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. 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 BDC'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 BDC, is responsible for reviewing and approving the audited annual consolidated financial statements.

BDC's independent auditors, Raymond Chabot Grant Thornton LLP, Chartered Accountants and the Auditor General of Canada have audited BDC'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

Paul Buron, CA
Executive Vice President and Chief Financial Officer

Montreal, Canada
May 18, 2007

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, 2007 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, 2007 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 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* and the by-laws of the Bank and the charter and the by-laws of its wholly-owned subsidiary.

Sheila Fraser, FCA
Auditor General of Canada

Raymond Chabot Grant Thornton LLP
Chartered Accountants

Montreal, Canada
May 18, 2007

Consolidated Balance Sheet

as at March 31 ($ in thousands)

	2007	2006
Assets		
Cash and cash equivalents (Note 4)	**$ 764,803**	$ 752,730
Securities (Note 5)	**164,266**	177,555
	929,069	930,285
Loans, net of allowance for credit losses (Note 6)	**8,622,646**	8,129,880
Subordinate financing loans and investments (Note 7)	**148,290**	143,901
Venture capital investments (Note 8)	**505,118**	431,379
	9,276,054	8,705,160
Fixed assets, net of accumulated amortization (Note 9)	**33,882**	37,661
Derivative-related assets (Note 17)	**442,368**	545,711
Other assets (Note 10)	**122,708**	92,606
	598,958	675,978
Total Assets	**$10,804,081**	$10,311,423
Liabilities and Shareholder's Equity		
Accounts payable and accrued liabilities	**$ 67,013**	$ 77,624
Accrued interest on borrowings	**28,408**	21,206
	95,421	98,830
Borrowings (Note 11)		
Short-term notes	**3,974,496**	4,199,347
Long-term notes	**4,253,371**	3,676,821
	8,227,867	7,876,168
Derivative-related liabilities (Note 17)	**530,302**	511,606
Other liabilities (Note 12)	**142,773**	133,542
Shareholder's Equity		
Share capital (Note 13)	**1,038,400**	1,038,400
Contributed surplus	**27,778**	27,778
Retained earnings	**741,540**	625,099
	1,807,718	1,691,277
Guarantees, contingent liabilities and commitments (Note 19)		
Total Liabilities and Shareholder's Equity	**$10,804,081**	$10,311,423

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

Approved by the Board:

Stan Bracken-Horrocks
Director
Chairperson Audit Committee

Jean-René Halde
Director
President and Chief Executive Officer

Consolidated Statement of Income and Retained Earnings

For the years ended March 31 ($ in thousands)

	2007	2006
Financing		
Interest income		
Loans	**$ 737,634**	$ 605,460
Short-term investments and securities	**41,360**	26,251
	778,994	631,711
Interest expense	**330,538**	209,236
Net interest income	**448,456**	422,475
Other income	**28,548**	27,157
Provision for credit losses (Note 6)	**67,890**	88,148
Income before operating and administrative expenses	**409,114**	361,484
Operating and administrative expenses (Note 15)	**241,122**	220,424
Income from Financing	**167,992**	141,060
Subordinate Financing		
Interest income	**17,876**	15,423
Interest expense	**4,098**	4,635
Net interest income	**13,778**	10,788
Realized gains on disposals of investments and other income	**13,755**	12,218
Change in unrealized (depreciation) appreciation of investments	**(7,253)**	1,506
Income before operating and administrative expenses	**20,280**	24,512
Operating and administrative expenses (Note 15)	**12,335**	10,830
Income from Subordinate Financing	**7,945**	13,682
Venture Capital		
Realized (losses) gains on disposals of investments	**(1,153)**	21,571
Interest, dividends and other	**8,275**	6,958
Change in unrealized depreciation of investments	**(26,026)**	(27,695)
(Loss) income before operating and administrative expenses	**(18,904)**	834
Operating and administrative expenses (Note 15)	**14,700**	13,613
Loss from Venture Capital	**(33,604)**	(12,779)
Consulting		
Revenue	**23,523**	21,570
Operating and administrative expenses (Note 15)	**27,849**	25,352
Loss from Consulting	**(4,326)**	(3,782)
Net Income	**$ 138,007**	$ 138,181
Retained earnings, beginning of year	**625,099**	503,391
Dividends on common shares	**(12,131)**	(7,757)
Dividends on preferred shares	**(9,435)**	(8,716)
Retained earnings, end of year	**$ 741,540**	$ 625,099

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements and Note 14 provides additional information on earnings.

Consolidated Statement of Cash Flows

For the years ended March 31 ($ in thousands)

	2007	2006
Cash Flows Provided by Operating Activities		
Net income	**$ 138,007**	$ 138,181
Adjustments to determine net cash flows:		
Realized losses (gains) on disposals of investments	**4,034**	(21,571)
Change in unrealized depreciation on investments	**32,121**	26,736
Provision for credit losses and write-down	**68,980**	89,853
Amortization of fixed assets	**13,162**	14,934
Changes in operating assets and liabilities:		
Change in accrued interest receivable on financing	**(6,585)**	(4,742)
Change in accrued interest on borrowings	**7,202**	597
Translation adjustment on borrowings and securities	**(86,588)**	(10,396)
Change in derivative-related assets	**103,343**	(100,391)
Change in derivative-related liabilities	**18,696**	159,079
Net change in other assets and other liabilities	**(30,729)**	(6,313)
Net Cash Flows Provided by Operating Activities	**261,643**	285,967
Cash Flows Used in Investing Activities		
Purchases of securities	**(75,018)**	(56,972)
Maturities of securities	**98,814**	15,037
Disbursements for loans and subordinate financing	**(2,484,922)**	(2,495,777)
Repayments of loans and subordinate financing	**1,916,326**	1,721,171
Disbursements for venture capital investments	**(133,364)**	(123,651)
Proceeds on sales of venture capital investments	**31,044**	69,797
Acquisition of fixed assets	**(9,383)**	(11,448)
Net Cash Flows Used in Investing Activities	**(656,503)**	(881,843)
Cash Flows Provided by Financing Activities		
Net change in short-term notes	**(190,799)**	719,182
Issue of long-term notes	**1,113,479**	689,602
Repayment of long-term notes	**(494,900)**	(799,746)
Dividends paid on common and preferred shares	**(20,847)**	(16,787)
Net Cash Flows Provided by Financing Activities	**406,933**	592,251
Net increase (decrease) in cash and cash equivalents	**12,073**	(3,625)
Cash and cash equivalents at beginning of year	**752,730**	756,355
Cash and cash equivalents at end of year (Note 4)	**$ 764,803**	$ 752,730
Supplemental Disclosure of Cash Flow Information		
Amount of interest paid in the year	**$ 327,433**	$ 213,274

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

Notes to Consolidated Financial Statements

($ in thousands except as otherwise indicated)

– 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. BDC is wholly-owned by the Government of Canada and is exempt from income taxes.

The objectives of BDC 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. BDC 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 BDC's activities.

To finance these objectives, BDC 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, 2007.

BDC is for all purposes an agent of Her Majesty in right of Canada. BDC 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

BDC 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 BDC 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 BDC's proportionate share of the assets, liabilities, revenues and expenses of the joint ventures are included in these consolidated financial statements. All inter-company transactions and balances have been eliminated.

Securities

BDC 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 BDC.

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 BDC 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.

– 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 BDC'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 reasonable assurance of realization is achieved. 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.

BDC's approach to fair value measurement has been derived from guidelines issued by the industry. Based on the type of investments BDC carries out, BDC uses either (i) market-based methodologies, such as the quoted share price or the price of recent investments; (ii) discounted earnings or cash flow approaches; (iii) liquidation or asset-based methods. Significant assumptions used in the determination of fair value can include discount or capitalization rate, rate of return and the weighting of forecasted earnings.

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
Systems 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 and investments 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 and investments 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 net income for the year.

Derivative financial instruments

BDC enters into derivative financial instruments to manage the interest rate, foreign exchange rate and equity market exposures arising from on-balance sheet positions. BDC's policy is not to use derivative financial instruments for trading or speculative purposes. BDC 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. BDC 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. BDC 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.

Pension and other employee future benefits

BDC maintains a registered defined benefit pension plan, supplemental defined benefit pension plans and other benefit plans such as post-employment benefits and post-retirement benefits for eligible employees.

The cost of pension and other employee future benefits earned by employees is determined annually on an actuarial basis using the projected benefit method prorated on service and Management's best estimate assumptions such as the expected long-term rate of return on plan assets, rate of compensation increase, inflation, retirement ages of employees, and other factors.

The pension costs are determined using the cost of employee benefits for the current year's service, the interest cost on the accrued benefit obligation, the expected investment return on the actuarial value of plan assets, and the amortization of net actuarial gains and losses, past service costs and transitional assets and obligations. The market-related value of plan assets is used for the purpose of calculating the expected return on plan assets.

Actuarial gains (losses) on plan assets arise from the difference between the actual return on plan assets for a period and the expected return on plan assets for that period. Actuarial gains (losses) on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation.

– 2 –

Significant Accounting Policies (continued)

Each fiscal year, actuaries determine whether the cumulative actuarial loss (gain) is more than 10% of the greater of the fair value of the pension plan assets or accrued benefit obligations. Any amount that exceeds this 10% corridor is amortized to expense over the average remaining service period of BDC's active employees. Amounts that fall within the 10% corridor are not amortized. The average remaining service period of the active employees covered by:

- the registered and supplemental pension plans is 8.2 years (8.1 years in 2006);
- the post-retirement benefits plan other than pension is 8.0 years (8.0 years in 2006).

Amortization of transitional assets and obligations relates to a change in an accounting policy that came into effect on April 1, 2000. At that date, BDC had transitional assets and obligations that are being amortized to expense on a straight-line basis over the average remaining service period of BDC'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 pension plan to 13 years for the supplemental pension plans and the other benefit plans. As mentioned in note 20, the unamortized transitional obligation with respect to post-retirement benefits other than pension was fully recognized on July 1, 2006.

The measurement date is December 31 for the pension plans and March 31 for the other benefit plans.

– 3 –

Future Accounting Changes

Financial instruments, hedges and comprehensive income

In 2005, the Canadian Institute of Chartered Accountants (CICA) issued three new accounting standards: Section 1530, *Comprehensive Income*, Section 3855, *Financial Instruments – Recognition and Measurement* and Section 3865, *Hedges*. These new standards are effective for BDC on April 1, 2007.

Comprehensive Income

Section 1530 introduces Comprehensive Income which is comprised of net income and other comprehensive income. Other Comprehensive Income (OCI) includes unrealized gains and losses on financial instruments classified as available-for-sale and changes in the fair value of the effective portion of cash flow hedging instruments. BDC's Consolidated Financial Statements will include a Consolidated Statement of Comprehensive Income while the cumulative amount, accumulated other comprehensive income (AOCI), will be presented as a new category of Shareholder's equity in the Consolidated Balance Sheet.

Financial Instruments – Recognition and Measurement

Section 3855 establishes standards for recognizing and measuring financial instruments. It requires that all financial assets and financial liabilities including derivatives be recognized on the balance sheet when BDC becomes a party to the contract of the financial instrument or derivative. Financial instruments should be measured at fair value on initial recognition. Measurement in subsequent periods depends on whether the financial instrument has been classified as held for trading, available-for-sale, held-to-maturity, loans and receivable, or other liabilities.

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Future Accounting Changes (continued)

Financial assets and financial liabilities held for trading will be measured at fair value with gains and losses recognized in net income. Loans, receivables and other liabilities will be measured at amortized cost. Available-for-sale financial instruments will be measured at fair value with unrealized gains and losses being recognized in OCI.

Derivative instruments must be recorded on the balance sheet at fair value including those derivatives that are embedded in financial instruments or other contracts if they are not closely related to such financial instruments or contracts. Changes in fair values of derivative instruments will be recognized in net income, except for derivatives which are designated as cash flow hedge, the fair value change of which will be recognized in OCI.

Hedges

Section 3865 specifies the criteria under which hedge accounting can be applied and how hedge accounting should be executed for fair value hedges and cash flow hedges.

In a fair value hedge, the changes in the fair value of the hedged item will be offset by changes in the fair value of the hedging derivative in net income, to the extent the hedge is effective.

In a cash flow hedge, the change in the fair value of the hedging derivative will be recognized in OCI, except for the ineffective portion which will be recognized in net income. The amounts recognized in AOCI will be transferred to net income when the variability of the hedged items will affect net income.

Impact of adopting Sections 1530, 3855 and 3865

The transition adjustment attributable to the following will be recognized in the opening balance of retained earnings as at April 1, 2007: (i) financial assets and liabilities that will be classified as held for trading and that were not previously recognized at fair value and (ii) the ineffective portion of cash flow hedges.

Adjustments arising due to remeasuring financial assets and liabilities classified as available-for-sale and hedging instruments designated as cash flow hedges will be recognized on the opening balance of AOCI.

These changes will be applied prospectively and opening balances will be adjusted.

Amendments to AcG-18 Investment Companies

In fiscal 2006, BDC adopted the CICA accounting guideline AcG-18 *Investment Companies*. In April 2007, the CICA amended AcG-18, stating that an investment company should measure all of its investments at fair value and present them on this basis in its financial statements. This includes investments that meet the definition of a joint venture.

BDC, through its investment company subsidiary, holds investments in other investment companies that are accounted for using proportionate consolidation. BDC will apply AcG-18 changes to its fiscal 2008 year-end. Overall financial impact on net income has not yet been determined.

– 4 –

Cash and Cash Equivalents

	2007	2006
Bank account balances, net of cheques outstanding	**$ (4,984)**	$ 1,094
Short-term bank notes	**769,787**	751,636
	$ 764,803	$ 752,730

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

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Securities

	Term to maturity			**2007**	2006
	Within 1 year	1 to 3 years	Over 3 years	**Total**	Total
Financial institutions					
Carrying value	$ 73,666	$ 90,600	$ –	**$ 164,266**	$ 177,555
Yield	4.70%	4.41%	–	**4.54%**	3.74%
Fair value	$ 73,680	$ 90,276	$ –	**$ 163,956**	$ 177,790
Swap contracts					
Notional amount	$ 78,000	$ 96,260	$ –	**$ 174,260**	$ 191,207
Adjusted yield*	4.42%	4.51%	–	**4.47%**	3.97%

Amounts denominated in foreign currencies included in the carrying value of securities

US dollars – 2006	US	$ 51,050		
Euros – 2006		€ 53,500		$ 135,342
US dollars – 2007	**US**	**$ 35,900**		
Euros – 2007		**€ 31,000**	**$ 89,249**	

* *After adjusting for the effect of related derivatives (see Note 17)*

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, BDC 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.

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Loans

The following table summarizes the repricing or maturity dates, whichever is earlier, of loans outstanding as at March 31.

	Within 1 year	1 to 5 years	Over 5 years	Total gross amount	General allowance	Specific allowance	Total allowance	Total net amount
Performing	**$ 419,313**	**$ 2,501,047**	**$ 5,921,285**	**$ 8,841,645**	**$ (399,158)**	**$ –**	**$ (399,158)**	**$ 8,442,487**
Impaired	**4,207**	**112,096**	**170,197**	**286,500**	**–**	**(106,341)**	**(106,341)**	**180,159**
Loans as at March 31, 2007	**$ 423,520**	**$ 2,613,143**	**$ 6,091,482**	**$ 9,128,145**	**$ (399,158)**	**$ (106,341)**	**$ (505,499)**	**$ 8,622,646**
Loans as at March 31, 2006 *	$ 410,339	$ 2,396,395	$ 5,820,465	$ 8,627,199	$ (399,158)	$ (98,161)	$ (497,319)	$ 8,129,880

* *Include $299,421 of impaired loans.*

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Loans (continued)

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	2007		2006	
Newfoundland and Labrador	**$ 364,160**	**4.0%**	$ 354,295	4.1%
Prince Edward Island	**51,041**	**0.6%**	43,133	0.5%
Nova Scotia	**227,840**	**2.5%**	216,672	2.5%
New Brunswick	**361,661**	**4.0%**	338,823	3.9%
Quebec	**3,479,332**	**38.1%**	3,369,382	39.1%
Ontario	**2,893,821**	**31.7%**	2,745,706	31.8%
Manitoba	**212,889**	**2.3%**	166,192	1.9%
Saskatchewan	**136,565**	**1.5%**	116,579	1.4%
Alberta	**592,646**	**6.5%**	540,056	6.3%
British Columbia	**750,963**	**8.2%**	680,229	7.9%
Yukon	**31,080**	**0.3%**	26,145	0.3%
Northwest Territories and Nunavut	**26,147**	**0.3%**	29,987	0.3%
Total loans outstanding	**$ 9,128,145**	**100.0%**	$ 8,627,199	100.0%

Industry Sector	2007		2006*	
Manufacturing	**$ 3,182,055**	**34.9%**	$ 3,034,131	35.2%
Wholesale and retail trade	**1,956,433**	**21.4%**	1,796,365	20.8%
Tourism	**1,052,529**	**11.5%**	1,056,859	12.3%
Construction	**533,698**	**5.8%**	452,970	5.3%
Transportation & storage	**480,664**	**5.3%**	413,259	4.8%
Commercial properties	**418,532**	**4.6%**	510,549	5.9%
Business services	**361,039**	**4.0%**	287,347	3.3%
Other	**1,143,195**	**12.5%**	1,075,719	12.4%
Total loans outstanding	**$ 9,128,145**	**100.0%**	$ 8,627,199	100.0%

* *New grouping based on North American Industry Classification System (NAICS) codes.*

Included in these loan figures are $15 million of foreclosed assets. Foreclosed assets represent property or other assets BDC 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.

Allowance for Credit Losses

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

	2007	2006
Balance at beginning of year	**$ 497,319**	$ 471,967
Write-offs and other	**(60,057)**	(65,119)
Interest income due to accretion	**(4,303)**	(3,623)
Recoveries	**4,650**	5,946
	$ 437,609	$ 409,171
Provision for credit losses	**67,890**	88,148
Balance at end of year	**$ 505,499**	$ 497,319

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Subordinate Financing Loans and Investments

The following table summarizes the repricing or maturity dates, whichever is earlier, of subordinate financing loans and investments outstanding as at March 31.

	Within 1 year	1 to 5 years	Over 5 years	Total gross amount	Cumulative fair value depreciation and other	Total net amount
As at March 31, 2007						
Loans	**$ 7,985**	**$ 21,615**	**$ –**	**$ 29,600**	**$ (3,150)**	**$ 26,450**
Investments	**4,480**	**101,809**	**14,083**	**120,372**	**1,468**	**121,840**
Total	**$ 12,465**	**$ 123,424**	**$ 14,083**	**$ 149,972**	**$(1,682)**	**$ 148,290**
As at March 31, 2006						
Loans	$ 7,524	$ 45,397	$ 452	$ 53,373	$ (4,677)	$ 48,696
Investments	–	95,205	–	95,205	–	95,205
Total	$ 7,524	$ 140,602	$ 452	$ 148,578	$ (4,677)	$ 143,901

BDC holds a portfolio of subordinate financing investments through its joint ventures with the Caisse de dépôt et placement du Québec (the Caisse), AlterInvest Fund L.P., AlterInvest II Fund L.P., and AlterInvest Investment Fund Inc. BDC acts as the general partner of the limited partnerships.

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

	2007	2006
Current assets	**$ 7,671**	$ 1,338
Subordinate financing investments	**121,840**	95,205
Current liabilities	**347**	575
Net interest income	**$ 12,200**	$ 7,257
Realized gains on disposals of investments and other income	**9,885**	7,356
Change in unrealized (depreciation) appreciation	**(6,095)**	959
Operating and administrative expenses	**53**	50
Income from subordinate financing investments	**$ 15,937**	$ 15,522
Cash flows from (used in):		
Operating activities	**$ 10,190**	$ 9,219
Investing activities	**(30,723)**	(52,903)
Financing activities	**27,729**	45,996

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Venture Capital Investments

BDC 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 3.3% of total venture capital investments (3.9% in 2006).

		2007		2006
Industry Sector	**Fair value**	**Cost**	Fair value	Cost
Biotechnology/Medical/Health	**$ 143,451**	**$ 171,792**	$ 132,082	$ 158,098
Information Technology	**102,330**	**135,674**	77,933	107,277
Electronics	**93,032**	**103,524**	83,501	102,590
Communications	**94,566**	**89,052**	73,964	73,578
Industrial	**22,019**	**24,688**	18,991	19,456
Consumer-related	**1,000**	**2,000**	2,000	2,000
Energy	**3,193**	**5,500**	500	5,000
Other	**5,000**	**750**	7,000	750
Total direct investments	**464,591**	**532,980**	395,971	468,749
Seed funds	**$ 3,874**	**$ 22,580**	$ 6,725	$ 22,598
Specialized funds	**36,475**	**45,299**	28,683	34,265
Seed and commercialization funds	**178**	**300**	–	–
Venture capital investments	**$ 505,118**	**$ 601,159**	$ 431,379	$ 525,612

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 BDC'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.

		2007		2006
Investment type	**Fair value**	**Cost**	Fair value	Cost
Common shares	**$ 80,367**	**$ 93,811**	$ 30,080	$ 62,673
Preferred shares	**331,218**	**374,374**	293,705	328,101
Debentures	**53,006**	**64,795**	72,186	77,975
Funds	**40,527**	**68,179**	35,408	56,863
Venture capital investments	**$ 505,118**	**$ 601,159**	$ 431,379	$ 525,612

In fiscal 2006, BDC adopted the accounting guideline AcG-15 *Consolidation of Variable Interest Entities (VIEs)*. On March 1, 2007, the Accounting Standards Board (AcSB) of the CICA approved amendments to AcG-15, stating that AcG-15 does not apply to investments accounted for at fair value in accordance with the specialized accounting guidance found in accounting guideline AcG-18 *Investment Companies*. BDC adopted these changes to AcG-15.

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

	2007	2006
Current assets	**$ 669**	$ 1,441
Venture capital investments	**2,558**	4,716
Other assets	**3**	2
Current liabilities	**28**	79
Realized gains (losses) on disposal of investments, interest, dividends and other	**666**	(294)
Change in unrealized depreciation	**2,708**	1,602
Operating and administrative expenses	**265**	398
Loss from Venture capital	**$ (2,307)**	$ (2,294)
Cash flows from (used in):		
Operating activities	**$ (271)**	$ (277)
Investing activities	**(52)**	167
Financing activities	**(446)**	(150)

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Fixed Assets

	Cost	Accumulated amortization	Carrying value
Computer equipment and telecommunication	**$ 30,765**	**$ 27,132**	**$ 3,633**
Furniture, fixtures and equipment	**41,959**	**36,387**	**5,572**
Leasehold improvements	**47,326**	**33,209**	**14,117**
Systems development costs	**36,573**	**26,013**	**10,560**
Total 2007	**$ 156,623**	**$ 122,741**	**$ 33,882**
Total 2006	$ 147,240	$ 109,579	$ 37,661

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Other Assets

	2007	2006
Accrued benefit asset (Note 20)	**$ 100,672**	$ 78,641
Unamortized debt issue expenses on long-term notes	**7,845**	1,147
Other	**14,191**	12,818
	$ 122,708	$ 92,606

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Borrowings

BDC issues debt instruments in capital markets to fund its loan portfolio, which are measured at amortized cost. Foreign currency and equity market risk is hedged through the use of derivatives, such that essentially all of BDC's borrowings are effectively denominated in Canadian dollars and bear interest at Canadian fixed or floating rates. In addition, where appropriate, BDC 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.

				2007		2006
Maturity date	**Effective rate**	**Currency**	**Principal amount**	**Carrying value**	Principal amount	Carrying value
Short-term notes						
2007	2.95%-4.88%	USD			$ 1,638,725	$ 1,900,282
		CDN			2,312,246	2,299,065
2008	4.00%-5.18%	USD	**$ 1,132,765**	**$ 1,297,586**		
		CDN	**2,696,680**	**2,676,910**		
Total short-term notes				**$ 3,974,496**		$ 4,199,347

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Borrowings (continued)

Maturity date	2007 Effective rate*	2006 Effective rate*	Currency	2007 Principal amount	2007 Carrying value	2006 Principal amount	2006 Carrying value
Long-term notes							
2007		3.14%-4.98%	CDN	**$ –**	**$ –**	$ 286,102	$ 288,137
2008	3.85%-4.26%	3.49%-3.61%	CDN	**350,940**	**350,940**	267,940	267,940
2009	4.00%	3.51%	USD	**43,000**	**49,641**	43,000	50,215
	3.89%-4.13%	3.40%-3.65%	CDN	**398,311**	**402,545**	226,965	231,647
2010	4.04%-4.10%	3.49%-3.56%	USD	**40,000**	**46,178**	40,000	46,712
	3.90%-4.09%	3.41%-3.68%	CDN	**224,217**	**231,288**	239,731	248,576
2011	3.94%-4.05%	3.41%-3.55%	USD	**17,000**	**20,054**	17,000	20,023
	3.89%-4.24%	3.36%-3.75%	CDN	**351,811**	**340,896**	424,585	415,570
2012	4.04%-4.08%		Yen	**2,250,000**	**22,044**	–	–
	4.07%	3.52%	USD	**10,000**	**11,544**	10,000	11,678
	3.89%-4.08%	3.36%-3.44%	CDN	**302,636**	**345,872**	324,786	395,001
2013	4.08%-4.09%	3.55%-3.60%	USD	**16,000**	**18,471**	16,000	18,685
	4.06%-4.07%	3.51%-3.58%	CDN	**15,000**	**15,000**	15,000	15,000
2014	4.07%-4.09%	3.52%-3.57%	Yen	**5,100,000**	**49,965**	1,500,000	14,884
	4.04%-4.11%	3.48%-3.62%	USD	**93,200**	**107,595**	93,200	108,839
	3.96%-4.07%	3.51%-3.59%	CDN	**77,000**	**78,734**	77,000	77,000
2015	4.05%-4.08%	3.53%-3.59%	Yen	**3,000,000**	**29,392**	3,000,000	29,768
	4.05%-4.09%	3.50%-3.60%	USD	**45,000**	**51,950**	45,000	52,551
	3.98%-4.07%		CDN	**97,150**	**98,469**	–	–
2016	4.05%-4.09%	3.50%-3.59%	Yen	**11,000,000**	**107,769**	11,000,000	109,150
	4.11%	3.57%-3.58%	USD	**40,000**	**46,178**	40,000	46,712
2017	4.06%-4.10%	3.53%-3.54%	Yen	**5,700,000**	**55,844**	3,700,000	36,713
	4.03%-4.11%	3.54%	USD	**43,000**	**49,641**	3,000	3,504
2018	4.05%-4.15%	3.47%-3.64%	Yen	**34,200,000**	**335,063**	35,800,000	355,232
2019	4.04%-4.12%	3.49%-3.62%	Yen	**28,900,000**	**283,138**	30,000,000	297,680
	4.11%	3.58%	USD	**24,112**	**27,836**	22,838	26,671
2020	3.36%-4.11%	3.36%-3.63%	Yen	**25,400,000**	**248,848**	25,900,000	256,997
2021	4.03%-4.09%	3.50%-3.60%	Yen	**18,560,000**	**181,836**	21,560,000	213,933
	4.09%	3.54%	USD	**34,554**	**39,890**	32,542	38,003
2022	4.07%-4.11%		Yen	**3,700,000**	**36,250**	–	–
	3.99%-4.09%		CDN	**570,500**	**570,500**	–	–
Total long-term notes					**$ 4,253,371**		$ 3,676,821

* *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.*

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Borrowings (continued)

The preceding table includes $4,248,621 in 2007 and $3,672,071 in 2006 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 BDC'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 extendable notes are presented based on their first option date.

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

	2007	2006
Interest-bearing notes	**$ 838,976**	$ 137,854
Fixed and inverse floating rate notes	**948,508**	929,179
Managed futures	**761,910**	925,052
Notes linked to equity indices	**539,257**	709,198
Notes linked to currency rates	**311,681**	280,812
Notes linked to swap rates	**164,380**	122,812
Notes extendible beyond maturity	**128,000**	73,000
Other structured notes	**560,659**	498,914
	$ 4,253,371	$ 3,676,821

Long-term notes of $2,301,371 are redeemable prior to maturity ($2,351,896 as at March 31, 2006).

As at March 31, 2007, the payment requirements and maturities of long-term notes are as follows:

2008	**$ 350,940**
2009	**452,186**
2010	**277,466**
2011	**360,950**
2012	**379,460**
2013 and later	**2,432,369**
	$ 4,253,371

BDC has an available overdraft facility of $75 million, for BDC's cash accounts totalled together. When the daily balance outstanding is in an overdraft position, interest charges are accumulated at prime. At March 31, 2007, BDC was not in an overdraft position.

BDC also has a line of credit for $50 million which was not used throughout fiscal 2007.

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Other Liabilities

	2007	2006
Deferred income	**$ 984**	$ 1,648
Accrued benefit liability (Note 20)	**106,710**	105,964
Other	**35,079**	25,930
	$ 142,773	$ 133,542

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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				**2007**			2006
		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	3.865%
	– Series 2	**500,000**	**50,000**	**4.455%**	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	3.970%
	– Series 5	**400,000**	**40,000**	**4.260%**	400,000	40,000	4.260%
			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 BDC 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 BDC in the form of guarantees given by it may not exceed twelve times the shareholder's equity of BDC. BDC's ratio at March 31, 2007 was 4.6:1 (4.7:1 as at March 31, 2006).

The paid-in capital of BDC, the contributed surplus and any proceeds that have been prescribed as equity must not at any time exceed $1.5 billion. At March 31, 2007, these amounts totalled $1.1 billion ($1.1 billion as at March 31, 2006).

Moreover, BDC has to maintain adequate equity to reflect the relative riskiness of its assets, and in particular, maintain capital as a percentage of net portfolio assets of at least 10% for term loans, 25% for quasi-equity loans (including subordinate financing), and 100% for venture capital investments. As shown below, BDC operates in accordance with its capital adequacy guidelines.

	2007	2006
Regulatory capital	**$ 1,459,980**	$ 1,315,614
Actual capital	**$ 1,807,718**	$ 1,691,277

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Information Included in the Consolidated Statements of Income and Retained Earnings

	2007	2006
Interest income		
Financing	**$ 778,994**	$ 631,711
Subordinate financing	**17,876**	15,423
Venture capital	**7,014**	6,811
	$ 803,884	$ 653,945
Interest expense		
Interest on notes	**$ 180,397**	$ 111,693
Interest on swaps	**152,329**	101,644
Other	**1,910**	534
	$ 334,636	$ 213,871
Amortization of fixed assets	**$ 13,162**	$ 14,934
Currency translation adjustment	**$ (66)**	$ 88

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Operating and Administrative Expenses

	2007				2006			
	Financing	**Subordinate Financing**	**Venture Capital**	**Consulting**	Financing	Subordinate Financing	Venture Capital	Consulting
Salaries and benefits	**$ 149,164**	**$ 10,696**	**$ 9,894**	**$ 13,915**	$ 131,212	$ 9,176	$ 9,390	$ 11,761
Premises and equipment	**32,422**	**590**	**1,474**	**946**	33,497	590	1,460	990
Other expenses	**59,536**	**1,049**	**3,332**	**12,988**	55,715	1,064	2,763	12,601
	$ 241,122	**$ 12,335**	**$ 14,700**	**$ 27,849**	$ 220,424	$ 10,830	$ 13,613	$ 25,352

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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 BDC 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 knowledgeable, willing parties in an arm's length transaction. 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 BDC's intention to realize the value of these financial instruments over time by holding them to maturity.

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Fair Value of Financial Instruments (continued)

	2007			2006		
	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	**$ 764,803**	**$ 764,803**	**$ –**	$ 752,730	$ 752,730	$ –
Securities	**163,956**	**164,266**	**(310)**	177,790	177,555	235
Loans, net of allowance for credit losses	**8,627,490**	**8,622,646**	**4,844**	8,101,985	8,129,880	(27,895)
Subordinate financing loans and investments	**148,290**	**148,290**	**–**	143,901	143,901	–
Venture capital investments	**505,118**	**505,118**	**–**	431,379	431,379	–
Other	**14,669**	**14,669**	**–**	13,007	13,007	–
	$10,224,326	**$10,219,792**	**$ 4,534**	$ 9,620,792	$ 9,648,452	$ (27,660)
Liabilities						
Accounts payable and accrued liabilities	**$ 67,013**	**$ 67,013**	**$ –**	$ 77,624	$ 77,624	$ –
Accrued interest on borrowings	**28,408**	**28,408**	**–**	21,206	21,206	–
Short-term notes	**3,974,496**	**3,974,496**	**–**	4,199,044	4,199,347	(303)
Long-term notes	**4,304,186**	**4,253,371**	**50,815**	3,548,101	3,676,821	(128,720)
Other	**12,229**	**12,229**	**–**	10,032	10,032	–
	$ 8,386,332	**$ 8,335,517**	**$ 50,815**	$ 7,856,007	$ 7,985,030	$ (129,023)
			$ (46,281)			$ 101,363
Derivative financial instruments						
Derivative-related assets	**$ 411,883**	**$ 442,368**	**$ (30,485)**	$ 380,243	$ 545,711	$ (165,468)
Derivative-related liabilities	**449,739**	**530,302**	**(80,563)**	477,726	511,606	(33,880)
	$ (37,856)	**$ (87,934)**	**$ 50,078**	$ (97,483)	$ 34,105	$ (131,588)
Total			**$ 3,797**			$ (30,225)

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 floating 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 BDC.

Long-term notes – The fair value of long-term notes is based on quoted market prices for similar issues, or current rates offered to BDC 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 17 to the consolidated financial statements.

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Derivative Financial Instruments

As described in Note 2, BDC 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 BDC 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 swap*s, where 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 BDC'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.

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

			2007			2006
	Gross assets	**Gross liabilities**	**Net amount**	Gross assets	Gross liabilities	Net amount
Derivative financial instruments						
Interest rate swap contracts	**$ 10,311**	**$ 13,049**	**$ (2,738)**	$ 1,068	$ 13,753	$ (12,685)
Equity-linked swap contracts	**385,667**	**21,847**	**363,820**	335,537	47,820	287,717
Cross-currency interest rate swap contracts	**11,467**	**399,808**	**(388,341)**	21,856	415,161	(393,305)
Currency forward contracts	**4,409**	**14,948**	**(10,539)**	21,762	922	20,840
Total fair value – hedging derivatives[1]	**$411,854**	**$ 449,652**	**$ (37,798)**	$ 380,223	$ 477,656	$ (97,433)
Total book value – hedging derivatives	**$442,339**	**$ 530,215**	**$ (87,876)**	$ 545,691	$ 511,536	$ 34,155
Ineffective hedges						
Interest rate swap contracts	**$ 3**	**$ –**	**$ 3**	$ 1	$ 66	$ (65)
Forward rate agreements	**26**	**87**	**(61)**	19	4	15
Total fair value – ineffective derivatives	**$ 29**	**$ 87**	**$ (58)**	$ 20	$ 70	$ (50)
Total book value – ineffective derivatives	**$ 29**	**$ 87**	**$ (58)**	$ 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.*

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Derivative Financial Instruments (continued)

Assets are shown net of liabilities to counterparties where BDC 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	
	2007	2006	**2007**	2006
Book value of hedging derivatives	**$ 442,339**	$ 545,691	**$ 530,215**	$ 511,536
Fair value of ineffective derivatives	**29**	20	**87**	70
Total	**$ 442,368**	$ 545,711	**$ 530,302**	$ 511,606

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.

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								**2007**		2006	
	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	$ 186,504	3.93	$ –	–	$ –	–	$ –	–	**$ 186,504**	**$ 243**	$ 142,956	$ 147
$CDN receivable-fixed	153,000	3.88	267,901	3.80	–	–	570,500	4.55	**991,401**	**10,060**	268,000	172
$US receivable-fixed	–	–	–	–	–	–	–	–	**–**	**–**	2,431	–
Basis Swap	130,000	4.23	–	–	–	–	–	–	**130,000**	**–**	170,000	–
Other swap contracts	50,000	n.a.	46,500	n.a.	12,431	n.a.	38,360	n.a.	**147,291**	**8**	94,472	749
Equity linked swap contracts	286,125	n.a.	700,414	n.a.	987,554	n.a.	189,150	n.a.	**2,163,243**	**385,667**	2,529,988	335,537
	805,629		1,014,815		999,985		798,010		**3,618,439**	**395,978**	3,207,847	336,605
Cross-currency interest rate swap contracts	39,460	n.a.	192,811	n.a.	57,652	n.a.	2,074,143	n.a.	**2,364,066**	**11,467**	2,346,862	21,856
Total	845,089		1,207,626		1,057,637		2,872,153		**5,982,505**	**407,445**	5,554,709	358,461
Foreign exchange contracts												
Currency forward contracts	1,403,975	n.a.	–	–	–	–	–	–	**1,403,975**	**4,409**	1,864,574	21,762
Total	1,403,975		–		–		–		**1,403,975**	**4,409**	1,864,574	21,762
Total hedging	$2,249,064		$1,207,626		$ 1,057,637		$ 2,872,153		**$ 7,386,480**	**$ 411,854**	$7,419,283	$ 380,223
Ineffective hedging												
Basis swaps	$ 17,500	n.a.	$ –	–	$ –	–	$ –	–	**$ 17,500**	**$ 3**	$ 170,800	$ –
Forward rate agreements	666,000	–	–	–	–	–	–	–	**666,000**	**26**	70,500	19
Other swap contracts	–	n.a.	–	n.a.	–	n.a.	–	n.a.	**–**	**–**	19,547	1
Total ineffective hedging	$ 683,500		$ –		$ –		$ –		**$ 683,500**	**$ 29**	$ 260,847	$ 20
Total	$2,932,564		$1,207,626		$ 1,057,637		$ 2,872,153		**$ 8,069,980**	**$ 411,883**	$7,680,130	$ 380,243

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

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Derivative Financial Instruments (continued)

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 BDC 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 foreign currencies are converted into the Canadian dollar equivalent using the rate of exchange of the derivatives contracts.

Credit risk

The notional amounts of derivative financial instruments held by BDC 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 BDC 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.

BDC 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.

BDC 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. BDC's overall exposure to credit risk on derivative instruments can change substantially within a short period since it is affected by each transaction subject to the arrangement.

Counterparty credit risk exposure	**Counterparty ratings**		
	AA- to AA+	**A to A+**	**Total**
Gross positive replacement cost	**$ 326,393**	**$ 85,490**	**$ 411,883**
Impact of master netting agreements	**(145,873)**	**(29,112)**	**(174,985)**
Replacement cost (after master netting agreements)	**180,520**	**56,378**	**236,898**
Replacement cost (after master netting agreements) – 2006	$ 185,491	$ 51,125	$ 236,616
Number of counterparties			
March 31, 2007	**5**	**2**	
March 31, 2006	7	3	

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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. BDC uses borrowing strategies and derivative instruments to continuously manage this risk with the objective of minimizing such differences.

The following table summarizes BDC's interest rate sensitivity position based on the difference between the carrying value of assets and liabilities and equity, grouped by the earlier of contractual re-pricing or maturity dates. The effective yield represents the weighted average effective yield based on the earlier of contractual re-pricing and maturity dates.

	Floating rate	Within 3 months	4 to 12 months	1 to 5 years	Over 5 years	Non rate sensitive	Allowance and fair value adjustment	2007
Assets								
Cash and cash equivalents	$ –	$ 733,696	$ –	$ –	$ –	$ 31,107	$ –	$ 764,803
Effective yield		4.29%						
Securities	–	–	50,000	25,018	–	89,248	–	164,266
Effective yield			4.34%	4.34%				
Loans, net of allowance for credit losses	6,377,800	119,654	266,167	1,436,865	641,159	286,500	(505,499)	8,622,646
Effective yield	8.54%	7.61%	7.76%	7.53%	7.20%			
Subordinate financing loans and investments	12,678	2,112	7,170	103,013	12,445	12,554	(1,682)	148,290
Effective yield	13.29%	15.05%	12.32%	12.46%	12.33%			
Venture capital investments	–	–	–	–	–	505,118	–	505,118
Derivative-related assets	–	–	–	–	–	442,368	–	442,368
Other assets	–	–	–	–	–	156,590	–	156,590
	$ 6,390,478	$ 855,462	$ 323,337	$ 1,564,896	$ 653,604	$ 1,523,485	$ (507,181)	$ 10,804,081
Liabilities and Shareholder's equity								
Short-term notes	$ –	$2,070,344	$ 606,566	$ –	$ –	$ 1,297,586	–	$ 3,974,496
Effective yield		4.19%	4.19%					
Long-term notes	–	–	–	189,824	554,509	3,509,038	–	4,253,371
Effective yield				3.87%	4.47%			
Derivative-related liabilities	–	–	–	–	–	530,302	–	530,302
Other liabilities	–	–	–	–	–	238,194	–	238,194
Shareholder's equity	–	–	–	–	–	1,807,718	–	1,807,718
	$ –	$2,070,344	$ 606,566	$ 189,824	$ 554,509	$ 7,382,838	$ –	$ 10,804,081
On-balance sheet gap 2007	**$ 6,390,478**	**$(1,214,882)**	**$ (283,229)**	**$ 1,375,072**	**$ 99,095**	**$(5,859,353)**	**$ (507,181)**	**$ –**
Off-balance sheet derivative instruments								
Position in Canadian dollars								
Receive side derivative financial instruments	$ –	$ 75,018	$ 40,000	$ 279,824	$ 554,509	$ 1,689,911	$ –	$ 2,639,262
Pay side derivative financial instruments	(130,000)	(2,328,223)	(156,021)	(25,018)	–	–	–	(2,639,262)
Total	$ (130,000)	$(2,253,205)	$ (116,021)	$ 254,806	$ 554,509	$ 1,689,911	$ –	$ –
Foreign currency								
Receive side derivative financial instruments	–	89,248	–	–	–	3,116,712	–	3,205,960
Pay side derivative financial instruments	–	(2,759,420)	(357,292)	–	–	(89,248)	–	(3,205,960)
Total	$ –	$(2,670,172)	$ (357,292)	$ –	$ –	$ 3,027,464	–	$ –
Total gap position 2007	**$ 6,260,478**	**$(6,138,259)**	**$ (756,542)**	**$ 1,629,878**	**$ 653,604**	**$(1,141,978)**	**$ (507,181)**	**$ –**
Total gap position 2006	$ 6,266,720	$(5,876,224)	$ (633,985)	$ 1,029,035	$ 474,154	$ (757,704)	$ (501,996)	$ –

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Guarantees, Contingent Liabilities and Commitments

Guarantees

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

Derivative instruments

As part of its financing operations, BDC 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 $12,206 and is included in the consolidated balance sheet under derivative-related liabilities.

Indemnifications

In the ordinary course of business, BDC enters into many contracts which contain indemnification provisions, such as purchase contracts, employment contracts, service agreements and leasing arrangements. In such contracts, BDC may indemnify counterparties to the contracts for certain aspects of BDC'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 BDC cannot reasonably estimate the maximum potential future amount that may be payable to counterparties. Historically, BDC has not made any significant payments under these indemnities.

Contingent liabilities

In 2004, representatives of BDC pensioners launched a class action claiming damages from BDC for allegedly breaching its fiduciary duty. BDC has meritorious response to these claims.

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

Commitments

Undisbursed amounts of authorized loans and subordinate financing are approximately $1,020,702 at March 31, 2007. These commitments are for an average period of 3 months ($164,023 fixed rate; $856,679 floating rate). The effective interest rates on these commitments vary from 5.7% to 16.9%. These include BDC's share of undisbursed amounts of authorized joint venture financings which is approximately $18,296 at March 31, 2007. The undisbursed amounts of authorized venture capital investments approximated $146,698 at March 31, 2007.

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

2008	$ **22,044**
2009	**21,478**
2010	**19,654**
2011	**16,072**
2012	**13,328**
2013 and later	**69,153**
	$ **161,729**

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Pension and Other Employee Future Benefits

BDC offers defined benefit plans which provide pension, post-employment and post-retirement benefits to eligible employees. The defined benefit pension plans provide benefits based on years of service and average earnings at retirement, fully indexed to the Consumer Price Index. Post-retirement benefit plans include health, dental, and life insurance coverage.

During the year, BDC announced changes to the post-retirement benefit program which will be effective for eligible employees who retire on or after January 1, 2012. The new post-retirement benefits program provides for different provisions for health, dental and life-insurance coverage. The gain of $9.7 million generated by this modification was first used to eliminate the unamortized transitional obligation in effect at July 1, 2006. The excess of the gain is being amortized over the expected average remaining service period up to the full eligibility date of the active members, which was estimated as 5 years from July 1, 2006.

BDC funds the registered pension plan in accordance with actuarially determined amounts required to satisfy employee benefit entitlements, and has begun funding the supplemental pension plans in 2006. Benefits accruing to members of the contributory component of the registered pension plan are also funded by employee contributions. The most recent actuarial valuation for funding purposes was performed at December 31, 2005 for the registered pension plan and December 31, 2006 for the supplemental pension plans. The next funding valuations will be performed at December 31, 2006 for the registered pension plan and December 31, 2007 for the supplemental pension plans. Other benefit plans are unfunded.

For 2007, total contributions to pension and other employee future benefits, consisting of cash contributed by BDC to its funded pension plans and cash payments made directly to beneficiaries for its unfunded other plans was $42 million ($41 million in 2006).

A full discussion on how BDC's pension liability and expense are determined can be found in Note 2.

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	
	2007	2006	**2007**	2006	**2007**	2006
Change in accrued benefit obligation						
Balance at beginning of year	**$ 549,087**	$ 457,473	**$ 47,300**	$ 38,587	**$ 121,420**	$ 100,205
Current service cost	**18,469**	16,981	**886**	745	**4,711**	4,514
Interest cost on benefit obligation	**29,279**	27,940	**2,484**	2,326	**6,049**	6,013
Employee contributions	**3,842**	1,889	**–**	–	**–**	–
Benefits paid	**(23,548)**	(21,365)	**(1,738)**	(1,128)	**(5,395)**	(5,496)
Past service gain	**–**	–	**–**	–	**(9,726)**	–
Actuarial loss (gain)	**5,831**	66,169	**6,261**	6,770	**(3,636)**	16,184
Balance at end of year	**582,960**	549,087	**55,193**	47,300	**113,423**	121,420
Change in fair value of plan assets						
Balance at beginning of year	**$ 531,714**	$ 481,233	**$ 2,744**	$ 2,995	**$ –**	$ –
Employee contributions	**3,842**	1,889	**–**	–	**–**	–
Employer contributions	**25,980**	16,356	**13,985**	853	**1,562**	–
Actual return on plan assets during the year	**51,926**	53,601	**196**	24	**–**	–
Benefits paid	**(23,548)**	(21,365)	**(1,738)**	(1,128)	**(1,562)**	–
Balance at end of year	**589,914**	531,714	**15,187**	2,744	**–**	–
Surplus (deficit) at end of year	**$ 6,954**	$ (17,373)	**$ (40,006)**	$ (44,556)	**$ (113,423)**	$ (121,420)
Employer contributions after measurement date	**5,708**	4,190	**9,317**	13,985	**133**	622
Unamortized transitional obligation (asset)	**(20,162)**	(33,603)	**1,349**	1,316	**–**	1,381
Unamortized past service gain	**–**	–	**–**	–	**(7,135)**	–
Unamortized net actuarial loss	**108,172**	125,427	**19,104**	13,799	**23,951**	28,909
Accrued benefit asset (liability) at end of year(1)	**$ 100,672**	$ 78,641	**$ (10,236)**	$ (15,456)	**$ (96,474)**	$ (90,508)

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

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Pension and Other Employee Future Benefits (continued)

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	
	2007	2006	**2007**	2006
Fair value of plan assets	**$ 15,187**	$ 2,744	**$ –**	$ –
Accrued benefit obligation	**55,193**	47,300	**113,423**	121,420

Pension and other post-retirement costs are included in Salaries and Benefits in Note 15 – Operating and Administrative Expenses and are as follows:

	Registered pension plan		Supplemental pension plans		Other plans	
	2007	2006	**2007**	2006	**2007**	2006
Defined benefit cost						
Current service cost	**$ 18,469**	$ 16,981	**$ 886**	$ 745	**$ 4,711**	$ 4,514
Interest cost on benefit obligation	**29,279**	27,940	**2,484**	2,326	**6,049**	6,013
Actual return on plan assets	**(51,926)**	(53,601)	**(196)**	(24)	**–**	–
Past service gain	**–**	–	**–**	–	**(9,726)**	–
Actuarial loss (gain) on benefit obligation	**5,831**	66,169	**6,261**	6,770	**(3,636)**	16,233
Costs arising in the period	**1,653**	57,489	**9,435**	9,817	**(2,602)**	26,760
Differences between costs arising in the period and costs recognized in the period in respect of:						
Return on plan assets	**14,486**	20,350	**(237)**	(76)	**–**	–
Actuarial (gain) loss	**2,769**	(61,797)	**(5,068)**	(6,194)	**4,958**	(15,856)
Difference between amortization of past service gain and past service cost	**–**	–	**–**	–	**7,135**	–
Transitional obligation (asset)	**(13,441)**	(13,441)	**(33)**	(267)	**1,381**	197
Defined benefit cost for the year ended March 31	**$ 5,467**	$ 2,601	**$ 4,097**	$ 3,280	**$ 10,872**	$ 11,101

As at December 31, the fair value of assets in BDC's registered and supplemental pension plans are as follows:

Investment type	**2007**		2006	
Cash and short-term investments	**$ 5,345**	**0.9%**	$ 7,438	1.4%
Bonds	**218,318**	**36.1%**	204,310	38.2%
Common and preferred shares	**373,128**	**61.6%**	320,962	60.1%
Other assets less liabilities	**8,310**	**1.4%**	1,748	0.3%
Net assets available for benefits	**$ 605,101**	**100.0%**	$ 534,458	100.0%

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Pension And Other Employee Future Benefits (continued)

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

	Registered pension plan		Supplemental pension plans		Other plans	
	2007	2006	**2007**	2006	**2007**	2006
Significant actuarial assumptions used to determine the accrued benefit obligations						
Discount rate at beginning of year	**5.25%**	6.00%	**5.25%**	6.00%	**5.25%**	6.00%
Discount rate at end of year	**5.25%**	5.25%	**5.25%**	5.25%	**5.25%**	5.25%
Significant actuarial assumptions used to determine the annual benefit cost						
Discount rate at beginning 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%**	7.00%	**3.50%**	3.50%	**–**	–

The average rate of compensation increase is expected to be inflation which is assumed to be 2.75% (in 2006, 2.75%) plus 0.5% for productivity gains plus an adjustment for merit and promotion.

(1) *The expected long-term rate of return on plan assets is calculated using assets valued at fair value.*

For measurement purposes, costs trends were assumed to be:

- for medical costs related to drugs
  10% in 2007 reducing by 0.67% each year to 6% in 2013 and subsequent years
  (8% in 2006 reducing by 1% each year to 5% in 2009 and subsequent years);
- for other medical costs
  5% in 2007 reducing by 1% each year to 3% in 2009 and subsequent years
  (8% in 2006 reducing by 1% each year to 5% in 2009 and subsequent years); and
- for dental costs
  6% in 2007 reducing by 1% each year to 4% in 2009 and subsequent years
  (4% in 2006).

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Pension And Other Employee Future Benefits (continued)

Sensitivity of Assumptions

The impact of changing the key weighted-average economic assumptions used in measuring the net periodic pension and other benefits cost 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				
Impact of:	1% increase	(5,349)	(62)	–
	1% decrease	5,349	62	–
Discount rate[1]				
Impact of:	1% increase	(12,736)	(739)	100
	1% decrease	16,311	865	14
Rate of compensation increase[1]				
Impact of:	0.25% increase	937	43	50
	0.25% decrease	(912)	(33)	(18)
Assumed overall health care cost trend rates				
Impact of:	1% increase	–	–	1,068
	1% decrease	–	–	(771)
on the aggregate of the service and interest cost components of the post-retirement benefits other than pension cost for the period				
Assumed overall health care cost trend rates				
Impact of:	1% increase	–	–	14,601
	1% decrease	–	–	(11,607)
on the post-retirement benefits (other than pension) accrued benefit obligation at March 31, 2007				

[1] *For other plans, excludes the impact on post-retirement benefits other than pension and post-employment benefits.*

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Related Party Transactions

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

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Comparative Financial Data

Certain comparative figures have been reclassified to conform to the presentation adopted in 2007.