadians who are creating and growing small and medium-sized enterprises (SMEs).

WHY WE DO IT

It is in the public interest to promote entrepreneurship and support the development of small and medium-sized business in Canada. Successful entrepreneurs make a crucial contribution to prosperity, from which all Canadians benefit.

KEY SERVICES

***BDC* Financing**
Long-term loan financing designed particularly to support business growth, start-ups and innovation strategies, and to offer equipment financing for modernization purposes.
(Note: this includes subordinate financing.)

***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* Venture Capital**
Equity investments to cover 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* 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).

Creation *Start a business by* **developing** a business plan.

Commercialization *Take a new idea to market and* **develop** *a strategic plan* to turn it into a successful company.

Innovation and productivity

Consulting services can help **develop** a strategic plan to meet today's many competitive challenges.

Growth **Develop** *new markets* with sound financial plans and export strategies.

Succession *BDC can help* **develop** *and implement* a business ownership transition plan.

Human Resources *Investing in human resource management* is key to business **development**.

CHAIRMAN'S MESSAGE

BDC has had a very successful year. In fulfillment of its mandate, it provided support to 26,000 Canadian entrepreneurs. It did this in an efficient, commercially viable way, which will enable the return of a $21 million dividend to the government.

BDC supports entrepreneurship by helping Canadians create and grow their small and medium-sized businesses. This is BDC's raison d'être; their success is our success.

The responsibility of the Board of Directors is stewardship. We ensure that BDC's activities are aligned with its statutory role and that it fulfills its public policy mandate in an ethical, efficient and effective way. We are accountable to Parliament through the Minister of Industry.

Cedric E. Ritchie
Chairman of the Board

Our key tasks are to:

- ensure the highest standards of corporate governance policy and practice
- approve the strategic direction of BDC's Corporate Plan
- ensure BDC has identified its principal risks and adopted the right systems to manage these risks
- review and approve management's succession plan (including appointing, training and monitoring senior management)
- ensure BDC's information systems and management practices meet its needs and give us confidence in the integrity of the information produced
- oversee communications and public disclosure
- set BDC's human resources policies and practices.

We welcome the reports of the Auditor General of Canada and the President of the Treasury Board. We use these, with industry best practices, to ensure our systems and practices reflect the highest standards possible.

This year, the Board was actively involved in the recruitment of BDC's president. We clarified the requirements of the role, defined the qualifications that candidates should possess and hired an executive recruitment firm to find the right person. The process secured a very qualified candidate with varied experience in the private sector, Jean-René Halde. The government confirmed Mr. Halde as president in June.

BDC now has new performance indicators to monitor how it fulfills its public policy mandate over the long term. This performance framework will complement BDC's existing performance measures. See page 20 for more details.

New Board members must have a complete and accurate understanding of their role and responsibilities. Upon joining, they receive orientation and briefings. As members, they receive ongoing education on governance, as well as on any issue that they deem pertinent to their role and that they request. We annually examine and re-approve the Board Code of Conduct.

I would like to extend my deep appreciation to the following BDC Directors who have left the Board: James Durrell, Roslyn Kunin, Oryssia Lennie and Jean-Claude Villiard.

On behalf of all Board members and the dedicated, hardworking employees of BDC, I would like to thank Parliament for the privilege of acting in this role. Being part of BDC's contribution to Canadian society is an honour as well as a responsibility.

Cedric E. Ritchie

PRESIDENT'S MESSAGE

It was an honour to join BDC's proud, 62-year history of contribution to the public good by becoming its president in June 2005. I bring to this role more than 30 years of private sector experience.

Jean-René Halde
President and Chief Executive Officer

In creating BDC, Parliament created an autonomous, flexible instrument of public policy to promote entrepreneurship by supporting Canadians who are starting and growing their own businesses. I trust you will find this Annual Report answers questions you might have about how we are translating our mandate into ethical, efficient and effective operations.

BDC is a development bank for Canadian SMEs. We provide services – lending, consulting and venture capital – to Canadian entrepreneurs. We do so in a commercially viable way and do not receive an annual subsidy from Parliament.

Management Results

This past year was outstanding. Our unique and valued relationships with Canadian entrepreneurs garnered a client satisfaction rate of 92%.

In total, BDC has $10.3 billion committed to 26,000 clients. Most of this, $9.7 billion, is in loans and subordinate financing. It also includes $655 million committed to our venture capital clients. These investments work to turn new ideas and innovations into successful companies. Our consulting revenues reached $21.6 million, and we plan to expand our consulting reach and offering.

Last year, our return on common equity was 9.2%. This will translate into a dividend payment of $21 million to our shareholder, the Government of Canada. Since 1997, we have also paid $98 million in dividends to the government.

Public Policy Indicators

In response to the government's stated desire to reassert the public policy role of Crown corporations, we have developed a framework of new indicators to track BDC's long-term fulfillment of its public policy mandate.

We intend these to be as rigorous and helpful as possible. Please note, however, that they are a work in progress. Should we determine that they are less helpful than they might be, we will amend or dispose of them. If we craft other indicators of greater usefulness or validity, we will add them. I encourage you to read more on page 20.

Public Policy Issues

BDC has only one client: Canadian SMEs. We are attuned to their needs and among the first to detect issues that affect them. This focus – as well as our ongoing business relationships with 26,000 of them – enables us to amass a wealth of information about them and their growth over time.

SME growth depends on competitiveness. One challenge they face is the persistently higher economic productivity of our most important trading partner, the U.S. They also face pressures caused by the rise of large, productive workforces in countries such as China and India. If Canadian SMEs are to survive and prosper long term, they must be globally competitive and seize the opportunities presented by the purchasing power of the rising middle classes in other countries.

Business ownership transition – Canada's population is ageing. Many of our small business owners are reaching retirement age without having planned for the change in the ownership and management of their companies.

At risk is their survival. Managed well, business ownership transitions can ensure the company continues to prosper.

Unplanned or poorly managed, however, they can cause the company to falter or become ripe for sale to interests outside the country. These scenarios imperil the entrepreneur's main retirement asset and can cause real disruption in the community in which the company operates. A major obstacle is financing. BDC provides this, plus expertise in business ownership transition.

The public policy response to an issue of this scale and complexity will require contributions from several quarters. BDC has considerable experience and expertise and would welcome the opportunity to join any discussion that focuses on it.

A persistent, complex issue: turning ideas into competitive companies – Canada's recipe for long-term prosperity must include globally successful SMEs that specialize in highly innovative sectors such as the life sciences and information technology. The commercialization of the fruits of research and development – turning new ideas or lab discoveries into attractive products and successful companies – takes time, money and a range of separate, sophisticated skills.

Between discovery and commercial success, there are several challenges: determine a commercial application, create and manage a company well, do market research, build a prototype, produce, distribute and sell. And, last but not least, attract venture capital to finance the solutions to these challenges.

BDC helps Canadian entrepreneurs meet many of these challenges. Acting in complementary fashion to other market players, we do business that accounts for approximately 50% of all seed investments across the country. We are proud to be part of this important activity and invite you to read more on page 16.

Since my arrival at BDC, I have been consistently impressed by the talent, professionalism and dedication of its employees. As a team, they create a value that is well-known to our clients. Their effective, efficient and reliable support of Canadian entrepreneurs is a contribution to the public good of which Parliament can be proud.

On behalf of all of us at BDC, I wish Michel Ré a well-deserved retirement after 33 years of dedicated service. His legacy is impressive! He built BDC Venture Capital into the business it is today. Our heartfelt thanks.

Jean-René Halde
President and Chief Executive Officer

OBJECTIVES, MEASUREMENTS *and* TARGETS

BDC's balanced scorecard is built on 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 engagement).

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

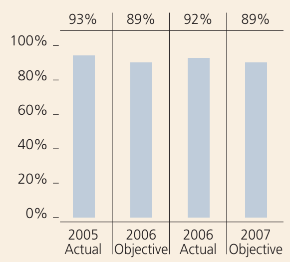
Financial Sustainability – To fulfill its public policy mandate, BDC has to be profitable to fund the growth of its portfolio, generate a return on common equity at least equal to the government's average long-term cost of funds and be able to withstand unfavourable economic circumstances without requiring government funding.

PERFORMANCE AND CORPORATE OBJECTIVES

PERFORMANCE

Client Satisfaction

- The continued emphasis on innovative products and continued strong client contact maintained satisfied or very satisfied customers at 92%.

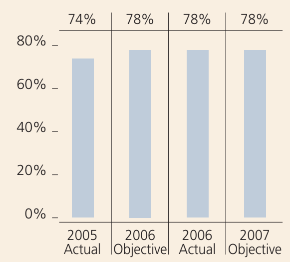


2007 OBJECTIVES

- Client Satisfaction: 89%
- The year-to-year objective for client satisfaction is maintained at 89%.

Employee Engagement

- The Employee Engagement Survey showed a rebound to 78%, an increase of 4% from 2005 and equal to the objective.



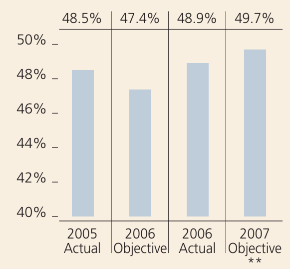
2007 OBJECTIVES

- Employee Engagement: 78%
- Continued open communications
- Leadership initiatives
- Enhance workforce diversity.

Efficiency Ratio*

- Slightly higher than 2005, due to increased pension costs, and an increase in operating costs in order to gear up for future growth.

* The lower the ratio, the higher the efficiency achieved



2007 OBJECTIVES

- Ratio: 49.7%
- Higher ratio due to staff increases and a $9 million increase in pension costs
- Efficiency gains are expected from new disbursement procedures.

** Represents new internal 07 objective Corporate Plan: 51%

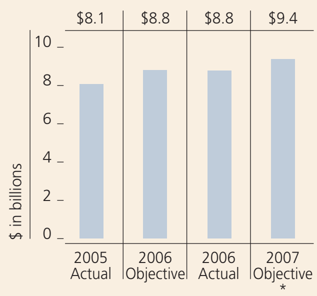
PERFORMANCE

2007 OBJECTIVES

Financial Sustainability

Outstanding financing portfolio

- A record $2.5 billion in financing authorizations in fiscal 2006 drove the portfolio to $8.8 billion, an increase of $0.7 billion.

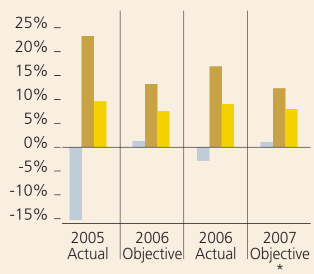


- Portfolio: $9.4 billion
- Increased risk tolerance through Co-Vision Loans, Productivity Plus Loans and Innovation Financing
- Partnership agreements with CFDCs and *Caisse de dépôt et placement du Québec.*

* Represents new internal 07 objective Corporate Plan: $9.0 billion

Return on Common Equity

- The total BDC ROE of 9.2% was slightly lower than the 9.7% of 2005, but was significantly higher than the 7.7% objective. This is due to the continued strength of the financing portfolio and the improved performance of BDC Venture Capital.



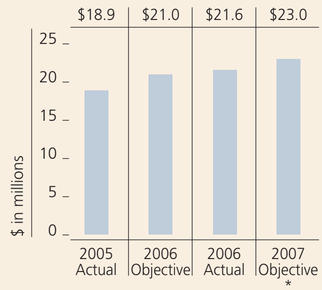
	2005 Actual	2006 Objective	2006 Actual	2007 Objective
Venture Capital	(14.9%)	0.6%	(2.6%)	0.5%
Financing and Consulting	23.3%	13.4%	17.0%	12.4%
Total BDC	9.7%	7.7%	9.2%	8.2%

- ROE: 8.2%
- 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.

* Represents new internal 07 objectives Corporate Plan: 0.9% – Venture Capital
11.3% – Financing and Consulting
7.5% – Total BDC

BDC Consulting Revenue

- BDC recorded consulting revenues of $21.6 million, a 14% increase from 2005 and 3% higher than objective.

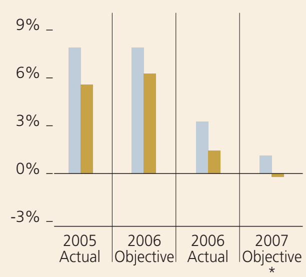


- BDC Consulting revenue from activities: $23 million
- Increased revenues due to the integrated approach with financing products and investment in resources.

* Represents new internal 07 objective Corporate Plan: $22.0 million

BDC Venture Capital 10-year IRR

- IRR on total investments of 1.5% versus 5.6% in 2005 and the planned 6.3%
- Lack of divestiture over the past five years has forced down the IRR.



	2005 Actual	2006 Objective	2006 Actual	2007 Objective
Direct investments	7.9%	7.9%	3.3%	1.2%
Total investments	5.6%	6.3%	1.5%	(0.1%)

- Direct investments: 1.2%
- Total investments: -0.1%
- 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.

* Represents new internal 07 objectives Corporate Plan: 3.1% – Direct
2.0% – Total

BDC BEST PRACTICES

INTERNATIONAL RECOGNITION BDC's business model and success attract interest from around the globe. This year we received delegations from Finland, Japan, Korea and Puerto Rico.

BDC welcomes a delegation from Korea. From left to right: Sung Kyu Kim, Patrice Bernard, Edmée Métivier, André St-Pierre, Heung Kwon, Stephen Korte, Mary Karamanos, Daniel Martel, Jason Moscovitz, Michel Leduc, Michel Ré, Charles Cazabon, Richard Morris, Young Tae Jung.

Annette Montoto, President and Vilma Pellot, Senior Vice President for Financing and Development and Credit Risk Manager, Economic Development Bank of Puerto Rico with Sylvain Savaria, Ngoc-Hung Vu, Steve Abrams, Charles Cazabon and Karl Reckziegel, BDC Venture Capital.

LOCAL RECOGNITION BDC's employees are a remarkably effective, dedicated group. Here is a sampling of the awards that their professional and philanthropic contributions garnered over the past year.

Human Resources Department for the Retirement Communication Program
MERCOMM, INC. – 5TH ANNUAL INTERNATIONAL iNOVA AWARDS COMPETITION
This award honours excellence in corporate Web sites.

Human Resources Department for the "Your Retirement" program
INTERNATIONAL ACADEMY OF COMMUNICATIONS ARTS AND SCIENCES MERCURY AWARDS
The award was given in the category "Campaigns – Internal Communications"

Human Resources Department for the relaunch and redesign of its "Your Retirement" Web site program
2006 ASTRID Award, international competition
The award recognizes and promotes design.

Kitchener Branch – Gold in Top Performer Awards (Banking Category)
LOCAL *BUSINESS TIMES* PUBLICATION
The ranking was a result of an e-mail vote run by the newspaper.

Halton Branch – Champion Recognition Award
OAKVILLE CHAMBER OF COMMERCE
The award was presented at the Chamber Champion Recognition Award Dinner.

Mylène Viau, Laval
ICB Gold Medal and Trust Institute Award
INSTITUTE OF CANADIAN BANKERS AND TRUST INSTITUTE
The award recognizes completion of a small business studies program.

Human Resources
Learning Strategies Achievement Award
CANADIAN SOCIETY FOR TRAINING AND DEVELOPMENT, QUEBEC CHAPTER

Thierry Limoges, Montréal
Leadership Award
MULTIPLE SCLEROSIS SOCIETY OF CANADA

Tony Van Bommel, Halifax
Volunteer of the Year for Junior Achievement Nova Scotia
JUNIOR ACHIEVEMENT OF NOVA SCOTIA

SMEs: The ECONOMIC Environment

SMEs IN CANADA

There are over one million SMEs with employees in Canada.

- 98% are small
- **2%** are medium-sized

SMEs employ about 60% of the working population.

SMEs are responsible for close to half of Canada's economic activity.

Industry Canada's definition of SME:
Micro business: fewer than 5 employees
Small business: fewer than 100 employees
Medium-sized business: 100-500 employees

Increasingly, economic growth = trade.
In almost every one of the past 55 years, the volume of world merchandise trade has gone up.

SMEs' ECONOMIC ENVIRONMENT

In general, and compared to most G8 countries, Canada's economy is a healthy environment in which to create and do business.

Canada, once again, had one of the fastest growth rates and highest living standards among industrialized countries. It is the only industrialized country with a fiscal surplus, a declining public debt and historically low inflation and interest rates.

Canada's economy grew by 2.9% in 2005. This expansion was helped by strong consumer spending, rising business investment and growth in the global economy.

In 2005, Canada's trade surplus was $66 billion, almost unchanged from 2004. Increased exports of industrial goods and energy products added $12 billion to the surplus. However, the contribution of automotive, forestry and machinery and equipment sales fell by $8 billion.

In 2005, Canadian companies had strong balance sheets and high capacity utilization rates. Profits were 14.5% of GDP, a record high, and the industrial capacity utilization rate was 86.1%. The environment was ripe for a 10.7% increase in real investment in machinery and equipment and a new upward trend in non-residential construction.

Wilson's SHOPPING CENTRE | Barrington Passage, Nova Scotia

David Wilson
President

"Our family-owned business goes back three generations, beginning when my grandfather bought a small general store in 1924. Today, we run one of the largest home hardware building centres in the country. Although I'm not ready for retirement yet, I thought it was the right time to start looking at our succession planning options. BDC has helped us finance our expansion projects, and BDC Consulting has provided us excellent advice on choosing effective exit strategies. I'm confident that the future of our business is secure."

INFLATION AND HIGH ENERGY PRICES

Commodity prices rose significantly in 2005; crude oil prices by more than 40%. Most experts feel that commodity prices, especially in the mining and energy sector, will continue to remain elevated. The costs of doing business, such as the costs associated with producing and transporting goods, are rising. It is increasingly difficult to pass these costs on to consumers. Global competition makes it impossible for entrepreneurs to compete on price alone.

INTEREST RATES

Interest rates have been at historically low levels for several years. In 2005, fears of rising inflation caused an increase in short-term rates, which were stable for most of the year but increased by 0.75% in the fall. Fixed-term rates were almost unchanged. For SME entrepreneurs, the effect was largely neutral. However, should rates rise, they could discourage productivity-enhancing investments and deter consumer spending.

A STRONG CANADIAN DOLLAR

The value of the Canadian dollar has risen significantly over the past three years, from U.S. $0.62 in January 2002 to $0.88 in March 2006, the highest since November 1991. A strong dollar makes Canadian manufactured goods more expensive for foreigners to buy. However, a strong dollar also presents opportunities; the importing of productivity-enhancing machinery and equipment is less costly. Canadian entrepreneurs are also better positioned to buy foreign capital goods and to explore and develop potential in global markets.

TIGHT LABOUR MARKETS

Over the past year, Canada's economy created nearly 226,000 net new jobs. The unemployment rate reached a 31-year low of 6.4% in November. Increasingly, SMEs have difficulty attracting and retaining qualified employees. The demographic proportion of young people in society is declining, the number of people entering the workforce is dropping and large numbers of baby boomers are retiring. Today's technology and global competition require increasingly high levels of training, skills and experience.

BDC's PUBLIC POLICY Role

OUR PUBLIC POLICY ROLE: WHAT IT IS

When they succeed, entrepreneurs make a crucial contribution to Canada's prosperity. It is in our national interest to support them.

In 1995, Parliament identified gaps in the market's provision of services to small and medium-sized enterprises (SMEs). To support entrepreneurs hindered by these gaps, it passed the *Business Development Bank of Canada Act*. The Act created BDC to promote entrepreneurship by providing financing, consulting and venture capital services to SMEs.

BDC has one client: Canadian entrepreneurs. It now serves 26,000 of them at more than 85 branches and offices across the country.

In its financing activities, BDC is a complementary lender in the marketplace. It operates where there are market deficiencies to complete the services made available by commercial lenders. BDC works with other financial institutions and partners to serve entrepreneurs.

The Crown corporation BDC has existed, under different names and with evolving public policy mandates, since 1944. To learn more, please visit www.bdc.ca.

OUR PUBLIC POLICY ROLE: HOW WE FULFILL IT

BDC fulfills its mandate by providing services to entrepreneurs. These services are commercially viable, efficient and environmentally responsible.

- BDC does not receive an annual appropriation from Parliament; it must make a profit to grow while fulfilling its mandate. We offer quality services at competitive rates, create value-added relationships with clients and consistently measure their level of satisfaction with our services. This year, their satisfaction level was 92%.
- To succeed, BDC needs talented, motivated and hard-working employees. To engage, retain and attract them, we work to create a culture of engagement, learning and growth. This year we measured our employee engagement level to be 78%, a level we continually work to raise.
- BDC is efficient. We measure our efficiency by expressing the operational and administrative expenses of our financing operations as a percentage of their net interest and other income. This fiscal year, the ratio was 48.9%.
- BDC is environmentally responsible. Since 1991, we have used an Environment Risk Policy to guide our decisions. Starting in June 2006, we will also comply with the *Canadian Environmental Assessment Act* (CEAA). We will use CEAA's planning and decision-making process to assess the environmental effects of any project we consider financing that falls under the law. Our goal remains to ensure that we do not fund projects that might cause significant adverse impact on the environment. We anticipate that about one third of our financing decisions will involve projects requiring environmental assessments under CEAA.

Client confidentiality: Client confidentiality is a fundamental principle of the financial services sector, and is one that BDC honours.

BDC: STRUCTURED TO PROVIDE WHAT ENTREPRENEURS NEED

BDC Financing

Innovating, fast-growth firms and start-ups are more likely to experience a refusal in their search for financing since the entrepreneur often has neither a proven track record nor sufficient tangible assets to pledge as security.

BDC does not base its credit decisions on pre-determined credit formulas or the personal wealth of the applicant. We examine the combined merits of the entrepreneur, his or her management capabilities (and those of his or her team) and the viability of the project. We emphasize small loans, tolerate a greater degree of risk than commercial lenders generally accept and offer a range of services to accompany entrepreneurs through each stage of their company's growth. We also remain active during industry downturns.

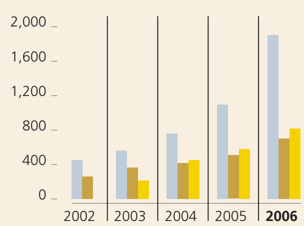
Our role as an SME development bank is clear in our relationships with our clients. Over half (54%) are characterized by authorizations with a total commitment of $250,000 or less.

We support the creation of SMEs. Co-Vision Loans provide loans of up to $150,000 for specific start-up needs. They are available to entrepreneurs in all sectors, with particular emphasis on the manufacturing, distribution, construction, services and tourism sectors. Entrepreneurs use Co-Vision Loans to buy fixed assets, to cover soft and franchise costs and to create home-based businesses.

We support innovating SMEs. To survive and prosper, businesses must innovate. SMEs can grow by innovating but often lack the financing they need to improve or expand their operations. Innovation Financing of up to $250,000 is available to entrepreneurs in all sectors to ensure they maintain industry standards. This is often done by investing in intangible assets such as training and development for management and employees. Entrepreneurs also use the financing to invest in research and development, buy new technology, prepare and implement marketing plans, develop export markets and start e-commerce projects. They also use it to cover working capital costs such as leasehold improvements and specialized assets.

We support greater SME productivity. BDC offers entrepreneurs Productivity Plus Loans to maintain or increase the productivity of their business. These loans of up to $5 million help finance the purchase of productivity-enhancing equipment, machinery and software. Productivity Plus Loans principally support businesses in the manufacturing and processing sectors but are also available to other businesses that have equipment needs. We lend up to 125% of the value of the assets purchased to cover installation and training.

Authorizations – Number
for the years ended March 31



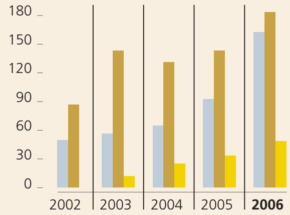
	2002	2003	2004	2005	2006
Innovation Financing	436	549	745	1,079	**1,880**
Productivity Plus Loans	247	350	403	493	**687**
Co-Vision Loans	–	202	436	562	**802**

ModulR TS INC. | Cocagne, New Brunswick

Arthur Allain
President and CEO

"Productivity is crucial in our plant, where we design and manufacture environmentally friendly and fire-retardant roofing insulation systems. To help improve our operational efficiency, we went to BDC for financing. That support has enabled us to take advantage of new market opportunities and we envision doubling our sales volume in the next two years. Now that we have achieved a comfort level with BDC, we have the reassurance that it will be there for us in the years to come."

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



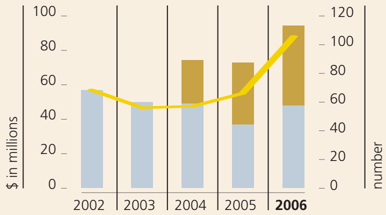
	2002	2003	2004	2005	2006
Innovation Financing	48	55	63	91	**160**
Productivity Plus Loans	85	141	129	141	**181**
Co-Vision Loans	–	11	24	32	**47**

BDC Subordinate Financing

For businesses that have fast-growth working capital requirements and that may not have the tangible security required by conventional lenders, or for those whose owners are reluctant to dilute ownership in the firm, subordinate financing is a solution. Subordinate financing – loans of $250,000 to $6 million – is a hybrid financial instrument that incorporates elements of debt financing and equity financing.

BDC is a national leader in subordinate financing, a position anchored by our partnership with *Caisse de dépôt et placement du Québec*. This year, BDC Subordinate Financing authorized $93 million (this includes the CDPQ portion).

Subordinate Financing Authorized
for the years ended March 31



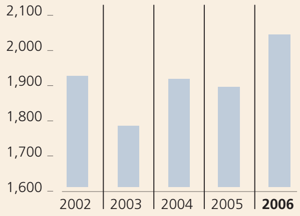
	2002	2003	2004	2005	2006
Amount – BDC portion	56	49	48	36	**47**
Amount – CDPQ portion	–	–	25	36	**46**
Number authorized	67	55	56	66	**104**

We offer support for more skillful businesses

BDC Consulting

Canadian businesses often need to improve their skills in quality assurance, financial, strategic and business planning, operations management, human resources and marketing. BDC Consulting offers affordable, high quality consulting services in all of these skills. These services, which often harness outside resources, are an integral part of the value we bring to each client relationship. In fiscal 2006, based on 2,037 consulting mandates, our client satisfaction rate was 83%.

BDC Consulting Mandates
for the years ended March 31
Number



	2002	2003	2004	2005	2006
Mandate	1,918	1,774	1,909	1,886	**2,037**

Agrocentre FERTIBEC INC. | Saint-Rémi, Quebec

Jean-Luc Yelle, *President*
Richard Adam, *Vice President, Operations*

"We were looking for a fresh perspective on how to improve the way we do business in the agricultural sector. And BDC Consulting gave us an objective point of view, which is invaluable to any entrepreneur. Through strategic planning, lean manufacturing and a complete revamp of our sales system, we were able to improve our bottom line. Today, we're seeing significant growth in our company, which will help us maintain our status as a leading supplier of fertilizer, pesticide, seed and related services in Quebec."

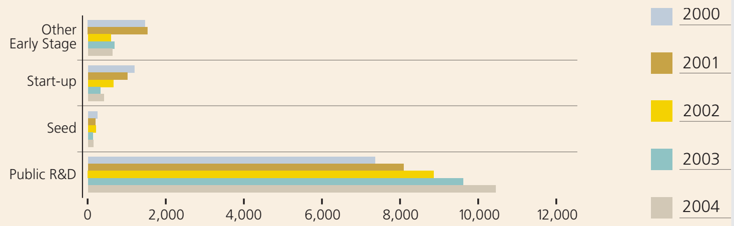
We offer support to turn innovation into successful companies

BDC Venture Capital

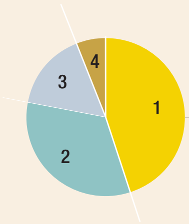
BDC supports young, knowledge-based companies that turn ideas and new technology into attractive products. We are a Canadian leader in the critically important early stage (including seed) investment phase: 83% of our investments are in early stage, compared with the industry average of 44%.

Canadian Public Funding of R&D and VC Investment by Stage – calendar year

Source: Thomson Macdonald and Statistics Canada



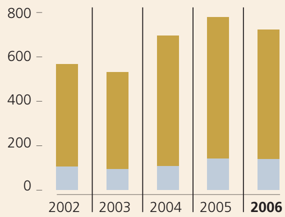
This past year, total seed investments in Canada were $37 million. BDC authorized $23 million of this total in 24 seed ventures.



Number of BDC Venture Capital Direct Investments Authorized Classification by Stage of Development
for the year ended March 31, 2006

1	Start-up / Seed	45%
2	Development	32%
3	Expansion	17%
4	Turnaround	6%

Total Value of BDC Venture Capital Projects Financed
for the years ended March 31
$ in millions



	2002	2003	2004	2005	**2006**
BDC Venture Capital authorized	106	93	109	143	**140**
Other sources of investment (estimated)	472	446	598	652	**598**
Total	578	539	707	795	**738**

About 40% of our venture capital portfolio companies originated and developed in universities and labs. These companies need BDC's expertise and long-term commitment.

Miranda TECHNOLOGIES INC. | Montréal, Quebec

Strath Goodship
President and CEO

"We value our long-term relationship with BDC, an investor that has remained loyal to us through good and challenging times. With our first round of financing in 1997, the Venture Capital team was instrumental in helping us turn our product into a commercial success. Our high performance hardware and software for the television broadcast industry continue to make headlines, and our IPO was one of the largest in Canada's technology sector in the past five years."

BDC: REACHING AND RESPONDING TO ENTREPRENEURS IN *ALL* PARTS OF SOCIETY

At 19 Entrepreneurship Centres across Canada, we offer specialized lending, consulting and resources dedicated to meeting the needs of younger, smaller businesses. In fiscal 2006, the Centres authorized $200 million in loans.

We partner with Community Futures Development Corporations, a network of 273 contact points located mostly in rural areas. This gives us access to entrepreneurs who live near these centres. We have partnership agreements with 70% of the Community Futures Development Corporations across Canada.

For BDC, diversity means ensuring that our workforce reflects society and that our outreach to clients is as broad and inclusive as possible. This enables us to target services to meet SME needs that vary from community to community, as well as to stimulate would-be entrepreneurs who have come to Canada from all parts of the world. Generally, immigrants are entrepreneurially very active and more likely to employ and export. Our reach into ethnically diverse communities is proactive. We use a grassroots approach, collaborating with business associations such as the Association of Chinese Canadian Entrepreneurs.

Women entrepreneurs lead businesses of all sizes in all sectors and enter the SME marketplace at twice the rate of men. Over the past two decades, their number has grown by over 200%. The most important indicator of BDC's support for women entrepreneurs is the fact that they represent about one-quarter of BDC's clients. This portfolio is $1.7 billion in committed and outstanding financing. We have over 6,000 women clients, twice as many as a decade ago.

Women entrepreneurs need to be as successful at business growth as they are at business creation. Accordingly, we help them meet the challenges of growth. To gain information and insights about how to do so, we collaborate with women's organizations such as the Women's Entrepreneurial Centre of Quebec, the Canadian Women Entrepreneur of the Year Awards, the Women Presidents' Organization and others. We also support networking, which is key to learning from peers and about new market opportunities.

About 9% of Canadian SMEs are led by young entrepreneurs, many of whom find it difficult to secure financing because they are in a start-up position, have little or no managerial experience and have no proven track record. Our portfolio consists of 2,900 young entrepreneurs with over $500 million in committed and outstanding loans.

BDC's Co-Vision Loans meet the needs of young entrepreneurs. Almost a third of our clients who have Co-Vision Loans are under 35 years old. BDC's Entrepreneurship Centres collaborate with external partners devoted to young entrepreneurs, such as the Canadian Youth Business Foundation. Also, a complete section of our website (www.bdc.ca) is dedicated to helping entrepreneurs write a business plan.

To foster an entrepreneurial spirit in Canadian youth, BDC celebrates the creativity and business success of young entrepreneurs with awards such as the Young Entrepreneur Awards (a key event during BDC Small Business Week®). We also support competitions in universities and colleges that promote entrepreneurial and business-planning skills.

Many Aboriginal businesses will be start-ups or look like start-ups in that their debt-to-equity will be higher than is generally acceptable to commercial financial institutions. Also, many lack tangible security to offer as collateral. BDC supports them by providing working capital.

We also help create economic development in Aboriginal communities through a grassroots level approach called the "Circle of Entrepreneurial Success". This strategy delivers loans of $5,000 to $20,000, with terms that vary depending on the cash flow expectations of the project, management training and ongoing mentorship.

To stimulate awareness of entrepreneurship among Aboriginal youth, we offer E-Spirit, an Internet-based Aboriginal Youth Business Plan Competition. To date, more than 2,000 students in more than 180 schools have participated in the competition, and some competitors have since graduated and are running businesses based on those plans. E-Spirit 2005 was held in Edmonton, Alberta.

We use partnerships and joint ventures to extend our reach and increase our efficiency. A Community Futures Development Centre that is owned and operated by Aboriginal entrepreneurs is a good example of a strategic partnership.

PUBLIC POLICY ISSUES

Business ownership transition

A majority of Canada's baby boomer entrepreneurs are approaching retirement without properly planning the transfer of the ownership of their company. For these people, the value of their business is often their main retirement asset. For employees and local economies, the company's survival is key to their economic well-being.

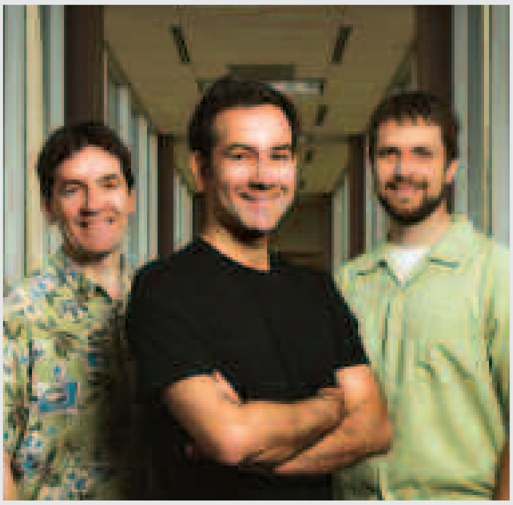
Through financing and consulting, BDC helps entrepreneurs manage the transition. This service has grown more than twofold since 2001. It is the fastest growing segment of our lending activity.

We monitor and analyze the issue as part of prudent risk management. We also work to make entrepreneurs and the financial and business communities aware of the importance of the issue.

The scale of the potential economic disruption makes this a policy issue of national significance. SMEs employ about 60% of the working population and are essential to job creation and economic growth.

Ultimately, successful transitions safeguard the continued existence of small businesses that can then grow into medium-sized ones.

For future prosperity, Canada will need a greater number of successful *medium*-sized businesses.



Kleer SEMICONDUCTOR | Kanata, Ontario

Ralph Mason, *co-founder and CTO,* **Levent Gun**, *President and CEO and* **Chris DeVries**, *co-founder.*

"BDC was the seed investor in our company, which has developed an ultra-low power radio technology optimized for streaming high-fidelity audio without wires. Right from the get-go, we earned the confidence of the Venture Capital team because our product solved a unique problem in an exploding audio market – how to deliver unprecedented sound quality without compromising battery life. Clearly, BDC saw our full potential and today, we have solid backing from top-tier venture capital firms in Canada and the U.S."

Turning ideas into competitive companies

A key part of Canada's future prosperity will be generated by companies that turn ideas into products and services that they sell around the world.

The commercialization of research is a complex, risky process. To transform a discovery into a globally successful company, entrepreneurs must meet a series of challenges, each of which requires financing: determine a commercial application, do market research, build a prototype, produce, distribute and sell. In short, successfully create and manage a company.

Success takes several years, millions of dollars and a sequenced range of separate, sophisticated skills.

BDC is one of the most active venture capital investors in Canada. It plays a critical role in creating and supporting early stage technology companies. It also supports its portfolio companies as they mature their innovations to become more attractive to other investors. Finally, it provides indirect support via specialized venture capital funds. This support leverages investments from the private sector: over $4 for every dollar BDC invests.

We believe there is no silver bullet prescription to make Canada a more successful incubator of innovative, globally successful companies. The long-term solution will require several changes, starting with a culture of "serial" entrepreneurs, people who have previously been successful at creating a profitable company around an innovation and who are ready to do so again. It will also require a greater number of knowledgeable venture capital fund managers to provide the expertise and experience needed to nurture the growth of innovations. Additionally, Canada needs a more efficient process that targets, finances and nurtures innovations destined to be world-class market technologies.

Pro-Line AUTOMATION SYSTEMS LTD. I Woodbridge, Ontario

Vinode Ramnauth
Vice-President

"When you design automated manufacturing systems for the fenestration industry, efficiency is always at the top of the agenda. BDC continues to play a pivotal role in our productivity and growth by financing new space. Our expansion has helped us build our exporting effort, which now makes up over 65% of our business. BDC Consulting has also helped us take advantage of the Scientific Research and Experimental Development Tax Credit (SR&ED) by guiding us through what can be a complex process. We truly appreciate the invaluable support."

OUR LONG-TERM PUBLIC POLICY ROLE: ASSESSING OUR PERFORMANCE

BDC has developed performance indicators to assess the long-term fulfillment of its public policy mandate. We will use these indicators to track and communicate our unique public policy accomplishments, as well as to align future strategies with government policies.

Market Leverage

Each dollar lent or invested by BDC leverages private sector sources of financing. Monitoring that activity provides the total value of SME projects backed by BDC.

- At present, our operational data indicates that BDC Venture Capital leverages over $4 from other venture capitalists for every dollar BDC invests.

Business Creation

This represents BDC's contribution to the creation of Canadian businesses, as compared to the market industry benchmarks.

- Over the past five years, about 13% of BDC authorizations went to clients in the start-up phase. Market data shows that approximately 5% of Canadian businesses are start-ups. This suggests that BDC is supporting more than twice as many start-ups as the market is.

Business Survival

BDC works in partnership with entrepreneurs, even in difficult times. The survival rates of BDC start-up clients, compared to industry benchmarks, is better.

- Two-Year Survival Threshold: After the second year of receiving BDC support, only 9% of BDC loans authorized to start-ups were written off and liquidated, compared to the 25% research finding determined by Statistics Canada.
- Five-Year Survival Threshold: After five years, 67% of BDC start-ups survive, compared to the Statistics Canada industry benchmark of 36%.

Business Growth

One can track the growth of BDC clients, as compared to the SME market at large.

- Based on a comparison of internal and external surveys, BDC appears to have twice as many clients who perceive themselves to be in the fast-growth stage than is the case generally for the SME market (28% vs 13%).

Performance AND ANNUAL Objectives

BDC PERFORMANCE AND OBJECTIVES FROM FISCAL 2005 THROUGH 2007

The following table summarizes BDC's performance and objectives from 2005 through 2007. Each measurement is discussed in further detail under its appropriate heading.

Performance Measurement	F2005 Actual	F2006 Objectives	F2006 Actual	F2007 Objectives
Clients				
Client satisfaction	93%	89%	92%	89%
Employees				
Employee engagement	74%	78%	78%	78%
Efficiency				
Efficiency ratio	48.5%	47.4%	48.9%	49.7%
Financial sustainability				
Outstanding financing Portfolio	$ 8.1 B	$ 8.8 B	$ 8.8 B	$ 9.4 B
Total ROE at least equal to the government's average long-term cost of funds	9.7%	7.7%	9.2%	8.2%
BDC Consulting revenues	$ 18.9 M	$ 21.0 M	$ 21.6 M	$ 23.0 M
BDC Venture Capital 10-year IRR – Total Investments	5.6%	6.3%	1.5%	(0.1%)

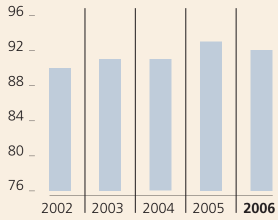
CLIENTS

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

Performance Measurement	F2005 Actual	F2006 Objective	F2006 Actual	F2007 Objective
Client satisfaction	93%	89%	92%	89%

BDC uses third party surveys to determine if it is meeting its client satisfaction objective of 89%. In fiscal 2006, 92% of our clients were either satisfied or very satisfied. This is a slight drop from the 93% in fiscal 2005, but well ahead of the 89% objective.

Client Satisfaction Level
for the years ended March 31
percentage



	2002	2003	2004	2005	2006
Client Satisfaction Level	90	91	91	93	**92**

BDC is in business to help Canadian SMEs grow and prosper. To do so, it must understand their needs. It must then adopt strategies and products to meet these needs.

BDC employees are its clients' primary and usual contact. To ensure that entrepreneurs recognize BDC employees as both SME financing experts and valuable business partners, BDC invests continuously in their development. In 2006, BDC created a regional training centre pilot project. This centre, located in Ontario, offers development and learning opportunities for front-line employees. Its success has convinced us to organize a complete network of training centres across the country and decentralize part of the existing offering.

In fiscal 2006, BDC also increased the number of employees who have a direct relationship with customers. A greater number of well-trained front-line staff enhances our ability to meet client needs in the future.

In fiscal 2006, BDC implemented the Guided Portfolio Simplification (GPS) tool and early warning system, which directs BDC staff to clients who have potential cash flow problems, in order to help them get through a difficult situation. This also helps BDC employees recognize businesses that do not need such a thorough approach, which saves time and lightens the administrative load.

MANREX LTD. | Winnipeg, Manitoba

Fiona Webster Mourant
President

"We design, manufacture and market medication delivery systems, so it was important for us to have the technology in place to accommodate new product development and new proprietary products. Over the years, BDC has also shared that same proactive thinking, helping us finance software and manufacturing equipment that would enable us to grow. Today, exporting makes up nearly 30% of our business, and we foresee a bright future."

COMMITMENT TO BDC FINANCING CLIENTS BY PROVINCE OR TERRITORY

As at March 31	2006		2005	
	Number of clients	Amount ($ in millions)	Number of clients	Amount ($ in millions)
Newfoundland and Labrador	1,468	$ 387	1,300	$ 358
Prince Edward Island	133	51	134	50
Nova Scotia	807	237	714	202
New Brunswick	1,109	364	998	330
Quebec	9,029	3,749	8,503	3,558
Ontario	7,672	3,099	7,497	2,940
Manitoba	652	199	571	160
Saskatchewan	477	128	437	107
Alberta	1,765	635	1,636	548
Northwest Territories and Nunavut	58	31	65	33
British Columbia	2,540	768	2,427	703
Yukon	92	28	87	25
Total	25,802	$ 9,676	24,369	$ 9,014

BDC is present across the country, from St. John's to Victoria and from Windsor to Yellowknife. It also has a decentralized decision-making process. Over 95% of all financings were authorized at the regional level.

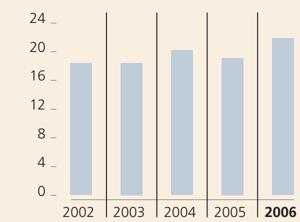
A DIFFERENT VALUE PROPOSITION

BDC Consulting has placed consultants-in-residence in BDC Entrepreneurship Centres. These experienced employees bring business advice to start-ups and micro-businesses, helping them past the embryonic business stage. In fiscal 2006, consultants-in-residence provided services through 267 market impact mandates with an average contract size of $3,700. Moreover, BDC Consulting realigned its delivery processes using a Kaizen approach to improve both efficiency and service offerings. Operational eficiency will provide employees time to deliver more mandates.

The next step entails helping Canadian businesses meet the challenges of lower productivity and business ownership transition.

BDC is attacking the lower productivity issue through its Competitiveness Strategy consulting offering which offers a review of business processes, productivity diagnoses and tools such as lean manufacturing. In fiscal 2006, BDC served 224 clients with operations management consulting.

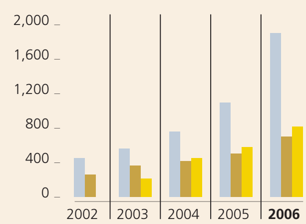
BDC Consulting Revenue
for the years ended March 31
$ in millions



	2002	2003	2004	2005	2006
Consulting Revenue	18.2	18.2	20.0	18.9	**21.6**

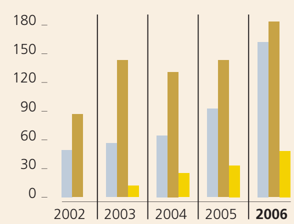
BDC Financing has increased its emphasis on specialized loans to help clients with smaller needs become more efficient. To help companies increase their profitability, BDC offers: Co-Vision Loans, aimed at start-up enterprises; Innovation financing, to cover working capital growth needs; and Productivity Plus Loans, to finance new machinery and the soft costs associated with its acquisition.

Authorizations – Number
for the years ended March 31



	2002	2003	2004	2005	2006
Innovation Financing	436	549	745	1,079	**1,880**
Productivity Plus Loans	247	350	403	493	**687**
Co-Vision Loans	–	202	436	562	**802**

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



	2002	2003	2004	2005	2006
Innovation Financing	48	55	63	91	**160**
Productivity Plus Loans	85	141	129	141	**181**
Co-Vision Loans	–	11	24	32	**47**

Superior CABINET | Saskatoon, Saskatchewan

Linda Larre
President

"The fact is, the more you build, the more you can sell. And BDC has ensured that we will meet our full potential in a strong market for kitchen and bathroom cabinets. Thanks to BDC's financing, we were able to expand and retool our plant, renovate our administrative building and construct an impressive showroom and warehouse facility in Calgary. BDC Consulting also assessed our plant production capacities, so that we could make real operational improvements. That added value makes BDC an excellent partner."

BDC Venture Capital addresses market gaps which hinder the creation and development of innovative technology businesses. Its structure is:

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

BDC Business Ownership Transition Strategy

A 2005 report by the Canadian Federation of Independent Business found that 71% of small business owners across Canada plan to retire in the next ten years, and that most do not have a succession plan. As over 16% of BDC's SME clients are owned by individuals aged 55 and older, we work to raise awareness of the importance of succession planning. Business ownership transition is the fastest growing segment of BDC's lending activity.

ANALYZE MARKET DEVELOPMENTS

BUILD AWARENESS
- **Employees**
- **Clients**
- **SMEs**

OWNERSHIP TRANSFER
- **BDC Consulting**
  - Ownership transfer planning
  - Group forums
  - SME Succession Program
  - Value assessment
  - Sales
- **BDC Financing**
  - Term loans
  - Innovation Loans
  - Subordinate Financing

TRANSITION
- **BDC Consulting**
  Personalized services
  - Management & leadership transfer
  - Transfer of knowledge

As seen in the diagram above, BDC's approach is to analyze market developments, build employee awareness, build marketplace awareness among clients and Canadian SMEs, and seek business through BDC Consulting services and BDC Financing.

Superior TOFU LTD. | Vancouver, British Columbia

Rita Cheng
President

"We're proud to offer high-quality tofu and soy foods that are based on the traditional Asian staple food but updated for a North American diet. Since our beginnings, we've seen the real results of our creative business approach. BDC has shown its creativity too by helping us find solutions to meet our development needs. We've doubled the space in our plant and financed state-of-the-art equipment with the help of a term loan from BDC."

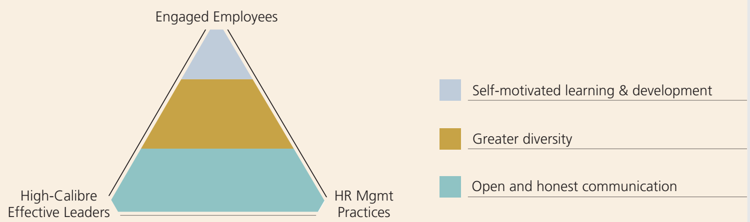
EMPLOYEES

Corporate Objective: *foster a culture of engagement, learning and growth.*

Performance Measurement	F2005 Actual	F2006 Objective	F2006 Actual	F2007 Objective
Employee engagement	74%	78%	78%	78%

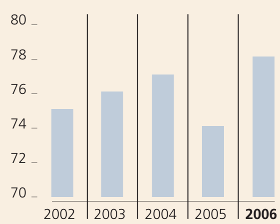
BDC relies on knowledgeable, engaged employees to fulfill its mandate of high quality service to Canadian entrepreneurs. The cornerstone of its Human Resources strategic plan is the fostering of a culture of engagement, learning and growth.

HR Vision



The direct correlation between employee engagement, client satisfaction and business performance is no coincidence. The more engaged the employee, the more likely he/she is to provide the highest level of service to clients. BDC measures employee engagement with an internal survey. In 2006, with a response rate of 91%, the employee engagement score rose by four points to 78%. Client satisfaction reached 92%, 3% higher than the corporate objective of 89%.

Employee Engagement Level
for the years ended March 31
percentage



	2002	2003	2004	2005	**2006**
Employee Engagement Level	75	76	77	74	**78**

Tin Wis RESORT LTD. | Tofino, British Columbia

Howard Tom
Chairman of the Board

"Tin Wis Resort Ltd. is owned and operated by the Tla-o-qui-aht First Nations. We offer luxury accommodations situated in the heart of Vancouver Island's ancient rainforests. When we were ready to grow and attract more business, BDC came through with the right financing to address our seasonal needs. The team there has continually shown its in-depth understanding of challenges in the tourism trade, ensuring that our loan terms and conditions are simplified. The level of customer service is unparalleled."

To engage, retain and attract talented people in a highly competitive labour market, BDC focuses on:

- **Talent Management:** Reinforcing BDC's commitment to developing the talent required to meet today's and tomorrow's needs, we have crafted a talent management strategy that focuses on building capacities that are critical to achieving corporate objectives. Through an extensive career management process, we encourage learning and development at all levels in the organization. Complete training initiatives enable us to develop the important financial or technical skills needed to meet our clients' needs. We also have a Transitional Leadership Program to help develop, coach and support employees on their journey to becoming leaders.
- **Total Rewards:** Since its introduction in 2004, the Total Rewards Strategy has gradually shifted BDC's compensation and benefit practices into better alignment with those of the financial services market. As a result, BDC is now positioned to compete in a highly competitive labour market. The performance-based programs reward individual performance and contributions, based on results. Combined with greater flexibility and choice regarding benefits and pension plans, this model will serve BDC as it moves forward in a market where talented employees are in increasingly high demand.
- **Alignment of People Practices:** BDC endeavours to create a work environment that inspires and motivates employees to strive to achieve. Our organization has shifted from a culture of centralization and control toward a culture of greater autonomy and accountability. Accordingly, BDC works to ensure that its people practices are designed to support this fundamental change.

We will continue to foster a culture that recognizes the importance and value of employees and their contribution, thereby creating an environment that allows employees to bring the best of BDC to their clients.

SOUND FINANCIAL MANAGEMENT

Corporate Objective: *To fulfill its public policy mandate, BDC has to be profitable to fund the growth of its portfolio, generate a return on common equity at least equal to the government's average long-term cost of funds and be able to withstand unfavourable economic circumstances without requiring government funding.*

Performance Measurement	F2005 Actual	F2006 Objectives	F2006 Actual	F2007 Objectives
Efficiency ratio	48.5 %	47.4 %	48.9 %	49.7 %
Outstanding financing portfolio	$ 8.1 B	$ 8.8 B	$ 8.8 B	$ 9.4 B
BDC Consulting revenues	$ 18.9 M	$ 21.0 M	$ 21.6 M	$ 23.0 M
Total ROE at least equal to the government's average long-term cost of funds	9.7 %	7.7 %	9.2 %	8.2 %
BDC Venture Capital 10-year IRR – Total Investments	5.6 %	6.3 %	1.5 %	(0.1) %

BDC is a financially self-sustaining, commercial Crown corporation. It has a mandate to operate profitably, and pursuant to the *BDC Act*, makes loans and investments only where there is a reasonable expectation of profit.

BDC does not make grants or contributions, nor does it receive an annual appropriation from Parliament. Its objective is to earn a return on common equity at least equal to the government's average long-term cost of funds, currently 4%, versus the objective of 8.2% for fiscal 2007. BDC pays an annual dividend to the Government of Canada.

BDC measures and tracks its financial performance using the five measures described above. At $8.8 billion, the financing portfolio is the driving force. It has achieved critical mass and generates a reliable income stream, net of credit losses, that recoups its operating expenses. The net income after operating expenses amounts to 1.8% of the average outstanding portfolio. This means that sound financial management and a strong internal control environment is critically important for the long-term success of BDC. The retained earnings, after dividend payments, are reinvested to fund future growth in the loan portfolio.

The efficiency ratio remains steady in the 48% – 49% range. This is despite the rising number and complexity of sophisticated transactions, as well as a rising volume of smaller loans. Both require staff increases and greater investment in employee training, which offset revenue gains.

BDC Consulting revenues of $21.6 million exceeded the objective. In fiscal 2006, BDC started a program to recruit and train additional employees to expand its services to Canadian entrepreneurs.

Measuring the performance of BDC Venture Capital investments is challenging because of the long-term and high-risk nature of such transactions. The internal rate of return (IRR) is an industry standard which BDC uses for comparative purposes, although the nature of BDC's early-stage and patient capital role means that the IRR may reflect fluctuations that can be significant. During fiscal 2006, BDC changed its accounting policy and adopted the *fair value* method for assessing such investments.

Financial sustainability is achieved by a detailed assessment of the risk of individual loan transactions, a pricing policy which reflects that risk and an internal control environment which exercises sound management and effective controls over operating expenses. The Canadian Securities Administrators have regulations to reinforce investor confidence in financial markets. Following the adoption of regulations regarding the certification of financial information, BDC began a formal review of its financial reporting and disclosure processes. In fiscal 2006, BDC initiated a multi-year project to review its control processes, including the certification of internal controls over financial reporting and disclosure controls by the CEO and the CFO.

CORPORATE GOVERNANCE

PARLIAMENT

BDC's activities are guided principally by two parliamentary statutes. The *Business Development Bank of Canada Act* sets out BDC's purpose, powers and duties. The *Financial Administration Act*, Part X, sets out the control and accountability regime for Crown corporations.

As with all other Crown corporations, BDC is subject to other federal laws, such as the *Official Languages Act*, as well as regulations. BDC has always been subject to the *Access to Information Act*.

Crown corporations are the most audited organizations in the public sector. The Auditor General, jointly with an external audit firm, audits BDC every year.

Also, at five-year intervals, the Auditor General does a Special Examination of BDC. This examination, also done jointly with a private sector audit firm, is a performance audit. It goes beyond issues that are strictly financial to examine systems and practices related to economy, efficiency and effectiveness. BDC's next Special Examination will be in 2009.

Every year, Parliament receives summaries of corporate plans, annual reports and a consolidated report on Crown corporations.

TREASURY BOARD SECRETARIAT

In 2005, the President of the Treasury Board released the *Review of the Governance Framework for Canada's Crown Corporations – Meeting the Expectations of Canadians*. The review is part of an effort to reassert the role of Crown corporations as instruments of public policy and to improve the effectiveness of their governance frameworks. It lists 31 measures to:

- clarify the relationship between Ministers and Crown corporations
- clarify the accountability regimes of Crown corporations
- make more transparent the appointment process for chairs, CEOs and directors
- align the governance of Crown corporations with reforms in the private sector
- strengthen the audit regimes of Crown corporations
- make more transparent the activities and operations of Crown corporations.

BDC works to stay at the forefront of emerging governance practices. Of the 31, we meet or exceed 27 and are implementing the following three.

- **Board Mandate:** The Board has approved a revised mandate that codifies its roles and responsibilities in line with best practices.
- **Internal Control Certification:** The Board has approved a program to determine the scope of the project.
- **Stakeholders:** BDC is considering venues and formats for appropriate, meaningful input from stakeholders.

A fourth outstanding measure, related to directors' compensation, requires a regulatory change by government.

BOARD OF DIRECTORS

The Board of Directors is accountable to Parliament through the Minister of Industry. Its responsibility is stewardship; it ensures that BDC's activities are aligned with its statutory role and that it fulfills its public policy mandate in an ethical, efficient and effective way.

For Board members, a central challenge is managing the constant tension between BDC's mandated duty to support SMEs – an inherently high-risk endeavour – with its obligation to be commercially viable.

All members of the Board of Directors, except the President and CEO, are independent of management. None is a public servant. Many of them have first-hand knowledge of business and entrepreneurship.

The Board's key tasks are to:

- ensure the highest standards of corporate governance policy and practice
- participate in BDC's annual strategic planning
- approve the strategic direction of BDC's corporate plan
- ensure BDC has identified its principal risks and adopted the right systems to manage these risks
- review and approve management's succession plan (including appointing, training and monitoring senior management)
- examine the effectiveness of BDC's internal control processes and management information systems to ensure the integrity of these systems
- oversee communications and public disclosure; and set BDC's human resources policies and practices.

The Board has a Code of Conduct which incorporates the same basic principles as the Employee Code of Conduct, Ethics and Values. Every year, Board members affirm that they will honour the Code. The segregated roles and responsibilities for the Chairman and the President, already documented, are the subject of ongoing review to ensure they reflect current best practices. Possible conflicts of interest, if any, are disclosed by the Declaration of Conflict of Interest, which the Board accepted and implemented this year.

Much of the work that comes before the Board is initially examined by one of its committees. The BDC has five, all of which have defined mandates. The Board regularly reviews and revises the membership of these Committees to ensure they reflect members' strengths and to create the most productive synergies.

The Audit Committee is independent of management and most of its members have appropriate levels of financial literacy. In fiscal 2006, the nine new members of the Board, following the enhanced policy on orientation and continuous training, received detailed briefings.

OVERVIEW OF BDC BOARD COMMITTEES

Meetings, membership and highlights OF MAJOR ISSUES IN FISCAL 2006

COMMITTEE NAME	NUMBER OF MEETINGS	EXAMPLES OF MAJOR ISSUES	MEMBERSHIP *(as of March 31, 2006)*
Governance and Nominating Committee	6	• Reviewed and recommended the mandate to clarify and confirm the roles and responsibilities of the Board. • Reviewed and recommended the annual agenda for fiscal 2006. • Recommended criteria for the position of President and CEO, chose the executive search firm to identify appropriate candidates and recommended a candidate to the Board for subsequent consideration by the government. • Recommended a policy on personal trading for directors.	**C. E. Ritchie** (chair) S. Bracken-Horrocks C. Desmeules-Bertolin L. J. Duhamel A. Lever K. Ng V. Payn
Audit Committee	7	• Adopted updated Terms of Reference. • Reviewed management's selection of external experts to scope the internal control certification process regime. • Recommended the creation of a new VC subsidiary. • Reviewed a fair value policy for investments.	**T. B. Grieve** (chair) T. Adey C. Bergevin S. Bracken-Horrocks L. Cormier J. Hyshka L. Ledohowski
Human Resources Committee	8	• Reviewed the HR Strategic Plan and Compensation Plan. • Evaluated the Senior Management Team's performance and compensation. • Recommended the benefits package of the President and CEO.	**L. J. Duhamel** (chair) T. Adey C. Chan L. Cormier T. B. Grieve A. Lever K. Ng V. Payn

OVERVIEW OF BDC BOARD COMMITTEES

Meetings, membership and highlights OF MAJOR ISSUES IN FISCAL 2006

COMMITTEE NAME	NUMBER OF MEETINGS	EXAMPLES OF MAJOR ISSUES	MEMBERSHIP *(as of March 31, 2006)*
Pension Fund Committee and Trustees of the Pension Fund	3	• Enhanced the governance structure of the Pension Fund Committee. • Reviewed the investment policy of the Pension Fund and approved a contribution to the supplemental retirement plan.	**L. J. Duhamel** (chair) C. Albert C. Chan C. Desmeules-Bertolin J. R. Halde J. Hyshka M. Karamanos L. Ledohowski Y. Milette C. E. Ritchie
Credit/Investment and Risk Committee	22	• Adopted new Terms of Reference to anchor in the Credit/Investment and Risk Committee responsibility for reviewing risks and risk policies. • Reviewed new delegation of authority to increase management authority while enhancing the strategic role of the Credit/Investment and Risk Committee. • Reviewed and approved 33 financing and venture capital investments. • Reviewed performance and trends in the Portfolios and discussed action plans quarterly.	**C. E. Ritchie** (chair) C. Bergevin S. Bracken-Horrocks L. Cormier T. B. Grieve J. R. Halde L. Ledohowski

When a Member of Parliament, Senator, Board member or senior manager makes a referral to a BDC employee, the BDC Referral Policy requires that this be reported to the Board of Directors. As well, the person who made the referral is immediately informed in writing that client confidentiality supersedes all third-party involvement and that BDC retains sole authority for its credit decisions.

BDC

The Employee Code of Conduct, Ethics and Values affirms the fundamental values of BDC: ethics, client connection, team spirit, accountability and work/life balance. The Code applies to all employees. It sets out the principles that guide and shape our business activities: compliance with the law, honouring trust, fairness, objectivity, integrity and corporate and individual responsibility.

BDC keeps current on best practices and reviews its Code annually to improve its internal governance. The Code includes:

- compliance acknowledgement
- the oath or solemn affirmation of office
- the policy on personal trading for employees
- the policy on internal disclosure concerning wrongdoing in the workplace
- the policy to promote a harassment-free workplace

ENTERPRISE RISK Management

Fulfilling our public policy mandate entails risk. First, risk is an unavoidable feature of business in the financial sector. Second, BDC focuses on entrepreneur needs that are not easily fulfilled in the market; these invariably consist of higher risk projects and investments.

We identify and manage the principal risks to our business so that we can deliver our higher risk mandate while sustaining sufficient capital adequacy for growth. This is a delicate balance of risk and reward. Risk management enables us to strike this balance and is thus a key part of corporate governance at BDC. In fiscal 2006, the Board approved the Enterprise Risk Management policy (ERM). ERM is a framework policy that we incorporate into our strategic and corporate planning; it ensures that our approach to risk management is methodical and consistent across all of our operations and decision-making.

The first steps in risk management are detection and identification. BDC uses continuous, radar sweep-like scans of BDC's credit, market and operational risks.

The first scan starts with the managers responsible for each of BDC's business units. Every year, they identify their top business risks. For each, they write an action plan to mitigate, avoid or accept the risk.

The ERM group at Head Office then compiles, quantifies and assesses the business units' risks to prepare a risk identification report for the Senior Management Team. The report summarizes the risks and identifies the trends and concerns that might have implications for BDC as a whole.

Every year, the Senior Management Team discusses with the Board of Directors the top risks and accompanying action plans. Every three months, the Senior Management Team updates the Board on progress toward implementing the action plans, and reports any emerging risks.

In fiscal 2007, BDC will form an internal ERM Committee. The ERM Committee will do a second kind of risk scan: identify, assess and quantify ongoing risks and opportunities that it finds in BDC's day-to-day operations. ERM Committee members come from a cross section of disciplines. It is a forum for BDC's business units to discuss, share information and collaborate on the implementation of action plans that span functional boundaries.

BDC management uses a state-of-the-art monitoring system that constantly scans both new loans and the portfolio of existing loans. Every week, the system gives in-depth analyses and warnings of trends that might require quick corrective action, accompanied by information to enable managers to determine the cause of the problem: detail by industry sector, geographic location, branch, loan size or type. The advantage of this system is that it puts information into the hands of the unit managers who are responsible for monitoring risk while simultaneously informing senior management of all developments.

We daily monitor the quality of the risk being underwritten. Senior management holds a Quarterly Portfolio Outlook meeting at which it formally reviews trends, concentrations, key risk indicators and loan quality assessments, and realigns marketplace strategies to levels of business risk that BDC considers acceptable. Subsequent to these meetings, it reports and discusses its findings and courses of action with the Credit/Investment and Risk Committee of the Board.

For BDC, there are three broad categories of risk: credit, market and operational.

Credit Risk is the risk that BDC will lose money when a client defaults on a loan. This kind of risk is inherent in new loan authorizations, as well as in our large portfolio of already approved loans. It is also inherent in BDC's Treasury operations. When we expect payment from another party with whom we have entered into a financial transaction, there is a risk that they will not be able to meet their obligations. To manage these risks, we diversify our exposure and set limits on our transactions.

Market Risk is the risk that the value of assets, liabilities or other financial instruments such as interest rate derivatives or currency hedges will change because of changes in market conditions that result in losses for BDC. This risk is inherent in Treasury operations and BDC Venture Capital investments.

Operational Risk is the risk that BDC will lose money or not achieve its financial goals because of day-to-day errors caused by people, processes or systems, or from rare but severe events such as natural disasters.

The benefits of this constant flow of precise information – data for greater responsiveness at the local business unit level and sharpened managerial oversight – permit BDC to confidently take higher risks to support entrepreneurs.

BDC's Audit and Credit Risk management teams, in collaboration with the Portfolio Management Group, are responsible for monthly loan quality reviews. The review examines a sample of loans to ensure that they were approved in a manner characterized by due diligence, adherence to policies and proper risk assessment. We use these results for continuous improvements through communication and training. The Audit team also reviews branch operations for loan portfolio credit risk and compliance with policies and procedures. The team alerts management to any negative trends in operational or procedural risks that they identify, and management ensures that the employees responsible take corrective action.

Venture capital investments are inherently high risk. BDC mitigates these risks through extensive due diligence, using external expertise when needed. We focus on the uniqueness and commercial potential of the product, the experience, expertise and commitment of the management team, the size and dynamics of the market in which the company operates and the competition, both present and potential. We assess the go-to-market strategies, the scalability of the business model and its potential for rapid growth. Once the investment is made, a team of experts provides continuous monitoring and consulting if needed.

BDC's Credit/Investment and Risk Committee's responsibility for authorizing large loans and venture capital investments provides a further kind of risk scan. In doing so, the Committee of the Board evaluates:

- the client's risk rating level, stage of development and management capabilities
- the purpose of the proposed transaction, product or service offering
- the security provided
- the flexibility of the proposed solution
- the markets in which the client operates as well as its fit within BDC's mandate for supporting SMEs.

The overall risks inherent in BDC Treasury operations are monitored on a daily basis at several levels within BDC to ensure compliance with established policies. The Asset and Liability Committee meets quarterly to review Treasury operations and ensure that financial risks are being responsibly managed. Reporting is done quarterly to the Board of Directors.

Information Technology: We uphold best practices in information technology security to ensure the privacy of client information.

Management's DISCUSSION AND ANALYSIS of Financial Results

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This section includes forward-looking statements based on Management's best estimates. By their nature, forward-looking statements involve numerous assumptions and uncertainties. Risks and uncertainties may cause actual results to differ materially from these estimates. Some of the factors that could cause such differences include economic and financial conditions in Canada and around the globe, interest rate fluctuations, quality of the loan portfolio, opportunities for divestitures of investments and uncertainties associated with critical accounting assumptions and estimates.

SUMMARY OF FINANCIAL RESULTS

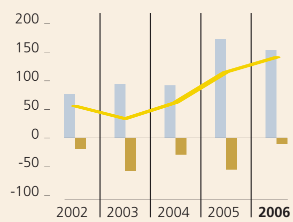
Fiscal 2006 was a record year for BDC. Consolidated net income was a record $138 million compared to $113 million in fiscal 2005. Driven by customer demand, the financing portfolio increased to $8.8 billion and the venture capital portfolio reached $431 million. Client satisfaction continued to be outstanding, achieving a satisfaction rate of 92%, higher than the anticipated 89%.

Income from financing totaled $155 million in 2006, compared to $172 million in 2005. Driven mainly by the portfolio growth, net interest income totaled $433 million, $31 million higher than 2005. The robust Canadian economy and favourable credit conditions produced a provision for credit losses of $88 million in 2006 compared to $54 million in 2005. The increase is due to the recognition of $27 million general provision in 2006 versus nil in 2005.

Revenues from consulting activities increased 14% over last year to reach $21.6 million. The number of mandates performed increased to 2,037, up 8% from fiscal 2005.

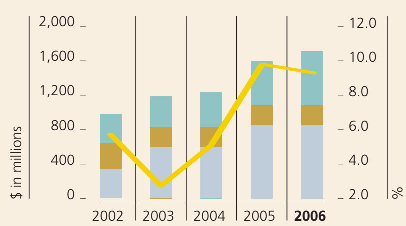
In 2006, BDC Venture Capital operations showed encouraging results and a strong level of commitment to Canadian entrepreneurs, authorizing $140 million of investments, while income before operating and administrative expenses of $0.8 million showed improvement over the loss of $43 million in 2005. Consequently, the net operating loss of $13 million was better than the $56 million last year.

BDC Net Income
for the years ended March 31
$ in millions



	2002	2003	2004	2005	2006
Financing and Consulting	74.7	91.4	89.4	169.6	**151.0**
Venture Capital	(21.0)	(59.5)	(30.3)	(56.1)	**(12.8)**
Total Net Income	53.7	31.9	59.1	113.5	**138.2**

Total Shareholder's Equity
as at March 31



	2002	2003	2004	2005	2006
Common shares*	331.2	586.2	586.2	836.2	**836.2**
Preferred shares	295.0	230.0	230.0	230.0	**230.0**
Retained earnings	334.1	353.8	402.3	503.4	**625.1**
Total shareholder's equity	960.3	1,170.0	1,218.5	1,569.6	**1,691.3**
Return on common equity (%)	5.7	2.7	5.1	9.7	**9.2**

*Includes $27.8 million of contributed surplus

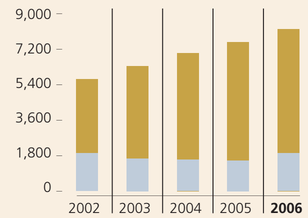
BDC FINANCING OPERATIONAL REVIEW

Performance Measurement	F2005 Actual	F2006 Objective	F2006 Actual	F2007 Objective
Financing Portfolio	$ 8.1 B	$ 8.8 B	$ 8.8 B	$ 9.4 B

Steady demand for BDC's services, especially its specialized products, led to an increase in the financing portfolio in 2006. There were more BDC clients and the portfolio increased from $8.1 billion to $8.8 billion.

Loans are made to clients at either floating or fixed rates, at the client's option. BDC borrows the funds on Canadian and global money markets which determine the cost of funds to BDC. This in turn is the basis of the rate that BDC charges its clients, as is a risk factor determined on an individual loan basis. As the following graph shows, BDC's clients tend to opt for floating rates compared to fixed rates.

Performing Loan Portfolio
as at March 31
$ in millions

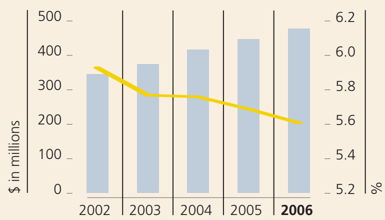


	2002	2003	2004	2005*	**2006***
Fixed rate portfolio	1,949	1,658	1,585	1,556	**1,940**
Floating rate portfolio	3,854	4,783	5,560	6,142	**6,437**
Total performing portfolio	5,803	6,441	7,145	7,698	**8,377**

*Excluding subordinate financing investments

Net interest income, after interest expenses of $433 million, and other income of close to $40 million, produced a net margin of 5.61% expressed as a percentage of the average portfolio. This compared to 5.68% in 2005. The reduction of 7 basis points is mainly due to better market conditions. Interest income also includes $26 million of interest earned on short-term investments and securities related to the liquidity maintained to respond to client requirements.

BDC Financing Net Interest and Other Income
for the years ended March 31



	2002	2003	2004	2005	**2006**
Net interest and other income	341	369	411	441	**473**
As a % of average financing portfolio	5.92	5.76	5.75	5.68	**5.61**

BDC Subordinate Financing results are included in financing. In fiscal 2006, BDC adopted prospectively Accounting Guideline AcG-18, Investment Companies, which required valuation of investments at fair value. Consequently, financing results include an unrealized appreciation of investments of $1 million in 2006.

Net interest and other income must be sufficient to cover the provision for credit losses, and the operating and administrative expenses. The income must generate enough profit, net of dividends paid to the shareholder, to grow BDC's capital base through retained earnings. The capital base enables BDC to support increased future lending activities and to maintain the requisite capital-to-asset ratio as prescribed for BDC by the Treasury Board of the Government of Canada.

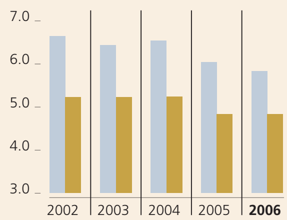
ALLOWANCE AND PROVISION FOR CREDIT LOSSES

BDC's corporate objective is to create a unique and valued relationship with Canadian entrepreneurs to support the creation and growth of their businesses. To do this, BDC must take risk.

BDC, as outlined in its Corporate Plan, has progressively increased its financing in the start-up, early-stage development and growth businesses through the increased use of its Co-Vision, Productivity Plus and Innovation financing products. A key feature of these products is a reduction in the amount of security required to cover possible loan losses, meaning that the potential for ultimate loss is greater than BDC's more traditional asset-backed loans. In the event of default, losses would be proportionately greater but are to some extent offset because of the smaller dollar value of individual loans.

BDC maintains the cumulative allowance for credit losses in the loan portfolio at a prudent level which reflects its long-term loan loss experience. The total allowance was $502 million at March 31, 2006 versus $483 million as at March 31, 2005, representing 5.8% of the loan portfolio outstanding at year-end (6.0%–2005). The continued strong economic conditions are reflected in the portfolio's strong credit performance, as well as in an overall decrease in the allowance for credit losses as a percentage of the loan portfolio.

Allowance for Credit Losses
as at March 31
percentage



	2002	2003	2004	2005*	2006*
Total allowance as a % of loan portfolio	6.6	6.4	6.5	6.0	**5.8**
General allowance as a % of performing portfolio	5.2	5.2	5.2	4.8	**4.8**

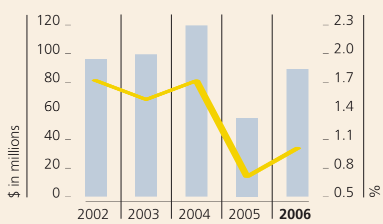
*Excluding subordinate financing investments

The cumulative allowance of $502 million includes a specific allowance of $103 million, which covers the net exposure of identified impaired loans and a general allowance of $399 million. The general allowance covers losses which are present in the portfolio as at March 31 but that cannot yet be specifically assigned to individual loans.

When loans default, they are reclassified as impaired loans, and an amount equivalent to the net exposure is recorded as specific provision, and added to the specific allowance. Loan write-offs reduce the specific allowance once it is determined that all possible recoveries have been made from the distressed debtor. Write-offs and other adjustments totaled $71 million in 2006. This compares with $61 million in 2005.

BDC took a $27 million general provision charge in 2006, versus no charge in 2005. This reflects the increase in the loan portfolio, specifically the increase in specialized loans which bear higher risk than traditional loans. Consequently, the general allowance increased from $372 million to $399 million.

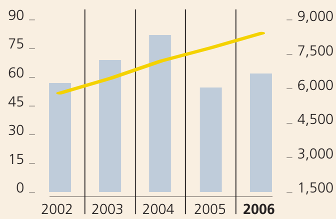
Provision for Credit Losses
for the years ended March 31



	2002	2003	2004	2005*	2006*
Provision for credit losses	95	98	118	54	**88**
As a % of average loan portfolio	1.7	1.5	1.7	0.7	**1.0**

*Excluding subordinate financing investments

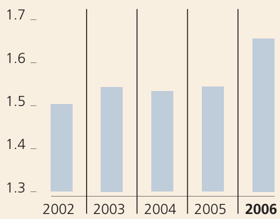
Specific provision for Credit Losses
for the years ended March 31
$ in millions



	2002	2003	2004	2005*	2006*
Specific provision for credit losses	56	68	81	54	**61**
Average loan portfolio	5,749	6,402	7,136	7,710	**8,347**

* Excluding subordinate financing investments

Coverage Ratio
as at March 31
This ratio is calculated as the allowance for credit losses / impaired loan portfolio.



	2002	2003	2004	2005*	2006*
Coverage Ratio	1.50	1.54	1.53	1.54	**1.65**

* Excluding subordinate financing investments

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 information 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 analyses data and recommends portfolio strategies. Comprised of representatives from different areas of BDC, including field operations, market development, 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 $304 million as at March 31, 2006, compared to $314 million a year ago. The specific allowance for credit losses of $103 million is considered to be sufficient to cover the net loss exposure of these loans.

OPERATING AND ADMINISTRATIVE EXPENSES

Performance Measurement	F2005 Actual	F2006 Objective	F2006 Actual	F2007 Objective
Efficiency Ratio*	48.5%	47.4%	48.9%	49.7%

* Financing operating and administrative expenses divided by net interest and other income

Financing operating and administrative expenses totaled $231 million, which was $17 million higher than in fiscal 2005. The increase is a direct result of higher staffing levels and the cost of employee benefits. Other costs were held close to the fiscal 2005 level.

Salaries and benefits account for 61% of the BDC Financing group costs, and are largely a function of activity volume. As the portfolio grows, BDC needs more employees to maintain a high standard of customer service.

BDC relies on knowledgeable, trained and engaged employees to fulfill its mandate and meet the needs of Canadian entrepreneurs. Consequently, the fostering of a culture of engagement, learning and growth is an important objective. In fiscal 2006, BDC invested $5 million in training and development programs to build capabilities and enhance employee effectiveness. During the year, staff levels increased from near 1,500 to 1,600.

The BDC pension and benefit plans are designed to form part of a competitive “total rewards program”. The pension expense for the defined benefit programs is determined actuarially. It is also significantly influenced by the assumptions which are used to determine the expense, including the discount rate on future liabilities, the expected rate of return on fund assets, inflation rates and other factors. Pension expense increased in 2006 to $5.9 million compared to $4.4 million the previous year. BDC expects this expense to increase again in fiscal 2007, largely due to reductions in the prescribed discount rate on future liabilities.

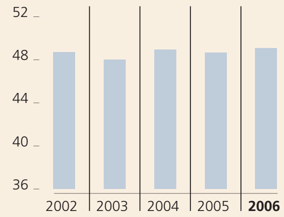
The charge for other benefits, which includes the cost of post employment benefits to pensioners, increased to $8 million versus $7 million, because the cost of providing health care increased, and the impact of the reduced actuarial discount rate drove up the cost of future liabilities.

Premises, lease expenses and operating costs for over 85 offices across the country were $34 million. Most credit decisions are decentralized to better respond to client needs and over 95% of such decisions are made locally. In 2006, BDC invested $7.4 million to provide and maintain an appropriate ergonomic and efficient workplace environment for its employees. It also expanded, relocated or renovated 12 locations across Canada, plus a new branch in Quebec and in Manitoba.

Information Technology (IT) has become critically important to BDC’s efforts to function efficiently, to reduce loan approval and disbursement times, and to address privacy, security and confidentiality matters. IT cost $31 million in 2006, $6 million higher than 2005. New projects undertaken included a new risk rating system for credit approval and an information “datamart” (a collection of databases used to make strategic business decisions) while other costs, such as licensing fees, increased in line with staff levels.

Other expenses of $56.8 million comprise staff training, marketing, advertising and miscellaneous office expenses. Compared to fiscal 2005, $57.2 million, these expenses decreased slightly because advertising expenses were lower.

BDC Financing Operations
Efficiency Ratio
for the years ended March 31
percentage



	2002	2003	2004	2005	**2006**
Efficiency Ratio	48.5	47.8	48.7	48.5	**48.9**

BDC measures efficiency and productivity with the "efficiency ratio", which compares operating expenses to net interest and other income. A lower ratio indicates better efficiency. In fiscal 2006, the ratio was 48.9%, slightly higher than 2005. This is due to increased pension costs and increases in operating costs in order to gear up for future growth.

OUTLOOK FOR FISCAL 2007

In Canada's strong economic climate, demand for BDC's services is expected to remain strong and to gradually build up the financing portfolio to $9.4 billion in 2007. Consequently, there will be a corresponding increase in all elements of the income statement, including such cost elements as the provision for credit losses and operating expenses. The five-year Corporate Plan projects profits from BDC Financing operations will remain strong, at or near the $130 million mark annually.

BDC's growth in traditional lending is affected by the increased presence of the other market players. In light of its complementary, higher risk role, BDC will migrate where market gaps are more evident. As a result, BDC expects that client demand for its specialized solutions – typically higher risk and smaller loans - will increase for the coming years. Consequently, staffing levels should increase, as will related costs such as training and premises. BDC also expects to have six new branches in operation for fiscal 2007.

In 2007, pension costs will rise dramatically by $9 million, despite no significant changes in the pension benefit plan. This is due to the low discount rate, which increases the actuarial value of the future liability. Yet, a return to higher interest rates, together with the pension contributions which are now being made by both employees and BDC, may reduce pension costs.

BDC SUBORDINATE FINANCING

BDC Subordinate Financing offers a specialized high risk form of financing, commonly referred to as "mezzanine financing" which involves elements of both lending and equity investing. BDC offers it through a partnership agreement between BDC and the *Caisse de Dépot et placement du Québec*, which is managed by BDC. In fiscal 2006, including this partnership, BDC Subordinate Financing authorized $93 million, of which BDC's portion was $47 million.

Pursuant to BDC's decision to measure investments at fair value in 2006, BDC now records all changes to the estimated fair value as income or loss in the year in which they occur. This change in accounting policy was applied prospectively, which had the effect of increasing income of BDC Financing by $1 million in 2006. As of March 31, 2006, $95 million of subordinate financing investments have been included in BDC's portfolio.

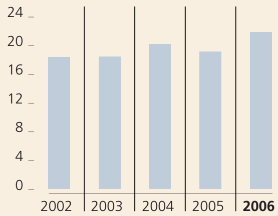
BDC CONSULTING OPERATIONS

Performance Measurement	F2005 Actual	F2006 Objective	F2006 Actual	F2007 Objective
BDC Consulting Revenue	$ 18.9 M	$ 21.0 M	$ 21.6 M	$ 23.0 M

BDC Consulting offers a comprehensive range of business solutions to support the innovation, productivity and operational efficiency of Canadian SMEs. These solutions, coupled with a renewed focus on an integrated approach to better serve its clients, helped increase BDC Consulting mandates from 1,886 in 2005 to 2,037 in 2006, with an average mandate size of $10,800.

In fiscal 2006, BDC Consulting achieved $21.6 million in revenue versus $18.9 million in fiscal 2005.

BDC Consulting Revenue
for the years ended March 31
$ in millions



	2002	2003	2004	2005	**2006**
Consulting Revenue	18.2	18.2	20.0	18.9	**21.6**

BDC Consulting has planned to add more reach by increasing mandates from 2,000 to 4,000 by fiscal 2010. Consequently, in fiscal 2007, BDC has decided to commit $3 million to strategically position its consulting services as a premier, affordable, value-added source of support to its clients. This funding will be deployed for core consulting solutions and to recruit and train staff to better serve and assist Canadian SMEs to reach their potential.

BDC VENTURE CAPITAL OPERATIONS

BDC's public policy mandate is to support Canadian entrepreneurship by providing financial, investment and consulting services. In doing so, BDC pays particular attention to the needs of small and medium-sized developing businesses. BDC Venture Capital addresses the especially high-risk and financing gaps by offering to take equity positions in qualifying businesses.

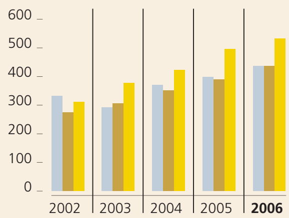
During fiscal 2006, BDC was active in that market and authorized 81 direct investments for a total of $106 million versus 78 investments for $118 million in 2005. As well, BDC authorized $34 million in two specialized funds in fiscal 2006, compared to two funds for a total of $25 million in 2005.

BDC Venture Capital activity is a significant share of the Canadian market. However, a persistent lack of divestiture opportunities in recent years has constrained investment income although some improvement occurred in 2006. Net gains on disposals of investments increased to $21.6 million in 2006 compared to $12.7 million in 2005.

Venture Capital investment divestitures depend on the success of individual investments and prevailing market conditions. Accordingly, the financial results can be very volatile from year-to-year. In line with its mandate, BDC invests in enterprises which can reasonably be expected to prove successful. Management believes that the investments currently being made will, in aggregate, be successful in the long term. However, the IPO (Initial Public Offering) market and takeover activity has been limited for several years and this has significantly affected BDC's 10-year annual internal rate of return.

In 2006, BDC implemented a change of accounting policy to adopt *fair value* valuation as the methodology for reporting venture capital investments. Previously, unsuccessful investments that had incurred permanent impairment were written-down (carrying value); in 2006 all investments have been valued at fair value. The net change in value of $28 million has been recorded in the income statement as a charge for the year. During fiscal 2006, BDC Venture Capital investments were transferred to the new wholly-owned subsidiary, BDC Capital Inc. The creation of the subsidiary will improve internal reporting and comply with current accounting practices and guidelines.

Valuation of BDC Venture Capital – Total investments
as at March 31
$ in millions

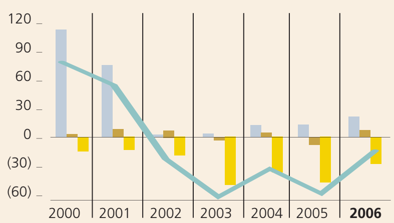


	2002	2003	2004	2005	**2006**
Fair value	327	288	366	393	**431**
Carrying value	271	302	346	384	**431**
Cost	307	373	417	491	**526**

The accompanying chart shows the volatility of BDC Venture Capital operations, which generally reflect the results of venture capital enterprises in those years. During fiscal 2000 and 2001, BDC Venture Capital recorded exceptional profits of $80 million and $56 million respectively. In each of the past five years, however, market conditions have produced losses.

In 2006, the net loss was $13 million. This compares with the loss of $56 million last year. The outlook for 2007 is positive and projects further improvements.

BDC Venture Capital Operations - Results
for the years ended March 31
$ in millions



	2000	2001	2002	2003	2004	2005	**2006**
Net gains on disposals of investments	112.7	75.8	1.7	3.8	12.7	12.7	**21.6**
Other*	1.6	8.4	7.0	(1.7)	4.9	(8.0)	**6.9**
Write-down of investments / unrealized depreciation (2006)	(14.7)	(13.3)	(18.9)	(50.0)	(36.8)	(47.4)	**(27.7)**
Venture Capital operating profit (loss)	80.0	56.2	(21.0)	(59.5)	(30.3)	(56.1)	**(12.8)**

* Includes interest and dividends. Also includes unrealized gains / losses on temporary investments up to 2005.

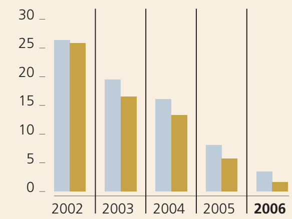
BDC also invests in third party venture capital funds, and currently has investments aggregating $35 million in 13 such funds. In fiscal 2006, related to these funds, BDC recorded an expense of $7.9 million in its venture capital results, compared to $19.6 million in 2005.

Venture capital investing involves a long term commitment, particularly as BDC invests in very early-stage enterprises and is a patient investor. Successful initial investments invariably need additional rounds of investment for expansion or commercialization and BDC supports the growth of such high potential companies.

Industry practice uses the internal rate of return (IRR) to measure the success of funds or groups of investments. IRR is the annual discount rate at which the values of cash flows from the portfolio yield the original investment. Despite its usefulness as a benchmark for BDC, the measure can only be considered as indicative because of BDC's longer commitment and its policy of divesting successful investments as soon as market conditions permit. BDC uses a moving 10-year IRR to monitor the performance of its portfolio.

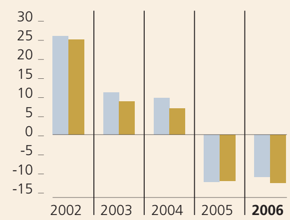
The profits in 2000 and 2001 offset the losses in the more recent years, and without these profits the returns would be reduced, as seen in the 5-year IRR chart below.

BDC Venture Capital 10-year Internal Rate of Return
for the years ended March 31
percentage



	2002	2003	2004	2005	**2006**
Direct investments	26.1	19.2	15.9	7.9	**3.3**
Total investments	25.6	16.3	13.1	5.6	**1.5**

BDC Venture Capital 5-year Internal Rate of Return
for the years ended March 31
percentage



	2002	2003	2004	2005	**2006**
Direct Investments	25.6	11.0	9.5	(12.2)	**(10.9)**
Total Investments	24.7	8.6	6.7	(12.0)	**(12.5)**

MARKET RISK – VENTURE CAPITAL RISK MANAGEMENT

Venture capital investments are innately high risk. The return on the investment portfolio depends on the timing of 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 which 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 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 investment activities by applying conservative valuations, syndicating most of its investments with other venture capital investors and through regular monitoring. Divestiture of successful investments occurs by takeover, or by an investee company going public by means of an initial public offering. BDC divests of such traded shares on a phased basis, taking into account market conditions in order to maintain an orderly 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. In 2006, BDC adopted the fair value method to value its investments, and an independent evaluation committee performs a thorough review of each holding bi-annually to review performance and estimate the fair value. That valuation indirectly serves to mitigate the market risk on the portfolio.

PENSION SUMMARY

BDC's pension plans and other benefit obligations are based on actuarial valuations and certain assumptions which are detailed in Note 21 of the Consolidated Financial Statements. The calculation of those obligations is influenced by a number of factors, particularly the discount rate used to value the future liability. For accounting measurement purposes, the discount rate used at each measurement date is based on market interest rates for long-term high-quality debt instruments (5.25% at December 2005).

During fiscal 2006, the decrease in the discount rate from 6.0% to 5.25% led to an actuarial deficit for *accounting* purposes for the registered pension plan of $17 million versus an actuarial surplus of $24 million in fiscal 2005. This illustrates the interest rate sensitivity of actuarial valuations. The impact of a 50 basis points increase in the discount rate in the future, with all other assumptions held constant, would result in an actuarial surplus of approximately $23 million.

Registered pension plan funding requirements are determined by the *Pension Benefits Standards Act* of 1985 and related regulations. Funding limits are defined in the *Income Tax Act* and regulations. Employer and employee contributions to the BDC Registered Pension plan were temporarily suspended from 1994 and 1997 respectively until 2005, due to funding surpluses. Effective July 2005, employee contributions are being gradually phased in, with full contributions under the terms of the Plan in July 2007.

As of December 2004 and 2005, the RPP enjoyed a *funding surplus* on a going-concern basis, but a *funding deficit* on a hypothetical solvency basis. Consequently, employer contributions of $20.5 million were made in fiscal 2006, and another $25 million will be contributed in 2007. The Supplemental Plan has historically been unfunded, but in 2006 BDC elected to contribute $14 million to reduce the magnitude of the unfunded liability.

OPERATIONAL RISK

Every business decision or transaction involves elements of risk.

Operational Risk is the risk of potential losses arising from day-to-day errors caused by people, breakdowns in processes or systems, or from rare but severe events, such as natural disasters. BDC has appropriate 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 regularly reviews and tests its contingency planning.

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

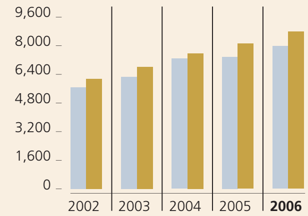
Written-off accounts are reviewed and any operational risks associated with loan operations are identified. From a compilation of these risks, internal control procedures can be modified if necessary.

BALANCE SHEET

BDC's principal asset is its loan portfolio. In fiscal 2006, this grew 8.6% to $8.2 billion, net of allowances for credit losses. Subordinate financing investments, which are now reported at fair value, grew 77% to $95 million. Venture capital investments, which now are also reported at fair value, grew 12% to $431 million. As well, BDC maintains sufficient levels of liquidity ($930 million as of year-end) to ensure that funds are available to meet customer needs.

As of March 31, 2006, portfolios and liquid assets at $9.6 billion are funded by borrowings of $7.9 billion and equity of $1.7 billion. Other assets and liabilities also include related derivative financial instruments and the hedging of exposures on borrowing transactions, which largely offset each other.

Total Outstanding Loans vs Borrowing
as at March 31
$ in millions



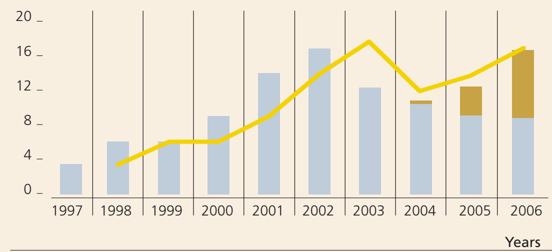
	2002	2003	2004	2005*	**2006***
Borrowings	5,597	6,174	7,181	7,288	**7,876**
Loans	6,071	6,721	7,465	8,012	**8,681**

*Excluding subordinate financing investments

Fixed assets of $38 million comprise furniture, leasehold improvements and capitalized information technology investments, net of the appropriate amortization.

Total shareholder's equity of $1.7 billion grew by $122 million during 2006, including the net income after dividends declared of $16.5 million. BDC pays dividends on both its common and preferred shares that are outstanding at year end. As of March 2006, BDC has remitted a total of $98 million in dividends over ten consecutive years. As well, based on 2006 performance, a common dividend of $12.1 million was declared after year end, which will be paid and recorded in fiscal 2007.

Dividends
for the years ended March 31
$ in millions



	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006*
Preferred dividends declared	3.4	6.0	6.0	8.9	13.8	16.7	12.2	10.3	9.0	8.7
Common dividends declared	–	–	–	–	–	–	–	0.4	3.3	7.8
Total dividends declared	3.4	6.0	6.0	8.9	13.8	16.7	12.2	10.7	12.3	16.5
Total dividends paid	–	3.4	6.0	6.0	8.9	13.8	17.5	11.8	13.6	16.8

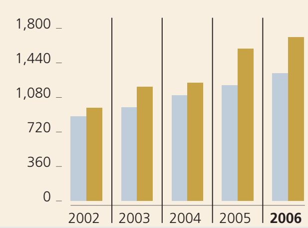
* In addition, based on BDC's fiscal 2006 performance, common dividends of $12.1 million were declared after March 31, 2006 and will be paid and recorded in fiscal 2007.

The Government of Canada establishes regulatory capital for BDC to support its various loan and investment products. It is calculated based on the following capital adequacy ratios:

Term lending	10:1
Subordinate Financing	4:1
Venture Capital investments	1:1

As seen in the graph below, BDC operates in accordance with its capital adequacy guidelines.

Capital Adequacy
as at March 31
$ in millions

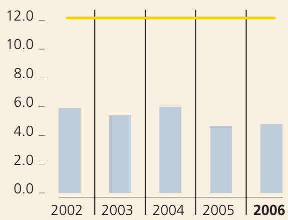


	2002	2003	2004	2005	**2006**
Regulatory	869	962	1,086	1,189	**1,316**
Actual	960	1,170	1,219	1,570	**1,691**

For the year ended March 31, 2006 BDC operated within all the statutory limits stipulated in the *Business Development Bank of Canada Act*.

The debt-to-equity ratio was steady at 4.7:1, significantly under the required statutory limit of 12:1.

Debt : Equity
as at March 31

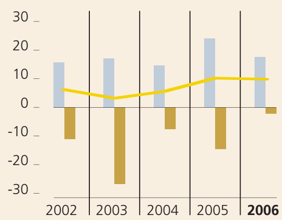


	2002	2003	2004	2005	**2006**
Actual	5.8	5.3	5.9	4.6	**4.7**
Statutory Limit	12.0	12.0	12.0	12.0	**12.0**

Performance Measurement	F2005 Actual	F2006 Objective	F2006 Actual	F2007 Objective
ROE at least equal to the government's average long-term cost of funds	9.7%	7.7%	9.2%	8.2%

Return on common equity was 9.2%, surpassing the objective level of 7.7% but slightly lower than the 9.7% in fiscal 2005 due to the higher equity base. The return on equity for BDC Financing and BDC Consulting operations, calculated on a stand-alone basis, was 6.3% lower than in fiscal 2005. This was mostly due to the $27 million charge in the general provision in fiscal 2006 to cover the fast-growing portfolio. Although BDC Venture Capital operation's return on equity was still negative, it improved substantially, from a negative 14.9% in fiscal 2005 to a negative 2.6% in fiscal 2006.

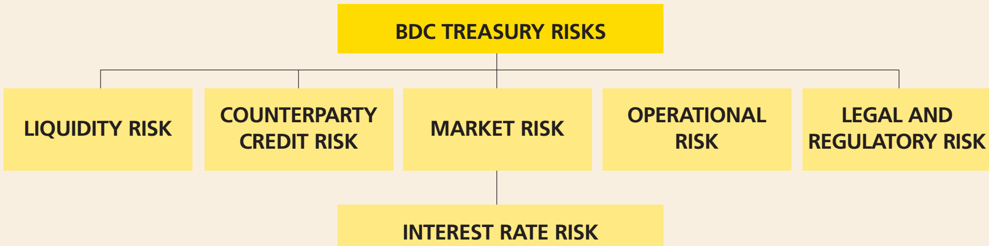
Return on Common Equity
for the years ended March 31
percentage



	2002	2003	2004	2005	**2006**
BDC Financing and BDC Consulting	15.1	16.5	14.1	23.3	**17.0**
BDC Venture Capital	(11.6)	(27.0)	(8.1)	(14.9)	**(2.6)**
Total BDC	5.7	2.7	5.1	9.7	**9.2**

TREASURY RISK MANAGEMENT

Treasury Risks are risks arising from the funding of BDC's balance sheet and operations. BDC's Treasury Risk Framework provides for identification, measurement, control and mitigation of treasury risks, which include liquidity risk, market risk, counterparty 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.

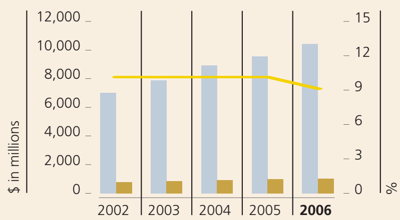
BDC's Treasury operations' primary responsibility with liquidity management is to ensure that BDC has the capacity to meet its payment obligations on a timely and cost-effective basis. BDC has a well-defined liquidity and investment management policy, which includes liquidity limits that are monitored daily by the Treasury Risk Management Unit. BDC's policy also provides clear guidelines for issuing institutions, all of which are rated A and better. 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 100 days. As at March 31, 2006, 80% of BDC's liquidity investments were to mature within 100 days.

CASH, SHORT-TERM INVESTMENTS AND SECURITIES

as at March 31, 2006 ($ in millions)	Term to maturity		
Credit Rating*	Less than 3 months	3 months to 1 year	1 to 5 years
AAA	321.3	0.0	0.0
AA- to AA+	321.5	48.9	104.0
A to A+	128.8	5.8	0.0
Total	771.6	54.7	104.0

* From major credit agencies

Liquidity Ratio
as at March 31



	2002	2003	2004	2005	2006
Total assets	6,897	7,791	8,809	9,445	**10,311**
Cash, short-term investments and securities	715	794	865	903	**930**
Liquidity ratio (as a % of assets)	10	10	10	10	**9**

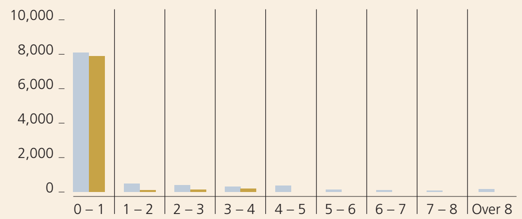
Market Risk is the risk that the value of assets, liabilities or other financial instruments will vary because of adverse changes in market conditions, resulting in losses for BDC.

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 is 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, all of which are rated A- and better.

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, 2006, after taking into account derivative transactions.

Interest Rate Sensitivity Asset and Liability Gap
as at March 31, 2006
$ in millions



	0 – 1	1 – 2	2 – 3	3 – 4	4 – 5	5 – 6	6 – 7	7 – 8	Over 8
									Years
Assets*	8,002	440	355	287	304	76	57	44	120
Liabilities	7,802	74	90	140	0	0	0	0	0

*Before allowance for credit losses

The Treasury Risk 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, 2006
($ in millions)

	Term to maturity						
	Gross exposure						
Credit Rating*	1 year and under	Over 1 year to 3 years	3 years and over	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+	36.9	74.3	172.7	283.9	(98.4)	(79.1)	106.4
A to A+	11.2	50.3	34.8	96.3	(45.2)	(27.4)	23.7
Total	48.1	124.6	207.5	380.2	(143.6)	(106.5)	130.1

* 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 2006 PLAN

Financing authorizations of $2.5 billion were again strong and met the Plan objectives as did the financing portfolio which reached $8.8 billion at year end, exactly on plan, with higher disbursements compensating for higher prepayments. Consequently the net interest income and other income generated by that portfolio met Plan objective of $473 million.

Strong credit performance, reflecting favourable economic conditions, led to a provision for credit losses of $88 million, lower than the Plan level of $136 million, which had anticipated a return to credit conditions more in line with BDC's long-term loan loss experience. During the year, staff levels increased more rapidly than planned to meet future demand. Consequently, operating and administrative expenses of $231 million were $7 million higher than Plan. The efficiency ratio was 48.9% compared to the planned level of 47.4%

BDC Venture Capital recorded a loss of $13 million for 2006, compared to the planned income of $5 million. However, it is considerably better than the $56 million loss in 2005. Improvement in the market enabled some profitable divestitures.

Implementation of the *fair value* valuation method for investments in fiscal 2006 was an important change in accounting policy which was not provided for in the Corporate Plan. Consequently, the former "write-down of investment" of $40 million has been changed to a *fair value adjustment* in 2006 of $28 million.

Consolidated BDC net income of $138 million was significantly better than the $115 million in the Corporate Plan. Pursuant to its dividend policy, BDC will be paying a total dividend of $21 million to the Government of Canada, including $12.1 million on common shares, based on fiscal 2006 performance. This common share dividend was declared subsequent to March 31, 2006, which will be paid and recorded in fiscal 2007.

2007 OUTLOOK AND CORPORATE PLAN

Fiscal 2007 is expected to be another solid year for BDC. The Plan projects continuing favourable economic conditions, and a steady demand for BDC services. Accordingly, the 2007 Corporate Plan forecasts have been adjusted with higher internal objectives. Financing portfolio growth will increase net interest and other income to $504 million, and the provision for credit losses and change in unrealized depreciation of investments will total $118 million. Staff additions to support growth and higher pension costs will increase operating expenses to $250 million, yielding net income of $136 million from BDC Financing operations, compared to the $120 million planned level in the Corporate Plan.

In fiscal 2007, BDC Consulting anticipates generating $23 million in revenue and achieving 2,200 mandates with Canadian SMEs. BDC has decided to commit a $3 million investment in 2007 to be deployed for core consulting solutions and to recruit and train staff to better serve and assist Canadian SMEs to reach their potential. This will bring the loss from consulting operations to $6 million for the year.

BDC Venture Capital activities will continue at a strong pace. The venture capital investments outstanding should reach a fair value of $457 million at year end. It is anticipated BDC Venture Capital will return to profitability in fiscal 2007 with a net income of $4 million, including a projected $14 million net loss related to the fair value of investments.

BDC consolidated net income is now projected at $134 million, compared to $123 million in the 2007 Corporate Plan.

BDC will again pay dividends of approximately $21 million to the Government of Canada.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

BDC's accounting policies are summarized in note 2 of the Consolidated Financial Statements. The policies which follow are considered 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 accounting policies are applied consistently to *fairly present* the financial results. BDC's critical accounting estimates include the allowance for credit losses and the estimate of fair value for venture capital and subordinate financing investments. The assumptions used for pension and other benefits are detailed in Note 21 to these consolidated financial statements.

ALLOWANCE FOR CREDIT LOSSES

The allowance for credit losses represents management's estimate for probable losses incurred in the financing portfolio. The allowance for credit losses is comprised of the specific allowance and general allowance. The specific allowance is determined through management's identification and determination of losses related to impaired loans. The general allowance is determined through management's judgement and assessment of probable losses in the performing financing portfolio.

The process at year-end for determining the allowance is supported by quantitative and qualitative assessments using current and historical credit information. The process requires the use of certain assumptions and judgement including: i) assessing the impaired status of a loan; ii) estimating cash flows and collateral values; iii) developing default rates and loss rates based on historical data; iv) adjusting loss rates based on the relevance of historical experience; v) assessing changes in credit strategies, process and policies; vi) assessing the current quality of the portfolio based on credit quality trends in relation to impairments; and vii) determining the current position in the economic and credit cycle.

BDC's allowance for credit losses involves judgement and is maintained at a prudently conservative level in recognition of the relatively high-risk profile of its financing activities.

FAIR VALUE ESTIMATES FOR INVESTMENTS

Accounting Guideline 18 – *Investment Companies* (AcG-18)

In fiscal 2006, BDC prospectively applied AcG-18, *Investment Companies*, published by the Canadian Institute of Chartered Accountants (CICA). Consequently BDC adopted fair value valuation as the method of reporting investments.

Fair value is defined as the price an unrelated third party person would pay for an investment. BDC's approach to fair value measurement has been derived by guidelines issued by the industry. Based on the type of investments BDC carries out, BDC will normally use market based valuation methodologies. These are the quoted investments or listed share price and price of recent investment methodologies. Other methodologies will be considered when the company has maintainable profits and/or maintainable positive cash flows (earning-based approaches) or when the company is in financial distress (liquidation or asset-based approach).

Investments denominated in a foreign currency are translated into Canadian dollars based on the rate of exchange on the Balance Sheet date.

Fair value changes are recorded in the income statement as change in unrealized appreciation or depreciation of investments.

Accounting Guideline 15 – *Consolidation of Variable Interest Entities* (AcG-15)

On April 1, 2005 BDC adopted the CICA guideline AcG-15, *Consolidation of Variable Interest Entities* (VIEs). Where the entity is considered a VIE, the Primary Beneficiary is required to consolidate the VIE in its financial statements. The Primary Beneficiary is the entity that is exposed to a majority of the VIE's expected losses or is entitled to a majority of the VIE's expected residual returns. There is a significant amount of judgement exercised in interpreting the provisions of AcG-15. In addition, AcG-15 prescribes certain disclosures for VIEs that are not consolidated but in which the entity has a significant variable interest. For further details on BDC's involvement with VIE's, refer to Note 9 of the Consolidated Financial Statements.

FUTURE ACCOUNTING CHANGES

FINANCIAL INSTRUMENTS, HEDGES AND COMPREHENSIVE INCOME

The CICA has issued three new accounting standards:

Section 1530, Comprehensive Income;
Section 3855, Financial Instruments – Recognition and Measurement; and
Section 3865, Hedges.

These pronouncements establish standards for the recognition, measurement and disclosure of financial instruments. These standards will be effective for BDC on April 1, 2007. The impact of implementing these new standards on BDC's Consolidated Financial Statements has not yet been determined. For further details of these changes refer to Note 3 of the Consolidated Financial Statements.

Management's responsibility FOR FINANCIAL INFORMATION

The consolidated 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 change in accounting policy adopted in the current year as explained in Note 3 to the consolidated financial statements. The information contained therein normally includes amounts requiring estimations which have been made based upon informed judgment as to the expected results of current transactions and events. The financial information presented elsewhere in this annual report is consistent with the consolidated financial statements.

In discharging its responsibility for the integrity, fairness and quality of the consolidated 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 internal audit staff who conduct periodic reviews of different aspects of the Bank's operations. In addition, the Vice President, Internal Audit 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 consolidated financial statements.

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

Jean-René Halde
President and Chief Executive Officer

Alan Marquis
Senior Vice President, Finance
and Chief Financial Officer

Montréal, Canada
May 19, 2006

Auditors' REPORT

To the Minister of Industry

We have audited the consolidated balance sheet of the Business Development Bank of Canada as at March 31, 2006 and the consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at March 31, 2006 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 change in accounting policy adopted in the current year as explained in Note 3 to the consolidated financial statements, on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Bank and of its wholly-owned subsidiary that have come to our notice during our audit of the consolidated 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*, the by-laws of the Bank and the charter and the by-laws of its wholly-owned subsidiary.

The financial statements for the year ended March 31, 2005 were audited by the Auditor General of Canada and other auditors who expressed an opinion without reservation on those statements in their report dated May 20, 2005.

Sheila Fraser, FCA
Auditor General of Canada

Raymond Chabot Grant Thornton LLP
Chartered Accountants

Montréal, Canada
May 19, 2006

Consolidated FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

as at March 31 ($ in thousands)

	2006	2005
ASSETS		
Cash and cash equivalents (Note 4)	**$ 752,730**	$ 756,355
Securities (Note 5)	**177,555**	146,348
	930,285	902,703
Loans, net of allowance for credit losses (Notes 6 and 7)	**8,178,576**	7,528,973
Subordinate financing investments (Note 8)	**95,205**	53,865
Venture capital investments (Note 9)	**431,379**	383,649
	8,705,160	7,966,487
Fixed assets, net of accumulated amortization (Note 10)	**37,661**	41,147
Derivative-related assets (Note 18)	**545,711**	445,320
Other assets (Note 11)	**92,606**	89,504
	675,978	575,971
TOTAL ASSETS	**$ 10,311,423**	$ 9,445,161
LIABILITIES AND SHAREHOLDER'S EQUITY		
Accounts payable and accrued liabilities	**$ 77,624**	$ 75,650
Accrued interest on borrowings	**21,206**	20,609
	98,830	96,259
Borrowings (Note 12)		
Short-term notes	**4,199,347**	3,437,008
Long-term notes	**3,676,821**	3,851,248
	7,876,168	7,288,256
Derivative-related liabilities (Note 18)	**511,606**	352,527
Other liabilities (Note 13)	**133,542**	138,550
SHAREHOLDER'S EQUITY		
Share capital (Note 14)	**1,038,400**	1,038,400
Contributed surplus	**27,778**	27,778
Retained earnings	**625,099**	503,391
	1,691,277	1,569,569
Guarantees, contingent liabilities and commitments (Note 20)		
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	**$ 10,311,423**	$ 9,445,161

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

Approved by the Board:

Terry B. Grieve, CA
Director
Chairperson Audit Committee

Jean-René Halde
Director
President and Chief Executive Officer

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

For the years ended March 31 ($ in thousands)

	2006	2005
FINANCING		
Interest Income		
Loans	**$ 620,883**	$ 538,323
Short-term investments and securities	**26,251**	24,357
	647,134	562,680
Interest expense	**213,871**	160,319
Net interest income	**433,263**	402,361
Other income	**39,375**	38,140
Change in unrealized appreciation of investments	**959**	–
Provision for credit losses (Note 7)	**87,601**	54,232
Income before operating and administrative expenses	**385,996**	386,269
Operating and administrative expenses (Note 16)	**231,254**	213,751
Income from Financing	**154,742**	172,518
CONSULTING		
Revenue	**21,570**	18,924
Operating and administrative expenses (Note 16)	**25,352**	21,811
Loss from Consulting	**(3,782)**	(2,887)
VENTURE CAPITAL		
Net gains on disposals of investments	**21,571**	12,743
Interest, dividends and other	**6,958**	1,636
Change in unrealized depreciation of investments	**(27,695)**	–
Unrealized losses on temporary investments	**–**	(9,680)
Write-down of investments	**–**	(47,384)
Income (loss) before operating and administrative expenses	**834**	(42,685)
Operating and administrative expenses (Note 16)	**13,613**	13,458
Loss from Venture Capital	**(12,779)**	(56,143)
NET INCOME	**$ 138,181**	$ 113,488
RETAINED EARNINGS		
Beginning of year	**503,391**	402,281
Dividends on common shares	**(7,757)**	(3,348)
Dividends on preferred shares	**(8,716)**	(9,030)
End of year	**$ 625,099**	$ 503,391

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements and Note 15 provides additional information on earnings.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended March 31 ($ in thousands)

	2006	2005
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES		
Net income	**$ 138,181**	$ 113,488
Adjustments to determine net cash flows:		
Net gains on disposals of venture capital investments	**(21,571)**	(12,743)
Change in unrealized depreciation on investments	**26,736**	–
Unrealized losses on temporary investments	**–**	9,680
Write-down of venture capital investments	**–**	47,384
Provision for credit losses	**89,853**	54,757
Amortization of fixed assets	**14,934**	12,088
Changes in operating assets and liabilities:		
Change in interest receivable on financing	**(4,742)**	322
Change in accrued interest on borrowings	**597**	(1,286)
Translation adjustment on borrowings and securities	**(10,396)**	(216,499)
Change in derivative-related assets	**(100,391)**	54,944
Change in derivative-related liabilities	**159,079**	151,352
Net change in other assets and other liabilities	**(6,313)**	18,505
NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	**285,967**	231,992
CASH FLOWS USED IN INVESTING ACTIVITIES		
Purchases of securities	**(56,972)**	(70,600)
Maturities of securities	**15,037**	10,112
Maturities of securities purchased under resale agreements	**–**	97,493
Disbursements for loans and surbordinate financing	**(2,495,777)**	(2,148,754)
Repayments of loans and surbordinate financing	**1,721,171**	1,488,905
Disbursements for venture capital investments	**(123,651)**	(104,206)
Proceeds on sales of venture capital investments	**69,797**	21,861
Acquisition of fixed assets	**(11,448)**	(12,566)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	**(881,843)**	(717,755)
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES		
Net change in short-term notes	**719,182**	37,035
Issue of long-term notes	**689,602**	898,456
Repayment of long-term notes	**(799,746)**	(605,614)
Proceeds from issue of common shares	**–**	250,000
Dividends paid on common and preferred shares	**(16,787)**	(13,631)
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	**592,251**	566,246
Net increase (decrease) in cash and cash equivalents	**(3,625)**	80,483
Cash and cash equivalents at beginning of year	**756,355**	675,872
Cash and cash equivalents at end of year (Note 4)	**$ 752,730**	$ 756,355
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Amount of interest paid in the year	**$ 213,274**	$ 161,605

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

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.

During the year, the Bank created a wholly-owned subsidiary, BDC Capital Inc., and transferred all of its Venture Capital investments and related activities into this subsidiary.

(The terms "the Bank" and "BDC" are used interchangeably throughout the consolidated financial statements, both meaning the Business Development Bank of Canada).

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, 2006.

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

These consolidated 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, actuarial estimates of employee future benefits and consideration of fair values of investments. A variation in the quality of the portfolio or economic conditions under which these estimates are made could result in significant changes in these Management judgments. The significant accounting policies used in the preparation of these consolidated financial statements are summarized below.

Basis of Consolidation

The Bank conducts business through a variety of corporate structures, including a subsidiary and joint ventures. The subsidiary is controlled through a 100% share ownership of its voting shares. Joint ventures are those where the Bank exercises joint control through an agreement with other parties. All of the assets, liabilities, revenues and expenses of the wholly-owned subsidiary, as well as the Bank's proportionate share of the assets, liabilities, revenues and expenses of the joint ventures are included in these consolidated financial statements. All significant inter-company transactions and balances have been eliminated.

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.

Loans are classified as impaired when there is 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.

Notes to CONSOLIDATED FINANCIAL STATEMENTS

($ in thousands except as otherwise indicated)

2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

The general allowance represents the best estimate of probable impairment attributable to the deterioration of credit quality in the remaining portfolio at the balance sheet date 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.

Investments

Venture capital investments and subordinate financing investments are measured and presented at fair value.

Fair value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair value represents Management's best estimate of the net worth of an investment at the balance sheet date, and may not reflect the ultimate realizable value upon the disposition of the investment.

Gains and losses on disposals of investments are recognized at the time of disposal. Interest and dividends are recognized in income when received. Changes in unrealized appreciation and depreciation of investments, including those related to foreign exchange, are measured and recognized in income at the balance sheet date.

Fair value of investments is established as follows:

BDC's approach to fair value measurement has been derived by guidelines issued by the industry. Based on the type of investments BDC carries out, BDC will normally use market-based valuation methodologies. Significant assumptions used in the determination of fair value can include discount or capitalization rate, rate of return and the weighting of forecasted earnings.

Publicly traded investments are valued at the closing share price on the balance sheet date, applying marketability discounts if there are restrictions on the tradability or on the transferability of the investment.

In prior years, fair value changes were not recognized in income and all investments were carried at cost. Investments were written-down upon the event of permanent impairment of the investment.

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	6 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 at March 31.

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 at March 31.

2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at 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 relationship at the hedges' 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 risk 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 are 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 under interest expense.

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.

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 funded supplemental pension plans and non-funded other benefits for eligible employees.

Components of the change in the Bank's benefit obligations from year to year and the calculations 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.

Notes to CONSOLIDATED FINANCIAL STATEMENTS

($ in thousands except as otherwise indicated)

2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

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 were 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's actuaries determine whether the cumulative actuarial loss (gain) is more than 10% of the greater of the fair value of the pension plans asset or 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 8.1 years (8.2 years in 2005). The average remaining service period of the active employees covered by the Supplemental pension plan is 8.1 years (8.2 years in 2005). 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 Supplemental Pension Benefit Assets

Assets are set aside to satisfy the Bank's pension obligation related to the BDC's registered pension plan. These assets are typically composed of 40% bond investments and 60% equity investments. Retirement benefits for the other supplemental plans were paid out of operations until fiscal 2006 when the Bank began funding. The Other Plans which includes the employee future benefit liability remains unfunded.

3 – CHANGES IN ACCOUNTING POLICIES

Accounting Change Adopted in the Current Year

Investments

In January 2004, the Canadian Institute of Chartered Accountants (CICA) Accounting Standards Board issued Accounting Guideline AcG-18 *Investment Companies*. This guideline requires investment companies to carry investments at fair value. The Bank decided to apply this new standard to venture capital and subordinate financing investments on a prospective basis starting April 1, 2005. Consequently, direct investments previously carried at cost less permanent impairment are carried at fair value.

The effect of the new accounting policy on 2006 operating results was a change in unrealized depreciation of venture capital investments of $27.7 million and unrealized appreciation of $1.0 million on subordinate financing investments.

Future Accounting Changes

Financial Instruments, Hedges and Comprehensive Income

In April 2005, the CICA issued three new accounting standards in relation with financial instruments:

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

The Bank will adopt the CICA's new accounting requirements beginning April 1, 2007.

Section 1530 introduces a new requirement to present certain revenues, expenses, gains and losses, that otherwise would not be immediately recorded in income, in a comprehensive income statement with the same prominence as other statements that constitute a complete set of financial statements.

Section 3855 expands on the CICA Handbook Section 3860, *Financial Instruments – Disclosure and Presentation*, by prescribing when a financial instrument is to be recognized on the balance sheet and at what amount. It also specifies how financial instrument gains and losses are to be presented.

Section 3865 provides alternative accounting treatments to those found in Section 3855 for entities that choose to designate qualifying transactions as hedges for accounting purposes. It replaces and expands on AcG-13, *Hedging Relationships*, and the hedging guidance in Section 1650, *Foreign Currency Translation,* by specifying how hedge accounting is applied and what disclosures are necessary when it is applied.

The impact of implementing these new standards on BDC's financial statements has not yet been determined.

($ in thousands except as otherwise indicated)

4 – CASH AND CASH EQUIVALENTS

	2006	2005
Bank account balances, net of cheques outstanding	**$ 1,094**	$ (12,142)
Short-term bank notes	**751,636**	768,497
	$ 752,730	$ 756,355

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

5 – SECURITIES

	Term to Maturity			2006	2005
	Within 1 year	1 to 3 years	Over 3 years	**Total**	Total
Financial Institutions					
Carrying value	$ 74,061	$ 59,616	$ 43,878	**$ 177,555**	$ 146,348
Yield	3.23%	4.93%	2.85%	**3.74%**	2.79%
Fair value	$ 74,071	$ 59,729	$ 43,990	**$ 177,790**	$ 146,805
Swap Contracts					
Notional amount	$ 70,947	$ 70,500	$ 49,760	**$ 191,207**	$ 156,100
Adjusted yield*	3.87%	4.00%	4.06%	**3.97%**	2.77%
Amounts denominated in foreign currencies included in the carrying value of securities					
		US Dollars – 2005	US$ 51,050		
		Euro – 2005	44,400		$ 131,310
		US Dollars – 2006	**US$ 51,050**		
		Euro – 2006	**53,500**	**$ 135,342**	

* After adjusting for the effect of related derivatives (see Note 18)

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 tables summarize the repricing or maturity dates, whichever is earlier, and the effective interest rates of loans outstanding as at March 31.

Loans maturities, based on the earlier of contractual repricing or maturity date

	Within 1 year	1 to 5 years	Over 5 years	Impaired	Total
As at March 31, 2006					
Loans	**$ 418,012**	**$ 2,137,506**	**$ 5,820,886**	**$ 304,168**	**$ 8,680,572**
Allowance for credit losses					
General					**(399,158)**
Specific					**(102,838)**
					(501,996)
Loans, net of allowance for credit losses					**$ 8,178,576**
As at March 31, 2005					
Loans	$ 471,001	$ 1,857,465	$ 5,370,003	$ 313,678	$ 8,012,147
Allowance for credit losses					
General					(372,458)
Specific					(110,716)
					(483,174)
Loans, net of allowance for credit losses					$ 7,528,973

Notes to CONSOLIDATED FINANCIAL STATEMENTS

($ in thousands except as otherwise indicated)

6 – LOANS (continued)

Loans interest rate sensitivity, based on the earlier of contractual repricing or maturity date

The effective rates represent historical rates for fixed-rate loans, computed on a weighted-average basis.

	Immediately rate sensitive	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Non-rate sensitive	Total
As at March 31, 2006									
Loans	**$ 6,436,719**	**$ 383,810**	**$ 240,690**	**$ 265,429**	**$ 198,819**	**$ 376,823**	**$ 474,114**	**$ 304,168**	**$ 8,680,572**
Effective interest rate		**7.32%**	**7.72%**	**7.58%**	**7.60%**	**6.95%**	**6.80%**		
As at March 31, 2005									
Loans	$ 6,142,513	$ 442,456	$ 308,260	$ 199,013	$ 210,500	$ 155,903	$ 239,824	$ 313,678	$ 8,012,147
Effective interest rate		7.58%	7.60%	7.88%	8.15%	8.09%	7.94%		

The average amount of loans, net of allowance for credit losses, was $7,775,037 in 2006 ($7,080,881 in 2005).

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

Geographic Distribution	**2006**		2005	
Newfoundland and Labrador	**$ 357,325**	**4.1%**	$ 328,877	4.1%
Prince Edward Island	**43,133**	**0.5%**	46,217	0.6%
Nova Scotia	**217,133**	**2.5%**	184,042	2.3%
New Brunswick	**338,848**	**3.9%**	296,270	3.7%
Quebec	**3,404,555**	**39.2%**	3,194,960	39.9%
Ontario	**2,752,515**	**31.7%**	2,567,632	32.0%
Manitoba	**166,827**	**1.9%**	135,557	1.7%
Saskatchewan	**116,579**	**1.3%**	101,521	1.3%
Alberta	**542,247**	**6.3%**	471,902	5.9%
British Columbia	**685,278**	**7.9%**	630,220	7.8%
Yukon	**26,145**	**0.3%**	24,158	0.3%
Northwest Territories and Nunavut	**29,987**	**0.4%**	30,791	0.4%
Total loans outstanding	**$ 8,680,572**	**100.0%**	$ 8,012,147	100.0%

Industry Sector	**2006**		2005	
Manufacturing	**$ 3,086,399**	**35.6%**	$ 2,928,261	36.6%
Wholesale and retail trade	**2,025,590**	**23.3%**	1,764,744	22.0%
Tourism	**1,059,795**	**12.2%**	1,044,820	13.0%
Business services	**311,606**	**3.6%**	274,240	3.4%
Agriculture & related	**48,264**	**0.6%**	48,998	0.6%
Construction	**462,783**	**5.3%**	373,418	4.7%
Commercial properties	**495,755**	**5.7%**	520,117	6.5%
Transportation & storage	**430,887**	**5.0%**	358,905	4.5%
Other	**759,493**	**8.7%**	698,644	8.7%
Total loans outstanding	**$ 8,680,572**	**100.0%**	$ 8,012,147	100.0%

Included in these loan figures are $20 million of foreclosed assets. Foreclosed assets represent property or other assets the Bank has received from borrowers to satisfy their loan commitments, and are recorded at fair value. Fair value is determined at market prices where available, or other methods including an analysis of discounted cash flows.

($ in thousands except as otherwise indicated)

7 – ALLOWANCE FOR CREDIT LOSSES

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

	2006	2005
Balance at beginning of year	**$ 483,174**	$ 487,650
Write-offs and other	**(71,306)**	(61,207)
Interest income due to accretion	**(3,723)**	(3,956)
Recoveries	**6,250**	6,455
	$ 414,395	$ 428,942
Provision for credit losses	**87,601**	54,232
Balance at end of year	**$ 501,996**	$ 483,174

8 – SUBORDINATE FINANCING INVESTMENTS

The Bank holds a portfolio of subordinate financing investments through its joint ventures with the Caisse de dépôt et placement du Québec (CDPQ), AlterInvest LP and AlterInvest Inc. BDC acts as the general partner of the limited partnership.

The following table summarizes the Bank's recorded proportionate share of the assets, liabilities, revenues, expenses and cash flows relating to its interests in the joint ventures.

	2006	2005
Current assets	**$ 1,338**	$ –
Subordinate financing investments	**95,205**	53,865
Other assets	**–**	124
Current liabilities	**575**	1,034
Investment income	**$ 14,613**	$ 9,522
Write-down on investments	**–**	1,366
Change in unrealized appreciation	**959**	–
Operating and administrative expenses	**50**	256
Income from subordinate financing investments	**$ 15,522**	$ 7,900
Cash flows from (used in):		
Operating activities	**$ 9,219**	$ 6,117
Investing activities	**(52,903)**	(20,494)
Financing activities	**45,996**	18,461

Notes to CONSOLIDATED FINANCIAL STATEMENTS

($ in thousands except as otherwise indicated)

9 – VENTURE CAPITAL INVESTMENTS

The Bank maintains a portfolio of venture capital investments which is focused on early-stage and fast-growing companies having promising 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 3.9% of total venture capital investments (3.1% in 2005).

	2006		2005		
Industry Sector	**Cost**	**Fair value**	Cost	Carrying value	Fair value
Biotechnology/Medical/Health	**$ 158,098**	**$ 132,082**	$ 120,202	$ 108,033	$ 115,350
Information Technology	**107,277**	**77,933**	94,727	76,021	70,559
Electronics	**102,590**	**83,501**	111,910	80,927	79,614
Communications	**73,578**	**73,964**	84,592	68,476	71,087
Industrial	**19,456**	**18,991**	14,559	9,574	9,698
Consumer-related	**2,000**	**2,000**	2,537	2,538	2,538
Energy	**5,000**	**500**	6,600	1,300	1,300
Other	**750**	**7,000**	750	750	7,022
Total direct investments	**468,749**	**395,971**	435,877	347,619	357,168
Seed funds	**$ 22,598**	**$ 6,725**	$ 28,838	$ 9,277	$ 9,277
Specialized funds	**34,265**	**28,683**	26,753	26,753	26,753
Venture capital investments	**$ 525,612**	**$ 431,379**	$ 491,468	$ 383,649	$ 393,198

Note: In fiscal 2006, the fair value equals the carrying value.

The average amount of venture capital investments was $413,302 in fiscal 2006 (including fair value adjustments) and $374,017 in fiscal 2005 (cost minus permanent impairments).

Investments are generally held for periods longer than five 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, as the fair value changes of the investments are brought into income. The following table presents a summary of the venture capital portfolio by type of investment.

	2006		2005	
Investment type	**Cost**	**Fair value**	Cost	Carrying value
Common shares	**$ 62,673**	**$ 30,080**	$ 66,544	$ 47,724
Preferred shares	**328,101**	**293,705**	304,272	240,672
Debentures	**77,975**	**72,186**	65,061	59,223
Specialized and Seed funds	**56,863**	**35,408**	55,591	36,030
Venture capital investments	**$ 525,612**	**$ 431,379**	$ 491,468	$ 383,649

The CICA's Accounting Guideline AcG-15, *Consolidation of Variable Interest Entities (VIEs),* provides guidance for applying consolidation principles found in the CICA Handbook section 1590, *Subsidiairies*, to those entities defined as VIEs. A VIE is an entity in which the total equity investment at risk is not sufficient to finance its activities without additional subordinate financial support or where the holders of the equity at risk lack the characteristics of a controlling financial interest. The new guideline requires consolidation of an entity by the primary beneficiary and defines a primary beneficiary to be the enterprise that absorbs or receives the majority of the VIE's expected losses or gains, or both. AcG-15 also requires specific disclosure for VIEs that are not consolidated but in which the entity has a significant variable interest.

The Bank has significant variable interest in VIEs for which the Bank is not the primary beneficiary and is not required to consolidate these entities. Such investments are carried at fair value. The Bank's maximum exposure to loss with respect to these VIEs is as follows;

	2006		2005	
	Total Assets	**Maximum Exposure to Loss**	Total Assets	Maximum Exposure to Loss
Specialized funds	**$ 34,265**	**$ 28,683**	$ 26,753	$ 26,753

($ in thousands except as otherwise indicated)

9 – VENTURE CAPITAL INVESTMENTS (continued)

The Bank has invested in seed funds over which it has joint control. The following table summarizes the Bank's recorded proportionate share of the assets, liabilities, revenues, expenses and cash flows of these funds.

		2006		2005
Current assets	$	**1,441**	$	1,754
Venture capital investments		**4,716**		7,145
Other assets		**2**		3
Current liabilities		**79**		47
Investment income		**(294)**		81
Write-down on investments		**401**		2,554
Change in unrealized depreciation		**1,201**		–
Operating and administrative expenses		**398**		480
Loss from Venture Capital	$	**(2,294)**	$	(2,953)
Cash flows from (used in):				
Operating activities	$	**(277)**	$	(350)
Investing activities		**167**		(522)
Financing activities		**(150)**		600

10 – FIXED ASSETS

		Cost		Accumulated Amortization		Carrying Value
Computer equipment and telecommunication	$	**28,646**	$	**24,433**	$	**4,213**
Furniture, fixtures and equipment		**39,837**		**34,875**		**4,962**
Leasehold improvements		**43,028**		**28,213**		**14,815**
Corporate project development costs		**35,729**		**22,058**		**13,671**
Total 2006	$	**147,240**	$	**109,579**	$	**37,661**
Total 2005	$	135,792	$	94,645	$	41,147

11 – OTHER ASSETS

		2006		2005
Accrued benefit asset (Note 21)	$	**78,641**	$	60,696
Unamortized debt issue expenses on long-term notes		**1,147**		1,536
Other		**12,818**		27,272
	$	**92,606**	$	89,504

($ in thousands except as otherwise indicated)

12 – BORROWINGS

The Bank issues debt instruments in 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 presents the outstanding notes as at March 31.

			2006		2005	
Maturity date	**Effective rate**	**Currency**	**Principal amount**	**Carrying value**	Principal amount	Carrying value
Short-term notes						
2006	2.37% – 2.87%	USD			$ 977,060	$ 1,177,142
		CDN			2,270,162	2,259,866
2007	2.95% – 4.88%	USD	**$ 1,638,725**	**$ 1,900,282**		
		CDN	**2,312,246**	**2,299,065**		
Total short-term notes				**$ 4,199,347**		$ 3,437,008

				2006		2005	
Maturity date	**2006 Effective rate***	**2005 Effective rate***	**Currency**	**Principal amount**	**Carrying value**	Principal amount	Carrying value
Long-term notes							
2006		2.19% – 4.87%	CDN	**–**	**–**	231,448	232,291
2007	3.14% – 4.98%	2.14% – 3.79%	CDN	**286,102**	**288,137**	259,440	261,774
2008	3.49% – 3.61%	2.30% – 2.41%	CDN	**267,940**	**267,940**	265,600	265,600
2009	3.51%	2.25%	USD	**43,000**	**50,215**	43,000	52,013
	3.40% – 3.65%	2.15% – 2.37%	CDN	**226,965**	**231,647**	252,524	255,785
2010	3.49% – 3.56%	2.28% – 2.34%	USD	**40,000**	**46,712**	40,000	48,384
	3.41% – 3.68%	2.15% – 2.33%	CDN	**239,731**	**248,576**	268,736	274,465
2011	3.41% – 3.55%	2.29%	USD	**17,000**	**20,023**	10,000	12,074
	3.36% – 3.75%	2.14% – 2.32%	CDN	**424,585**	**415,570**	477,790	449,341
2012	3.52%	2.30%	USD	**10,000**	**11,678**	10,000	12,096
	3.36% – 3.44%	2.14% – 2.21%	CDN	**324,786**	**395,001**	355,244	356,696
2013	3.55% – 3.60%	2.33% – 2.35%	USD	**16,000**	**18,685**	16,000	19,354
	3.51% – 3.58%	2.33%	CDN	**15,000**	**15,000**	5,000	5,000
2014	3.52% – 3.57%	2.31% – 2.35%	YEN	**1,500,000**	**14,884**	4,400,000	49,650
	3.48% – 3.62%	2.28% – 2.38%	USD	**93,200**	**108,839**	93,200	112,735
	3.51% – 3.59%	2.31% – 2.33%	CDN	**77,000**	**77,000**	20,000	20,000
2015	3.53% – 3.59%	2.30% – 2.37%	YEN	**3,000,000**	**29,768**	9,200,000	103,814
	3.50% – 3.60%	2.30% – 2.35%	USD	**45,000**	**52,551**	65,000	78,624
2016	3.50% – 3.59%	2.32% – 2.36%	YEN	**11,000,000**	**109,150**	2,500,000	28,210
	3.57% – 3.58%		USD	**40,000**	**46,712**	–	–
2017	3.53% – 3.54%	2.29% – 2.34%	YEN	**3,700,000**	**36,713**	6,800,000	76,732
	3.54%	2.29%	USD	**3,000**	**3,504**	3,000	3,629
2018	3.47% – 3.64%	2.31% – 2.41%	YEN	**35,800,000**	**355,232**	26,300,000	296,772
2019	3.49% – 3.62%	2.28% – 2.39%	YEN	**30,000,000**	**297,680**	38,900,000	438,952
	3.58%	2.36%	USD	**22,838**	**26,671**	21,632	26,166
2020	3.36% – 3.63%	2.27% – 2.37%	YEN	**25,900,000**	**256,997**	32,000,000	361,091
		2.41%	CDN	**–**	**–**	10,000	10,000
2021	3.50% – 3.60%		YEN	**21,560,000**	**213,933**	–	–
	3.54%		USD	**32,542**	**38,003**	–	–
Total long-term notes					**$ 3,676,821**		$ 3,851,248

* The effective rates on long-term notes are established 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.

($ in thousands except as otherwise indicated)

12 – BORROWINGS (continued)

The preceding table includes $3,672,071 in 2006 and $3,851,248 in 2005 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.

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 note holders. The types of notes included in the previous table are as follows:

	2006	2005
Interest-bearing notes	**$ 137,854**	$ 167,215
Fixed and inverse floating rate notes	**929,179**	1,015,579
Managed futures	**925,052**	1,108,946
Notes linked to equity indices	**709,198**	736,695
Notes linked to currency rates	**280,812**	278,717
Notes linked to swap rates	**122,812**	94,787
Notes extendible beyond maturity	**73,000**	–
Other structured notes	**498,914**	449,309
	$ 3,676,821	$ 3,851,248

Long-term notes of $2,351,896 are redeemable prior to maturity ($2,321,871 as at March 31, 2005).

As at March 31, 2006, the payment requirements and maturities of long-term notes are as follows:

2007	**$ 288,137**
2008	**267,940**
2009	**281,862**
2010	**295,288**
2011	**435,593**
2012 and later	**2,108,001**
	$ 3,676,821

The Bank has an available overdraft facility of $75 million, for the Bank's cash accounts totalled together. When the daily balance outstanding is in an overdraft position, interest charges are accumulated at prime. At March 31, 2006, 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 2006.

13 – OTHER LIABILITIES

	2006	2005
Deferred income	**$ 1,648**	$ 410
Accrued benefit liability (Note 21)	**105,964**	112,031
Other	**25,930**	26,109
	$ 133,542	$ 138,550

Notes to CONSOLIDATED FINANCIAL STATEMENTS

($ in thousands except as otherwise indicated)

14 – 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			**2006**			2005	
		Number of shares	**Amount**	**Dividend rate**	Number of shares	Amount	Dividend rate
Preferred shares							
Class A	– Series 1	**500,000**	**$ 50,000**	**3.865%**	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	3.965%
	– Series 4	**400,000**	**40,000**	**3.970%**	400,000	40,000	3.610%
	– Series 5	**400,000**	**40,000**	**4.260%**	400,000	40,000	2.820%
			230,000			230,000	
Common shares		**8,084,000**	**808,400**		8,084,000	808,400	
Total Outstanding Share Capital			**$ 1,038,400**			$ 1,038,400	

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. The Bank's ratio at March 31, 2006 was 4.7:1 (4.6:1 as at March 31, 2005).

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. At March 31, 2006, these amounts totalled $1.1 billion ($1.1 billion as at March 31, 2005).

15 – INFORMATION INCLUDED IN THE CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

	2006	2005
Interest income		
Financing	**$ 647,134**	$ 562,680
Venture capital	**6,811**	983
	$ 653,945	$ 563,663
Interest expense		
Interest on notes	**$ 111,693**	$ 80,696
Interest on swaps	**101,644**	77,737
Other	**534**	1,886
	$ 213,871	$ 160,319
Amortization of fixed assets	**$ 14,934**	$ 12,088
Currency translation adjustment	**$ 88**	$ (626)

($ in thousands except as otherwise indicated)

16 – OPERATING AND ADMINISTRATIVE EXPENSES

	2006			2005		
	Financing	**Consulting**	**Venture Capital**	Financing	Consulting	Venture Capital
Salaries and benefits	**$ 140,388**	**$ 11,761**	**$ 9,390**	$ 126,258	$ 9,908	$ 8,937
Premises and equipment	**34,087**	**990**	**1,460**	30,288	1,090	1,459
Other expenses	**56,779**	**12,601**	**2,763**	57,205	10,813	3,062
	$ 231,254	**$ 25,352**	**$ 13,613**	$ 213,751	$ 21,811	$ 13,458

17 – 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 (except for investments carried at fair value) 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.

	2006			2005		
	Fair value	**Carrying value**	**Fair value over (under) carrying value**	Fair value	Carrying value	Fair value over (under) carrying value
Balance Sheet						
Assets						
Cash and cash equivalents	**$ 752,730**	**$ 752,730**	**$ –**	$ 756,355	$ 756,355	$ –
Securities (Note 5)	**177,790**	**177,555**	**235**	146,805	146,348	457
Loans, net of allowance for credit losses	**8,150,681**	**8,178,576**	**(27,895)**	7,542,946	7,528,973	13,973
Subordinate financing investments	**95,205**	**95,205**	**–**	52,251	53,865	(1,614)
Venture capital investments (Note 9)	**431,379**	**431,379**	**–**	393,198	383,649	9,549
Other	**13,007**	**13,007**	**–**	8,809	8,809	–
	$ 9,620,792	**$ 9,648,452**	**$ (27,660)**	$ 8,900,364	$ 8,877,999	$ 22,365
Liabilities						
Accounts payable and accrued liabilities	**$ 77,624**	**$ 77,624**	**$ –**	$ 75,650	$ 75,650	$ –
Accrued interest on borrowings	**21,206**	**21,206**	**–**	20,609	20,609	–
Short-term notes	**4,199,044**	**4,199,347**	**(303)**	3,437,062	3,437,008	54
Long-term notes	**3,548,101**	**3,676,821**	**(128,720)**	4,057,194	3,851,248	205,946
Other	**10,032**	**10,032**	**–**	8,717	8,717	–
	$ 7,856,007	**$ 7,985,030**	**$ (129,023)**	$ 7,599,232	$ 7,393,232	$ 206,000
			$ 101,363			$ (183,635)
Derivative financial instruments						
Derivative-related assets (Note 18)	**$ 380,243**	**$ 545,711**	**$ (165,468)**	$ 341,878	$ 445,320	$ (103,442)
Derivative-related liabilities (Note 18)	**$ 477,726**	**511,606**	**(33,880)**	304,807	352,527	(47,720)
	$ (97,483)	**$ 34,105**	**$ (131,588)**	$ 37,071	$ 92,793	$ (55,722)
Total			**$ (30,225)**			$ (239,357)

Notes to CONSOLIDATED FINANCIAL STATEMENTS
($ in thousands except as otherwise indicated)

17 – FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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 cash equivalents
- Other assets and liabilities
- Accounts payable and accrued liabilities
- Accrued interest on borrowings
- Short-term notes

Securities – The basis used to estimate the fair value of securities is provided in Note 5 to the consolidated 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*.

Investments – Note 2 describes the fair value methods used by the Bank.

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 basis used to estimate the fair value of derivative financial instruments is provided in Note 18 to the consolidated financial statements.

18 – 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 are contractual obligations to exchange a series of cash flows on a specific notional amount, for a predetermined period. The various swap agreements that the Bank enters into are as follows:

- *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.
- *Equity-linked swaps,* where 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.
- *Credit default swaps,* one counterparty pays the other a fee in exchange for that other counterparty agreeing to make a payment if a credit event occurs, such as bankruptcy or a credit rating change of another third party.

The main risk associated with these instruments is related to the Bank's exposure to counterparties' credit risk.

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. *Forwards* are customized contracts transacted in the over-the-counter market. *Futures* are transacted in standardized amounts on regulated exchange markets and are subject to daily cash margining.

The main risks associated with these instruments arise from the possible inability of over-the-counter counterparties to meet the terms of the contracts and from movements in interest rates and foreign exchange rates, as applicable.

($ in thousands except as otherwise indicated)

18 – DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

	2006			2005		
	Gross assets	**Gross liabilities**	**Net amount**	Gross assets	Gross liabilities	Net amount
Derivative financial instruments						
Interest rate swap contracts	**$ 1,068**	**$ 13,753**	**$ (12,685)**	$ 3,857	$ 8,099	$ (4,242)
Equity-linked swap contracts	**335,537**	**47,820**	**287,717**	324,755	76,238	248,517
Cross-currency interest rate swap contracts	**21,856**	**415,161**	**(393,305)**	11,940	200,314	(188,374)
Currency forward contracts	**21,762**	**922**	**20,840**	1,326	20,123	(18,797)
Total fair value – hedging derivatives (1)	**$ 380,223**	**$ 477,656**	**$ (97,433)**	$ 341,878	$ 304,774	$ 37,104
Total book value – hedging derivatives	**$ 545,691**	**$ 511,536**	**$ 34,155**	$ 445,320	$ 352,527	$ 92,793
Ineffective Hedges						
Interest rate swap contracts	**$ 1**	**$ 66**	**$ (65)**	$ –	$ 30	$ (30)
Forward rate agreements	**19**	**4**	**15**	–	3	(3)
Total fair value – ineffective derivatives	**$ 20**	**$ 70**	**$ (50)**	$ –	$ 33	$ (33)
Total book value – ineffective derivatives	**$ 20**	**$ 70**	**$ (50)**	$ –	$ –	$ –

(1) The fair value of hedging derivatives wholly or partially offsets the changes in fair values of the related on-balance sheet financial instruments.

Assets are shown net of liabilities to counterparties where the Bank has an enforceable right to offset amounts and intends to settle contracts on a net basis.

Derivative financial instruments recorded on the consolidated balance sheet are as follows:

	Assets		**Liabilities**	
	2006	2005	**2006**	2005
Book value of hedging derivatives	**$ 545,691**	$ 445,320	**$ 511,536**	$ 352,527
Fair value of ineffective derivatives	**20**	–	**70**	–
Total	**$ 545,711**	$ 445,320	**$ 511,606**	$ 352,527

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

Notes to CONSOLIDATED FINANCIAL STATEMENTS

($ in thousands except as otherwise indicated)

18 – DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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								**2006**		2005	
	Within 1 year	%	1 to 3 years	%	3 to 5 years	%	Over 5 years	%	**Notional amount**	**Replacement cost**	Notional amount	Replacement cost
Hedging												
Interest rate contracts												
$CDN payable-fixed	$ 109,000	3.47	$ 33,956	3.36	$ –	–	$ –	–	**$ 142,956**	**$ 147**	$ 15,000	$ –
$CDN receivable-fixed	65,000	3.89	153,000	3.54	50,000	3.79	–	–	**268,000**	**172**	335,000	1,848
$US receivable-fixed	–	–	–	–	2,431	3.40	–	–	**2,431**	**–**	10,499	–
Basis Swap	170,000	3.71							**170,000**	**–**	–	–
Other swap contracts	34,612	n.a.	21,500	n.a.		n.a.	38,360	n.a.	**94,472**	**749**	46,673	2,009
Equity linked swap contracts	217,280	n.a.	628,193	n.a.	1,131,750	n.a.	552,765	n.a.	**2,529,988**	**335,537**	2,960,865	324,755
	595,892		836,649		1,184,181		591,125		**3,207,847**	**336,605**	3,368,037	328,612
Cross-currency interest rate swap contracts	35,600	n.a.	137,580	n.a.	127,606	n.a.	2,046,076	n.a.	**2,346,862**	**21,856**	2,164,157	11,940
Total interest rate contracts	631,492		974,229		1,311,787		2,637,201		**5,554,709**	**358,461**	5,532,194	340,552
Foreign exchange contracts												
Currency forward contracts	1,864,574	n.a.							**1,864,574**	**21,762**	1,192,280	1,326
Total foreign exchange contracts	1,864,574		–		–		–		**1,864,574**	**21,762**	1,192,280	1,326
Total Hedging	$ 2,496,066		$ 974,229		$ 1,311,787		$ 2,637,201		**$ 7,419,283**	**$ 380,223**	$ 6,724,474	$ 341,878
Ineffective Hedging												
Basis swaps	170,800	n.a.							**170,800**	**–**	75,000	–
Forward rate agreements	70,500		–		–		–		**70,500**	**19**	10,000	–
Other swap contracts	19,547	n.a.	–	n.a.	–	n.a.	–	n.a.	**19,547**	**1**	–	–
Total Ineffective Hedging	$ 260,847		$ –		$ –		$ –		**$ 260,847**	**$ 20**	$ 85,000	$ –
Total	$ 2,756,913		$ 974,229		$ 1,311,787		$ 2,637,201		**$ 7,680,130**	**$ 380,243**	$ 6,809,474	$ 341,878

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 using the rate of exchange at the balance sheet date.

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. The 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 gross asset 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.

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.

($ in thousands except as otherwise indicated)

18 – DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Counterparty Credit Risk Exposure	Counterparty Ratings			
	AAA	AA- to AA+	A to A+	Total
Gross positive replacement cost	**$ –**	**$ 283,886**	**$ 96,357**	**$ 380,243**
Impact of master netting agreements	**–**	**(98,395)**	**(45,232)**	**(143,627)**
Replacement cost (after master netting agreements)	**$ –**	**$ 185,491**	**$ 51,125**	**$ 236,616**
Replacement cost (after master netting agreements) – 2005	$ –	$ 145,615	$ 70,617	$ 216,232
Number of counterparties				
March 31, 2006	**–**	**7**	**3**	
March 31, 2005	–	4	2	

19 – 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.

20 – 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 meets the characteristics of guarantees described above. The maximum potential amount of future payments on this written credit default swap is $22,224 and is included in the consolidated 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.

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 financing are approximately $914,300 at March 31, 2006. These financing commitments are for an average period of 3 months ($134,700 fixed rate; $779,600 floating rate). The effective interest rates on these financing commitments vary from 5.1% to 19.4%. These include the Bank's share of undisbursed amounts of authorized joint venture financings which is approximately $14,800 at March 31, 2006. The undisbursed amounts on authorized venture capital investments approximated $129,300 at March 31, 2006.

($ in thousands except as otherwise indicated)

20 – GUARANTEES, CONTINGENT LIABILITIES AND COMMITMENTS (continued)

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

2007	$ **20,481**
2008	**18,446**
2009	**16,936**
2010	**14,961**
2011	**11,376**
2012 and later	**76,695**
	$ **158,895**

21 – 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 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, 2006.

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 1st). Other assumptions are determined with reference to long-term expectations.

Total cash payments for employee future benefits, consisting of cash contributed by the Bank to its funded pension plans and cash payments directly to beneficiaries for its unfunded other benefit plans was $41 million ($5.2 million in 2005).

A full discussion of how the Bank's pension liability and expense are estimated can be found in Note 2.

Notes to CONSOLIDATED FINANCIAL STATEMENTS

($ in thousands except as otherwise indicated)

21 – EMPLOYEE FUTURE BENEFITS (continued)

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	
	2006	2005	**2006**	2005	**2006**	2005
Change in accrued benefit obligation						
Balance at beginning of year	**$ 457,473**	$ 410,936	**$ 38,587**	$ 36,637	**$ 100,205**	$ 85,126
Current service cost	**16,981**	15,715	**745**	1,029	**4,514**	3,398
Interest cost on benefit obligation	**27,940**	26,116	**2,326**	2,308	**6,013**	5,820
Employee contributions	**1,889**	509	**–**	–	**–**	–
Benefits paid	**(21,365)**	(18,105)	**(1,128)**	(1,426)	**(5,496)**	(4,988)
Actuarial loss	**66,169**	22,302	**6,770**	39	**16,184**	10,849
Balance at end of year	**549,087**	457,473	**47,300**	38,587	**121,420**	100,205
Change in fair value of plan assets						
Balance at beginning of year	**$ 481,233**	$ 453,920	**$ 2,995**	$ 3,377	**$ –**	$ –
Employee contributions	**1,889**	509	**–**	–	**–**	–
Employer contributions	**16,356**	–	**853**	1,027	**–**	–
Actual return on plan assets during the year	**53,601**	44,909	**24**	17	**–**	–
Benefits paid	**(21,365)**	(18,105)	**(1,128)**	(1,426)	**–**	–
Balance at end of year	**531,714**	481,233	**2,744**	2,995	**–**	–
Surplus (deficit) at end of year	**$ (17,373)**	$ 23,760	**$ (44,556)**	$ (35,592)	**$ (121,420)**	$ (100,205)
Employer contributions after measurement date	**4,190**	–	**13,985**	195	**622**	313
Unamortized transitional obligation (asset)	**(33,603)**	(47,044)	**1,316**	1,049	**1,381**	1,578
Unamortized net actuarial loss	**125,427**	83,980	**13,799**	7,529	**28,909**	13,102
Accrued benefit asset (liability) at end of year (1)	**$ 78,641**	$ 60,696	**$ (15,456)**	$ (26,819)	**$ (90,508)**	$ (85,212)

(1) – Net amount recognized in the consolidated balance sheet as "Other assets" or "Other liabilities", as appropriate.

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	
	2006	2005	**2006**	2005
Fair value of plan assets	**$ 2,744**	$ 2,995	**$ –**	$ –
Accrued benefit obligation	**47,300**	38,587	**121,420**	100,205

Pension and other post-retirement costs are included in Salaries and Benefits in Note 16 – Operating and Administrative Expenses and are as follows:

	Registered pension plan		Supplemental pension plans		Other plans	
	2006	2005	**2006**	2005	**2006**	2005
Defined benefit cost						
Current service cost	**$ 16,981**	$ 15,715	$ **745**	$ 1,029	**4,514**	$ 3,398
Interest cost	**27,940**	26,116	**2,326**	2,309	**6,013**	5,820
Actual return on plan assets	**(53,601)**	(44,909)	**(24)**	(17)	**–**	–
Actuarial loss (gain) on benefit obligation	**66,169**	22,302	**6,770**	39	**16,233**	(1,971)
Costs arising in the period	**57,489**	19,224	**9,817**	3,360	**26,760**	7,247
Differences between costs arising in the period and costs recognized in the period in respect of:						
Return on plan assets	**20,350**	12,637	**(76)**	(98)	**–**	–
Actuarial (gain) loss	**(61,797)**	(18,285)	**(6,194)**	618	**(15,856)**	2,483
Transitional obligation (asset)	**(13,441)**	(13,441)	**(267)**	(267)	**197**	197
Defined benefit cost for the year ended March 31	**$ 2,601**	$ 135	**$ 3,280**	$ 3,613	**$ 11,101**	$ 9,927

($ in thousands except as otherwise indicated)

21 – EMPLOYEE FUTURE BENEFITS (continued)

The unamortized net actuarial loss in the Bank's registered pension plan is $125,427 which exceeds 10% of the fair value of the plan assets by $72,256 at December 31, 2005. The unamortized net actuarial loss in the supplemental pension plans is $13,799 which exceeds 10% of the benefit obligation balance by $9,069 at December 31, 2005. These excess amounts will be amortized to pension cost over the expected average remaining service period of active employees, commencing April 1, 2006. As a result of these changes and other factors, pension costs for the Registered pension plan and the Supplemental pension plans are expected to increase by approximately $8.3 million in fiscal 2007. Amortization of accumulated net actuarial losses in periods subsequent to March 31, 2007 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.

As at December 31, the fair value of assets in the Bank's Registered pension plan are as follows:

	2006		2005	
Cash and short-term investment	**$ 6,042**	**1.1%**	$ 2,687	0.6%
Bonds	**204,310**	**38.4%**	185,906	38.6%
Common and preferred shares	**320,962**	**60.4%**	292,295	60.7%
Other assets less liabilities	**400**	**0.1%**	345	0.1%
Net assets available for benefits	**$ 531,714**	**100.0%**	$ 481,233	100.0%

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**	
	2006	2005	**2006**	2005	**2006**	2005
Significant actuarial assumptions used to determine the accrued benefit obligations						
Discount rate at beginning of year	**6.00%**	6.25%	**6.00%**	6.25%	**6.00%**	6.25% – 6.75%
Discount rate at end of year	**5.25%**	6.00%	**5.25%**	6.00%	**5.25%**	6.00%
Expected long-term rate of return on plan assets (1)	**7.00%**	7.25%	**3.50%**	3.63%	**–**	–
Significant actuarial assumptions used to determine the annual benefit cost						
Discount rate at beginning of year	**6.00%**	6.25%	**6.00%**	6.25%	**6.00%**	6.25% – 6.75%
Discount rate at end of year	**5.25%**	6.00%	**5.25%**	6.00%	**5.25%**	6.00%
Expected long-term rate of return on plan assets (1)	**7.00%**	7.25%	**3.50%**	3.63%	**–**	–

(1) The expected long-term rate 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 2005, 2.75%) plus a 0.5% productivity gain plus an adjustment for merit and promotion.

For measurement purposes, medical costs were assumed to be 8.00% in 2006, reducing by 1.00% each year to 5.00% in 2009 and subsequent years (7.25% in 2005 reducing by 0.75% each year to 4.25% in 2009 and subsequent years).

($ in thousands except as otherwise indicated)

21 – EMPLOYEE FUTURE BENEFITS (continued)

Sensitivity of Assumptions

The impact of a one percent change 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 plans cost
Increase (decrease) in			
Expected rate of return on assets	7.00%	3.50%	n.a.
Impact of: 1% increase	(4,607)	(14)	n.a.
1% decrease	4,607	14	n.a.
Discount rate	6.00%	6.00%	6.00%
Impact of: 1% increase	(7,888)	(661)	85
1% decrease	13,285	726	(98)
Rate of compensation increase	3.85%	3.85%	3.85%
Impact of: 0.25% increase	756	44	17
0.25% decrease	(736)	(43)	(16)
Assumed overall health care cost trend			
Impact of: 1% increase	n.a.	n.a.	18,329
1% decrease	n.a.	n.a.	(14,211)

22 – 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.

23 – SEGMENTED RESULTS OF OPERATIONS

The operations of the Bank are grouped into three business segments comprising Financing, Consulting and Venture Capital activities. Disclosure of each segment's revenues, expenses and net income is set out in the Consolidated Statement of Income and the average assets of the Financing and Venture Capital portfolios are disclosed in notes 6 and 9, respectively.

24 – COMPARATIVE FINANCIAL DATA

Certain comparative figures have been reclassified to conform to the presentation adopted in 2006.

Five-Year OPERATIONAL AND FINANCIAL Summary

for the years ended March 31 ($ in thousands)

OPERATIONAL STATISTICS	2006	2005	2004	2003	2002
BDC FINANCING* AND BDC VENTURE CAPITAL					
Committed to financing clients					
as at March 31					
Amount	**$ 9,676,173**	$ 9,014,146	$ 8,354,022	$ 7,595,964	$ 6,826,948
Number of clients	**25,802**	24,369	22,796	21,733	20,625
Committed to Venture Capital clients					
as at March 31					
Amount	**$ 654,876**	$ 604,389	$ 490,736	$ 429,755	$ 374,189
Number of clients	**193**	202	170	164	155
Financing authorizations					
Net amount	**$ 2,509,158**	$ 2,266,588	$ 2,082,647	$ 2,031,907	$ 1,739,404
Number	**8,506**	7,523	7,268	6,326	5,743
Venture Capital authorizations					
Net amount	**$ 140,016**	$ 143,119	$ 108,812	$ 92,689	$ 106,021
Number	**83**	80	70	61	63
FINANCIAL STATISTICS – BDC FINANCING*					
Net interest income and other income as a percentage of average financing portfolio	**5.6%**	5.7%	5.8%	5.8%	5.9%
Provision for credit losses as a percentage of average financing portfolio	**1.0%**	0.7%	1.7%	1.5%	1.7%
Operating and administrative expenses as a percentage of average financing portfolio	**2.8%**	2.8%	2.8%	2.8%	2.9%
Financing operations productivity ratio	**48.9%**	48.5%	48.7%	47.8%	48.5%
BDC CONSULTING REVENUE	**$ 21,570**	$ 18,924	$ 20,006	$ 18,221	$ 18,189

* BDC Financing includes Loans and Subordinate Financing

Five-Year OPERATIONAL AND FINANCIAL Summary

($ in thousands)

FINANCIAL INFORMATION	2006	2005	2004	2003	2002
STATEMENT OF INCOME					
for the years ended March 31					
Net Income (loss)					
Financing	**$ 154,742**	$ 172,518	$ 92,555	$ 94,507	$ 80,458
Consulting	**(3,782)**	(2,887)	(3,135)	(3,142)	(5,748)
Venture Capital	**(12,779)**	(56,143)	(30,299)	(59,485)	(20,977)
Net Income	**$ 138,181**	$ 113,488	$ 59,121	$ 31,880	$ 53,733
BALANCE SHEET					
as at March 31					
Loans, net of allowance for credit losses	**$ 8,178,576**	$ 7,528,973	$ 6,977,544	$ 6,288,636	$ 5,669,513
Subordinate financing investments	**95,205**	53,865	–	–	–
Financing	**$ 8,273,781**	$ 7,582,838	$ 6,977,544	$ 6,288,636	$ 5,669,513
Venture capital investments	**$ 431,379**	$ 383,649	$ 345,624	$ 301,945	$ 271,064
Total assets	**$10,311,423**	$ 9,445,161	$ 8,809,218	$ 7,791,359	$ 6,897,204
Total shareholder's equity	**$ 1,691,277**	$ 1,569,569	$ 1,218,459	$ 1,170,017	$ 960,320
Total liabilities	**$ 8,620,146**	$ 7,875,592	$ 7,590,759	$ 6,621,342	$ 5,936,884
Average financing portfolio	**$ 8,422,228**	$ 7,756,821	$ 7,136,429	$ 6,402,284	$ 5,749,376
Average loan portfolio	**$ 8,346,626**	$ 7,709,870	$ 7,136,429	$ 6,402,284	$ 5,749,376

BOARD OF DIRECTORS

CEDRIC E. RITCHIE, O.C

Chairman OF THE BOARD, BDC l 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.

JEAN-RENÉ HALDE

President and Chief Executive Officer BDC l Montréal, Quebec

Jean-René Halde has been BDC's President and Chief Executive Officer since June 2005. With more than 30 years of management experience, he has held CEO positions since 1979 in leading companies, including Livingston Group Inc., Métro-Richelieu Inc. and Culinar Inc. He served as Academic Director at the Corporate Governance College of the Institute of Corporate Directors in Montréal and has been a board member of numerous companies, including CCL Industries Inc., Groupe Vidéotron ltée, Gaz Métropolitain Inc., the Institute of Corporate Directors and the Montréal Heart Institute. He holds an MA in Economics from the University of Western Ontario and an MBA from Harvard Business School.

TREVOR ADEY

CEO, CONSILIENT® l St. John's, Newfoundland and Labrador

Trevor Adey, who became a BDC director in April 2005, is CEO of Consilient®, a leader in push e-mail solutions for mobile phones and devices. Previously, he was Vice President of Sales and Business Development with Stratos and Director of Sales with Infosat Telecommunications. Mr. Adey was named one of "Canada's Top 40 Under 40™" in 2005 and "Emerging Entrepreneur of the Year" by Ernst and Young in 2004. Mr. Adey is Chairman of the Advisory Committee for Memorial University of Newfoundland's Faculty of Engineering and Applied Science and is a board member of Newfoundland Power and Memorial's Genesis Centre.

CHRISTIANE BERGEVIN

President, SNC-LAVALIN CAPITAL INC. l Montréal, Quebec

Christiane Bergevin joined the BDC Board of Directors in June 2005. Ms. Bergevin is a seasoned executive with more than 20 years of experience in domestic and international financing, acquisitions and partnerships. Since 2001 she has been President of SNC-Lavalin Capital Inc., a subsidiary of SNC-Lavalin, where she heads a team of finance professionals in Canada and Europe who have arranged over US$5 billion in financing in recent years. During her career, Ms. Bergevin has established strong ties with leading financial institutions and pension funds in Canada and abroad.

STAN BRACKEN-HORROCKS

President, SE BRACKEN-HORROCKS INVESTMENTS LTD. l Vancouver, British Columbia

Stan Bracken-Horrocks, who joined the BDC Board of Directors in April 2005, is a retired partner at PricewaterhouseCoopers. A chartered accountant, he has worked with PricewaterhouseCoopers since 1962 and gained extensive experience with boards of directors of public companies and their audit and finance committees. Mr. Bracken-Horrocks is 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.

CINDY CHAN

CEO, INFOSPEC SYSTEMS INC. | Richmond, British Columbia

Cindy Chan joined the BDC Board of Directors in August 2005. Ms. Chan is the co-founder and CEO of InfoSpec Systems Inc., a software development company that has been ranked one of the top 100 technology companies in British Columbia. Ms. Chan was named the 2003 Ethel Tibbits Business Woman of the Year. She is the Co-Chair of the International Business Committee of the Richmond Chamber of Commerce and the Chairperson of the Diversity Fund-raising Committee for the Canadian Cancer Society. She holds a BSc from Simon Fraser University.

LÉANDRE CORMIER

President and owner, WEST-WOOD INDUSTRIES LTD. | Scoudouc, New Brunswick

Léandre Cormier became a director of BDC in August 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, Prince Edward Island.

CYNTHIA DESMEULES-BERTOLIN

President, SUNROPE CONSULTING SERVICES LTD. *and* CONSULTING BARRISTER, ALBERTA MÉTIS NATION
Edmonton, Alberta

Cynthia Desmeules-Bertolin, who joined the BDC Board in March 2002, is the President of Sunrope Consulting Services Ltd. and a consulting barrister to the Alberta Métis Nation on Aboriginal rights and on business development issues. Ms. Bertolin is a national jurist for the PAR (Progressive Aboriginal Relations) Program at the Canadian Council for Aboriginal Business. She has served as the Vice-Chair of the National Aboriginal Economic Development Board federally and was the Chairperson for Apeetogosan Métis Development Inc., an Aboriginal financial institution.

LOUIS J. DUHAMEL

Partner, SECOR-TAKTIK | Montréal, Quebec

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

TERRY B. GRIEVE

Saskatoon, Saskatchewan

Terry B. Grieve, who joined the BDC Board of Directors in April 1996, is a native of Saskatchewan. Until December 2005, Mr. Grieve was a principal of Ventures West Management Inc., a private, professional venture capital management firm. He was also Executive Vice President of the Saskfund group of companies.

JOHN HYSHKA
Chief Financial Officer and Chief Operating Officer, PHENOMENOME DISCOVERIES INC.
Saskatoon, Saskatchewan

John Hyshka became a member of the BDC Board of Directors in May 2005. As Chief Financial Officer and Chief Operating Officer of Phenomenome Discoveries Inc., a Canadian biotechnology firm he co-founded, he has raised over $20 million in equity and debt financing for a number of start-ups and small technology companies. Previously, he was Director of Economic Development for the Saskatoon Regional Economic Development Authority, responsible for the region's economic development programs and for promoting Saskatoon internationally. Mr. Hyshka has been Chair of the Saskatchewan Government Growth Fund since 2003 and is an advisor to GrowthWorks on Saskatchewan deals.

LEO LEDOHOWSKI
President and CEO, CANAD INNS | Winnipeg, Manitoba

Leo Ledohowski joined the BDC Board of Directors in March 2005. He is President and CEO of Canad Inns, which owns and operates hotels in Winnipeg, Portage la Prairie and Brandon, Manitoba, as well as a new hotel currently under construction in Grand Forks, North Dakota. Previously, Mr. Ledohowski was a professor in the Faculty of Commerce at Carleton University in Ottawa and at the University of Manitoba. He is a certified hotel administrator and he has received the Distinguished Service Award from the University of Manitoba, as well as the Fellow of the Society of Management Accountants designation recognizing outstanding contributions to the profession.

ANDRINA LEVER
President and CEO, LEVER ENTERPRISES | Toronto, Ontario

Andrina Lever, who resides in Toronto, became a member of the BDC Board of Directors in June 2005. Ms. Lever has had extensive experience in small business development, international commercial development, trade and governance. She has ongoing involvement with Asia Pacific Economic Cooperation (APEC) and her work has taken her to more than 50 countries. She has been a member of the Bar of England and Wales as a Barrister since 1980 and of the Bar of Victoria, Australia, as a barrister and solicitor since 1981.

KELVIN NG
President, NG NORTH INC. | Edmonton, Alberta

Kelvin Ng, who joined the BDC Board of Directors in April 2005, is President of Ng North Inc., a management consulting firm. He was a member of the Nunavut Legislative Assembly. He was also Deputy Premier, Minister of Finance and Chair of the Financial Management Board in the Nunavut government. Mr. Ng also served in the Legislative Assembly of N.W.T. and held numerous portfolios in the N.W.T. government. He has served in municipal politics and held positions in the private sector in chambers of commerce and in non-profit organizations. He received the Queen's Golden Jubilee Award.

VALERIE PAYN
President, HALIFAX CHAMBER OF COMMERCE | Halifax, Nova Scotia

Valerie Payn, who joined the BDC Board of Directors in March 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 St. Mary's University in Halifax.

Senior MANAGEMENT TEAM

JEAN-RENÉ HALDE

President and CHIEF EXECUTIVE OFFICER

Jean-René Halde has been BDC's President and Chief Executive Officer since June 2005. With more than 30 years of management experience, he has held CEO positions since 1979 in leading companies, including Livingston Group Inc., Métro-Richelieu Inc. and Culinar Inc. He served as Academic Director at the Corporate Governance College of the Institute of Corporate Directors in Montréal and has been a board member of numerous companies, including CCL Industries Inc., Groupe Vidéotron ltée, Gaz Métropolitain Inc., the Institute of Corporate Directors and the Montréal Heart Institute. He holds an MA in Economics from the University of Western Ontario and an MBA from Harvard Business School.

ANDRÉ BOURDEAU

Executive Vice President, BDC FINANCING AND CONSULTING

André Bourdeau, who has been with BDC since 1973, is responsible for BDC Financing, BDC Consulting and BDC Connex, the virtual branch. During his career with BDC, he has held a variety of positions both in the branches and at Head Office. Among them, he headed Quebec Operations, was Executive Assistant to the President and was Senior Vice President of Operations for the national network. In addition, Mr. Bourdeau fulfilled the role of Acting President from February 2004 to June 2005. He holds a Master's degree in Business Sciences, Finance, from the Université de Sherbrooke.

MARY KARAMANOS

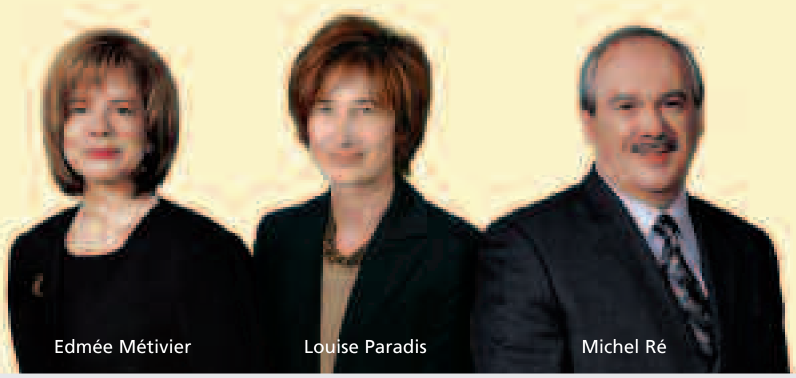
Senior Vice President, HUMAN RESOURCES

Mary Karamanos, who joined BDC in 2002, is responsible for developing and implementing BDC's human resources strategy. She has more than 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 BA in Industrial Relations from McGill University and the Certified Compensation Professional designation from World at Work. She is active in the community and supports a number of children's charities.

ALAN MARQUIS

Senior Vice President, FINANCE AND CHIEF FINANCIAL OFFICER

Alan 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 from the University of Edinburgh, Scotland and is a member of the Institute of Chartered Accountants of Scotland.



EDMÉE MÉTIVIER
Executive Vice President, INTEGRATED RISK AND TECHNOLOGY MANAGEMENT

Edmée Métivier joined BDC in 2000. She is responsible for Aboriginal Banking Services, Integrated Risk and Portfolio Management, Credit Risk Management, Treasury, Systems and Technology, Public Affairs and E-business. 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 MA in Practicing Management from University of Lancaster, England.

LOUISE PARADIS
Vice President, LEGAL AFFAIRS AND CORPORATE SECRETARY

Louise Paradis joined BDC in 2004. She provides legal support to all our business units and to the Board of Directors. Previously, Ms. Paradis held managerial positions with Société Génerale, the Canadian office of a major international bank, where she was responsible for Legal Affairs, Human Resources, the Corporate Secretariat and Administration. She held the position of Director of Operations for two years. Ms. Paradis began her career at BDC as legal counsel. She holds an LL.L. from McGill University and is a member of the Barreau du Québec.

MICHEL RÉ
Executive Vice President, INVESTMENTS

Michel Ré retired on January 31, 2006, after 33 years of service with BDC. He started his career as Credit Officer in Montréal, and went on to hold a variety of positions in different branches in the Quebec region, including Assistant Vice President and Area General Manager. He then joined the Head Office team in Venture Loans, moving up to the positions of Vice President, Venture Capital, and then Executive Vice President, Investments. Throughout his tenure at BDC, Mr. Ré brought energy, commitment and dedication to all his tasks and contributed significantly to BDC's success. His in-depth knowledge of the needs of entrepreneurs in many sectors of the economy has made him a highly regarded pioneer in the Canadian venture capital market.

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.

Change in Unrealized Appreciation and Depreciation of Investments
Amount included in income resulting from the movements in the fair value of investments for the period.

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 financing operations. It is calculated as operating and administrative expenses as a percentage of net interest and other income. A lower ratio indicates improved efficiency.

Fair Value (also see page 58)
Fair value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair value represents Management's best estimate of the net worth of an investment at the balance sheet date, and may not reflect the ultimate realizable value upon the disposition of the investment.

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.

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 Gains on Disposals of Investments
Gains realized, net of realized capital losses, upon sale or disposition of investments, excluding the change in unrealized appreciation or depreciation of venture capital investments.

Net Interest and Other Income
The difference between what is earned on financing portfolio assets and securities, and what is paid on borrowings, excluding the change in unrealized appreciation or depreciation of subordinate financing investments.

Net Margin
Is the net interest and other income from the financing portfolio, expressed as a percentage of the total average financing 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 impaired loan portfolio, which have occurred and are identified on an individual loan basis, as at the balance sheet date.

Subordinate Financing
Hybrid instrument that brings together some features of both debt financing and equity financing.

Subordinate Financing Investments
BDC's portfolio of subordinate financing held through its joint ventures with the *Caisse de dépôt et placement du Québec* (CDPQ), AlterInvest LP and AlterInvest Inc.

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.

Variable Interest Entity (VIE)
This is an entity which either does not have sufficient equity at risk to finance its activities without additional subordinated financial support or where the holders of the equity at risk lack the characteristics of a controlling financial interest.

Write-down
(Before change in accounting policies.
Also see page 58)
To recognize the loss when the value of a venture capital investment is permanently impaired.

Our branches *and offices*

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Calgary, Alberta T2E 7C8
Phone: (403) 292-5590
Fax: (403) 292-6651

Calgary South
Sovereign Building
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Calgary, Alberta T2H 0L3
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Fax: (403) 292-4345

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200 – 10665 Jasper Avenue
Edmonton, Alberta T5J 3S9
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Fax: (780) 495-6616

Edmonton South
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4628 Calgary Trail NW
Edmonton, Alberta T6H 6A1
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Fax: (780) 495-7198

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4815 – 50th Avenue, Suite 107
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V9W 2C2
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Fax: (250) 417-2213

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Fax: (250) 787-9423

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Fax: (250) 851-4925

Kelowna
313 Bernard Avenue
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Terrace
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Fax: (250) 615-5320

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MANITOBA

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Fax: (204) 983-0870

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Fax: (204) 983-6531

NEW BRUNSWICK

Bathurst
Harbourview Place
275 Main Street, Suite 205
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Fax: (506) 548-7381

Edmundston
Carrefour Assomption
121 de L'Église Street, Suite 405
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E3V 1J9
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Fax: (506) 735-0019

Fredericton
The Barker House
570 Queen Street, Suite 504
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Fax: (506) 452-2416

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NEWFOUNDLAND AND LABRADOR

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4 Herald Avenue
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St. John's
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NORTHWEST TERRITORIES

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4912 – 49th Street
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622 Prince Street, P.O. Box 1378
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Yarmouth
396 Main Street, P.O. Box 98
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