2002 annual report

INNOVATION
what INNOVATION means to entrepreneurs

Canada

Business Development Bank of Canada
IN BUSINESS FOR SMALL BUSINESS

BDC

Our Mission | The Business Development Bank of Canada is a financial institution wholly owned by the Government of Canada. BDC plays a leadership role in delivering financial and consulting services to Canadian small business, with a particular focus on the technology and export sectors of the economy.

BDC's debt obligations are issued to the public and to private sector institutions and are secured by the Government of Canada.

Our Vision | Make a unique and significant contribution to the success of dynamic and innovative entrepreneurship for the benefit of all Canadians.

Our Key Services | Financial services (term loans) | Subordinate financing | Venture capital | Consulting services | BDC Connex® (financial products online).

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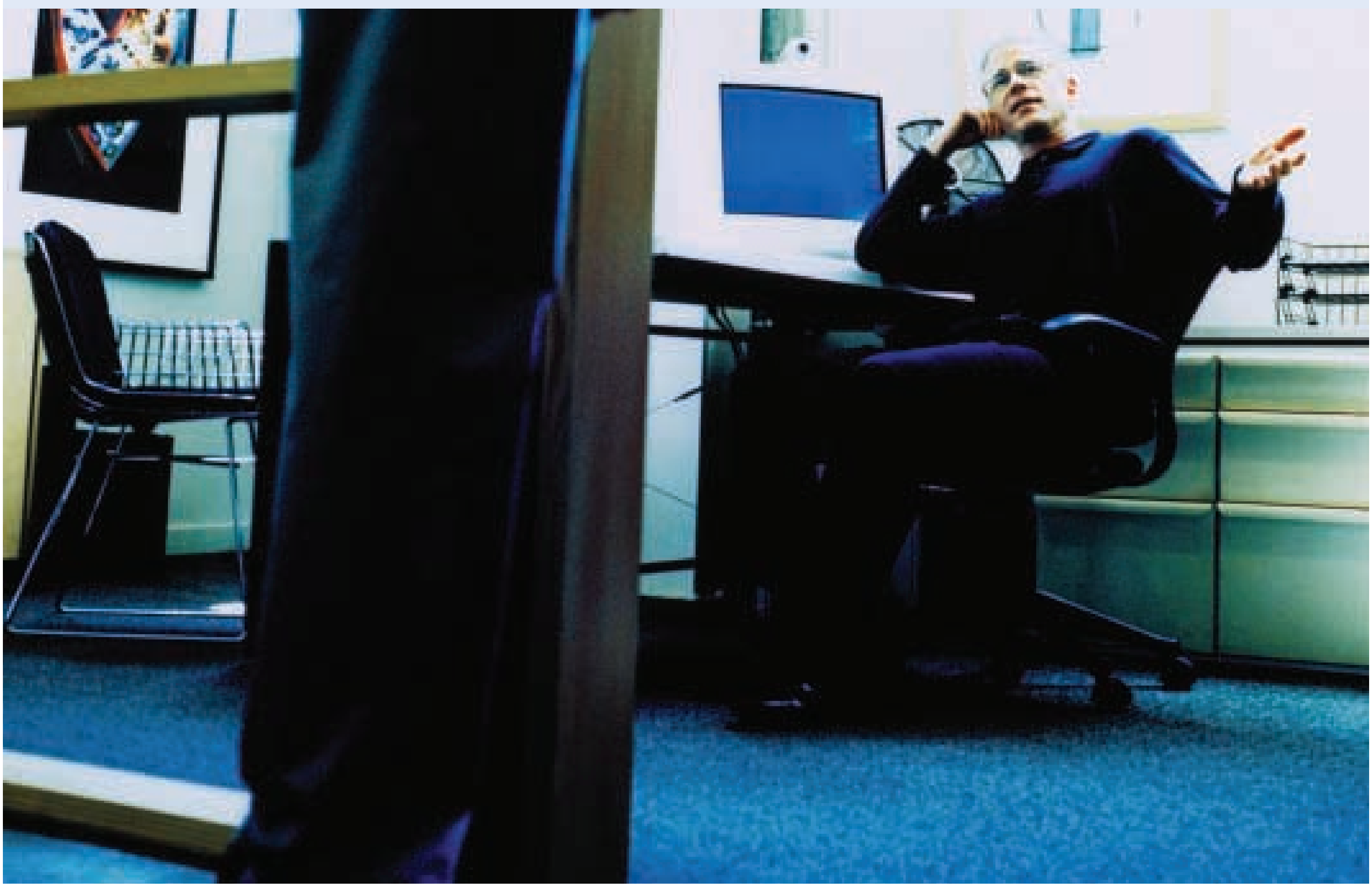
Innovation in action | When Canada's small businesses focus on innovation, we all prosper. BDC proudly supports the thousands of small businesses across the country that are turning innovative ideas into commercial success stories. We salute the entrepreneurs who are combining the talents of youth and experience to forge new paths, embrace new technologies and explore new markets. We applaud their efforts at the forefront of change. And we are solidly behind them with innovative financing solutions and dedicated service tailored to their evolving needs.

innovation means: employing **keen young minds** and **experienced talent**



innovation means: embracing **process** and **technology**

innovation means: looking systematically for **new markets** for existing products

innovation means: listening and responding to the rapidly evolving **needs of customers**

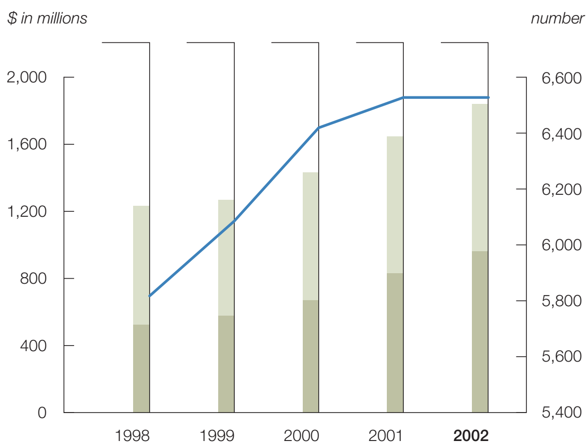
innovation means: seeking **new** and **different forms of financing**

innovation means: focussing on **rigorous marketing**

2002 Highlights

Total Financing Authorized

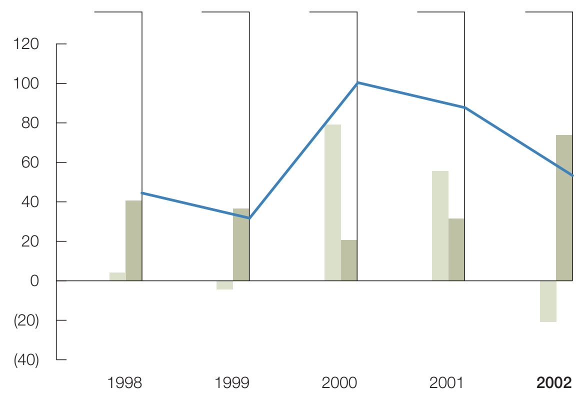
for the year ended March 31



	1998	1999	2000	2001	**2002**
KBIs and exporters (value)	528	582	672	834	**961**
Other sectors (value)	707	690	763	818	**887**
+ Total authorized (value)	1,235	1,272	1,435	1,652	**1,848**
Number	5,815	6,082	6,412	6,519	**6,519**

Net Income

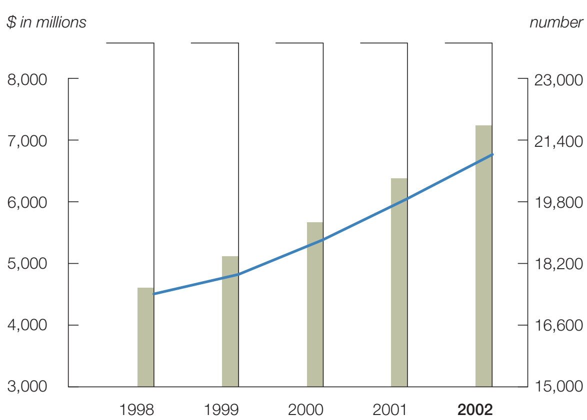
for the year ended March 31 *($ in millions)*



	1998	1999	2000	2001	**2002**
Loans and Consulting Group	41.3	36.9	21.1	32.1	**74.7**
Venture Capital	4.2	(4.1)	80.0	56.2	**(21.0)**
Total net income	45.5	32.8	101.1	88.3	**53.7**

Total Financing Committed

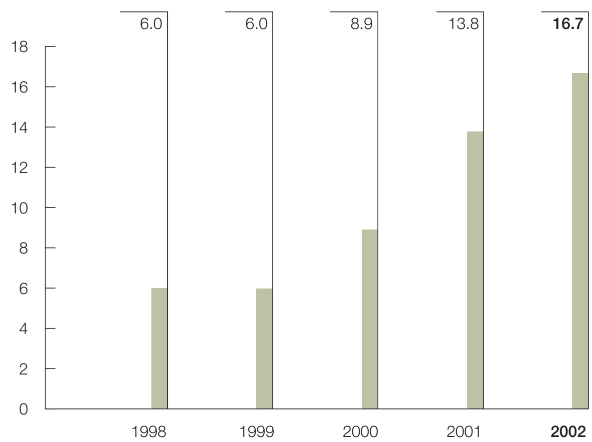
as at March 31



	1998	1999	2000	2001	**2002**
Amount	4,586	5,090	5,641	6,353	**7,202**
Number of customers	17,414	17,923	18,807	19,884	**21,016**

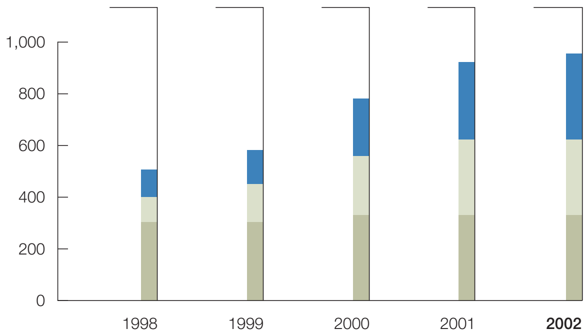
Dividend Declared

for the year ended March 31 *($ in millions)*



Total Shareholder's Equity

as at March 31 *($ in millions)*

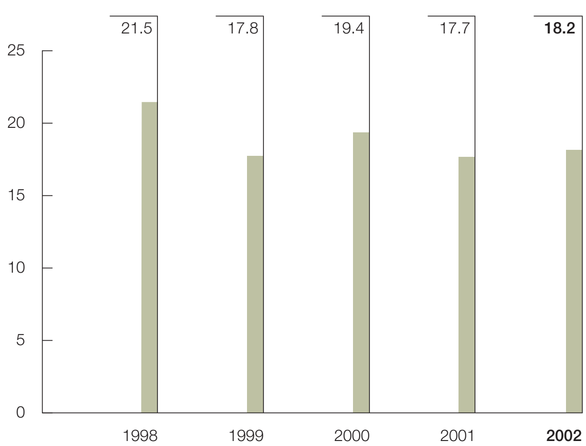


	1998	1999	2000	2001	**2002**
Common shares	303.4	303.4	331.2*	331.2*	**331.2***
Preferred shares	100.0	150.0	230.0	295.0	**295.0**
Retained earnings	103.7	130.4	222.6	297.1	**334.1**
Total shareholder's equity	507.1	583.8	783.8	923.3	**960.3**

* Includes $27.8 million of contributed surplus.

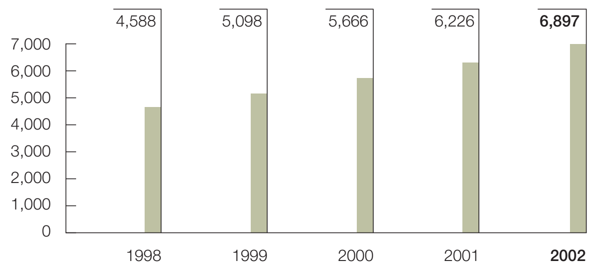
Consulting Group Revenue From Activities

for the year ended March 31 *($ in millions)*



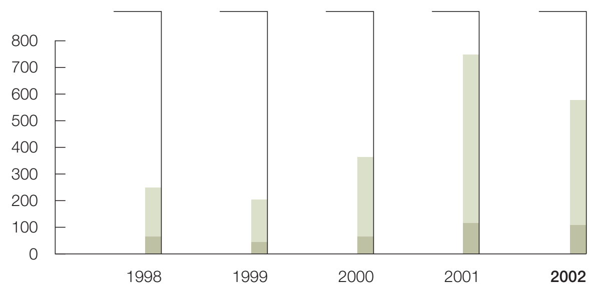
Total Assets

as at March 31 *($ in millions)*



Total Value of Venture Capital Projects Financed

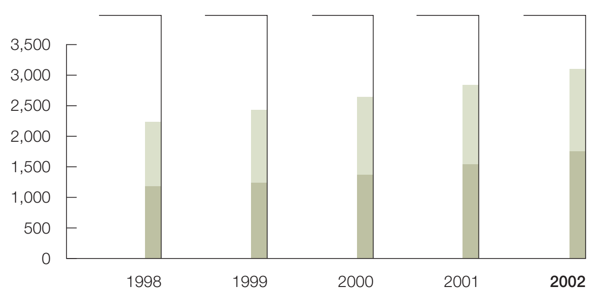
for the year ended March 31 *($ in millions)*



	1998	1999	2000	2001	**2002**
BDC venture capital authorized	63	42	63	114	**106**
Other sources of investment (estimated)	187	160	301	636	**472**
Total	250	202	364	750	**578**

Total Value of Lending Projects Financed

for the year ended March 31 *($ in millions)*



	1998	1999	2000	2001	**2002**
BDC lending authorized	1,172	1,230	1,372	1,538	**1,742**
Other sources of financing (estimated)	1,059	1,189	1,266	1,300	**1,358**
Total	2,231	2,419	2,638	2,838	**3,100**

Chairman's message

In the last year, I have had the chance to settle in as Chairman of the BDC Board and I can now more fully appreciate the important role that BDC plays in this country in making entrepreneurial dreams come true. I may be relatively new to BDC, but I am not new to banking. Based on my banking experience, I can affirm that, despite its small size in the Canadian financial landscape, BDC is extremely effective at fulfilling its mandate of serving small and medium-sized enterprises (SMEs) whose needs are not always fully met by traditional financial institutions.

The figures in this year's annual report show that BDC has grown steadily. However, growth involves more than figures. It involves providing service and taking on greater risk. It also involves serving the small loans market and showing a genuine eagerness to finance the new economy.

As proud as we are of our participation in the small loans market, we are just as proud of our continued growth in the venture capital field. In 1995, BDC committed $44 million in venture capital investments. At the end of fiscal 2002, the Bank had increased its venture capital commitment to $374 million. We now have direct investments in 145 companies, plus 85 investments through our participation in 10 other specialized funds. BDC's direct investments have produced a 26-percent return rate over 10 years—a truly outstanding performance.

An important part of the Board's role is to safeguard the Bank's resources. I am happy to report that BDC is on extremely solid financial ground. Over the last three years, the Bank has steadily increased its reserves to the point that the total now represents close to 7 percent of its loans portfolio. Even in an economic downturn, the Bank has the resources to maintain its current activity rate without turning to the Government of Canada for additional money.

The annual report shows how solid a year we had—a dividend of $16.7 million in fiscal 2002, which is $2.9 million more than in fiscal 2001. Once again, these results comply with the Treasury Board's objective that the Bank earn a return on equity at least equal to the government's long-term cost of funds.

The Board's Governance Committee has worked hard to better serve the shareholder. Refining the way the Board works has made us more effective and more responsive. We completely comply with the *Financial Administration Act* and relevant Treasury Board guidelines. The members of our outstanding Board of Directors have experience in a wide range of businesses—small, medium-sized and large. Their experience serves the Bank well. I would like to thank our Board members for their contribution, with special thanks to departing members Cindy Sprague and Ann Cheryl Denny for their work.

Personally speaking, I can tell you that BDC is a bank that grows on you. The dedication of its employees is striking. The commitment to be there for SMEs is solid. Senior managers, led by President and CEO Michel Vennat, know how to get things done. They know how to succeed.

Unlike other financial institutions, BDC has a twofold bottom line: to succeed financially while fulfilling an important public policy role. The Bank achieves high marks on both counts. It is an honour for me to serve as Chairman of the Board.

Cedric E. Ritchie
Chairman of the Board

Cedric E. Ritchie | Chairman of the Board

President's message

We are very proud of BDC's performance in an extremely challenging year. There was September 11. There was an economic slowdown. Despite the slowing economy, small and medium-sized enterprises (SMEs) continued to show good results and BDC continued to support their dreams. Unlike some other financial institutions, we did not reduce term lending, nor did we reduce our venture capital investments, believing that our responsibility to support our clients is even more important in a more challenging environment.

Our focus is our customers, and we are proud of our customer satisfaction record of 90 percent. We care. In the aftermath of September 11, BDC allowed all its eligible customers to postpone payments on principal for four months. One in three customers took us up on the offer.

But September 11 also reminded us of the need to adapt to an ever-changing, increasingly complex and competitive world. Innovation is not a cliché; it is a necessity. As a country, we must develop the reflex to look at things differently, to look beyond the obvious. Innovative thinking will lead us to greater efficiency and increased productivity. The Government of Canada's innovation initiative is crucial to Canada's economic well-being, and BDC will continue to play a key role whenever and wherever it can.

This spring, the Parliament of Canada confirmed our mandate and the relevance of our role as a complementary financial institution. During the parliamentary hearings, members of Parliament saw for themselves how far we've come since 1995, when the new BDC was created. Since 1995, the Bank has provided financing for 30,000 Canadian small businesses. Our loan commitment is now $6.8 billion—more than double what it was in 1995. Our venture capital commitment has reached $374 million, while our Consulting Group was involved in more than 5,000 projects.

We are confident we can do more and it's clear our shareholder supports that vision. In addition to renewing our mandate, the Government of Canada invested $65 million in additional capital to expand our operations in fiscal 2001. In fiscal 2002, the Bank returned a record high dividend of $16.7 million to the Government of Canada. Our net income in fiscal 2002 was over $53 million, which was very good, given the year. While the numbers reflect the steady growth in our financial services sector, it was a challenging year for many institutional investors in the venture capital market. Our final figures reflect that.

But apart from showing a profit, as a Crown corporation, we have a public policy role to play, and we do so with pride and distinction. We are prepared to take risks other financial institutions won't. We continue to support knowledge-based industries where brain power is the collateral. We believe in encouraging high-technology startups. We support young Canadians who are trying to make their mark in Canadian business. We support women entrepreneurs. We offer specialized Aboriginal banking.

Since over 40 percent of our lending customers are in rural Canada, we believe decision-making should not emanate only from head office. In this past year, we have continued to decentralize our decision-making. We believe credit decisions are sounder when made closer to our clients and we practise what we preach. In fiscal 2002, we implemented a number of structural changes, and I am delighted to report that local or regional managers now make almost 95 percent of our credit decisions.

Michel Vennat | President and Chief Executive Officer

President's message

During the past year, I have travelled throughout the country visiting our branches and our clients. I have had the opportunity to listen to our clients enthusiastically talk about their businesses and it's heart-warming. They all have a story to tell about starting up their businesses and growing with them. The more successful firms are the innovative ones. Some of their successes are included in this annual report, and they are fine examples of what SMEs can accomplish in this country. Last January, on a visit to Cape Breton, I saw what can be accomplished. Remarkably, after the closing of the coal mines and of the steel mill in Sydney, there were almost 3,000 more Cape Bretoners working than there were the year before. SMEs came through again.

We at BDC believe much more can be done. We believe innovation is not to be preached; it is to be practised. We will continue to innovate to meet the evolving financial and consulting needs of Canadian SMEs. We will continue to offer first-class customer service with our eyes set on being efficient and flexible. Over the next five years, we want to increase our loan portfolio to more than $8 billion. Above all, we want to continue being commercially responsible without ever overlooking our public policy mandate. We will continue to do so in a productive way, as is exemplified by our 48-percent productivity ratio, the best in our industry.

A final word must go to BDC's employees. If the Bank is financially successful, and if it fulfills its public policy role as well as it does, it is clear our dedicated employees make it possible. As President of BDC, I would like to thank our employees for bringing us as far as we've come.

Michel Vennat

Michel Vennat
President and Chief Executive Officer

Global corporate objectives

The following table presents BDC's global corporate objectives for fiscal 2002 and the results achieved against the planned performance objectives. These performance measures represent the main criteria against which the Bank's performance was measured during the year. The table also presents new corporate objectives for fiscal 2003, based on a balanced scorecard approach to the following components: **clients, employees, financial sustainability and efficiency.** The planned strategic priorities and measures are also presented.

fiscal 2002

Global Corporate Objectives	Results Against Objectives
Deliver first-class customer service.	**Customer satisfaction:** **Actual: 90%** **Planned: 88%**
	– BDC's success is largely defined by the strong relationships it has with small businesses across the country. – Due to the events of September 11, the Bank offered a special postponement to eligible clients, which gave them the option of postponing principal payments. This unique and successful initiative allowed BDC clients the chance to get back on their feet in an unsettled environment. To optimize efficiency of delivery and to increase value to the customer, new loan and business development processes were also implemented during the year. – These initiatives, as well as a concentrated focus on meeting the needs of the client, led to positive results in 2002.
	Employee commitment: **Actual: 75%** **Planned: 63%**
	– The employer of choice philosophy was fully integrated throughout the Bank in fiscal 2002, to both attract and retain the right talent needed to serve the small business sector. – A modest performance objective of 63% was set for employee engagement. However, the dedication of the BDC workforce improved by 12 points over the year, reaching 75%. – The rating and improvement in overall engagement signal that the Bank is well on its way to reaching its objective of becoming one of the best companies to work for in Canada.

fiscal 2003

Global Corporate Objectives	Performance Objectives and Strategic Priorities
Create a unique and valued relationship with Canadian SMEs to support their creation and accompany their growth. – This objective underscores the importance of BDC's **clients:** Canadian SMEs. The objective involves enhancing the client relationship by increasing the value the Bank provides and supporting clients in both good and difficult times.	**Customer satisfaction: 89%** **Fiscal 2003 strategic priorities** – Increase value to clients. – Fill market gaps. – Rebalance market presence and increase reach. – Support clients in difficult times.
Foster a culture of engagement, learning and growth. – The objective recognizes that BDC **employees** are the heart and soul of the organization and are the key drivers of client satisfaction. That is why the Bank has adopted the employer of choice philosophy as a major component of its human resources framework.	**Employee commitment: 65%** **Fiscal 2003 strategic priorities** – Enhance and develop leadership. – Foster open and honest communication. – Promote self-motivated life-long learning and career development. – Recognize and support employee differentiation.

"It is just this type of leadership and understanding that has compelled the Dolan family to be a customer of the Business Development Bank of Canada and its predecessors continually for the past 50 years in our various undertakings."

William Dolan
General Manager | Canada Industrial Castings Ltd.
Saint John, New Brunswick

"It is reassuring to know that a bank such as yours reacts in a positive manner to major events and that it works hand in hand with its clients."

Michel Turcot
President | Les entreprises Michel Turcot Inc.
Boucherville, Quebec

Global corporate objectives

Global Corporate Objectives / Results Against Objectives fiscal 2002

Increase level of support to Canadian SMEs.

Amount outstanding in loan portfolio:
Actual: $6.1 billion
Planned: $5.9 billion

Percentage share of new authorizations (loans and venture capital) to KBIs and exporters:
Actual: 52%
Planned: 48%

– The Bank's financing addressed the needs of thousands of Canada's small businesses this year, helping them improve their innovative and productive capacity.

– Despite an uncertain economic climate, BDC experienced a 13% increase in net loans, which grew the portfolio to $6.1 billion. The Bank's support continues to reach fast-growing, high-technology businesses involved in global markets. More than half of all financing in fiscal 2002 went to these innovators.

Transform the activities of BDC Consulting Group to respond to specific needs of SMEs and be financially sustainable.

Revenue from activities:
Actual: $18.2 million
Planned: $20 million

– Meeting the realities of today's environment, BDC Consulting Group's role was enhanced by increased delivery of innovative service offerings: the Growth Potential Assessment, Tech-Strategy, E-Business Relevancy and E-Business Readiness.

– Due to a tighter market and slowing economy, Consulting Group revenues of $18.2 million were slightly lower than planned but still in line with the previous year.

Generate a return on equity (ROE) at least equal to the government's long-term cost of funds, and sufficient profits to build up equity for future growth.

Return on equity (ROE):
Actual: 5.7%
Planned: 6.1%

Internal rate of return (IRR):	Direct investments	Total investments
Actual:	26.1%	25.6%
*Planned:	25.0%	25.0%

– Historically high returns generated in fiscal 2000 and 2001 were attributable to the strong performance of the Venture Capital Group. This year, ROE is nominally lower than planned mainly because of the loss experienced in Venture Capital operations. However, the Loan operations performed well, contributing an $80.4-million profit for the year.

– In fiscal 2002, the Bank revised the methodology for calculating IRR. The new method calculated the IRR of the investment portfolio, taking into consideration the cashflows excluding the operating expenses. Despite the difficult IPO environment, the Bank's 10-year average remains strong.

Maximize operating efficiency and cost effectiveness.

Productivity ratio (operating and administrative expenses as a percentage of net interest income):
Actual: 48%
Planned: 53%

– During the year, the Bank implemented new loan and business development processes to optimize delivery of services and increase the value provided to clients. The efficiency and flexibility brought about by the streamlining of processes promoted local market understanding and delivered positive results in terms of customer satisfaction and productivity levels.

* The Bank aims to achieve a long-term IRR of 25.0% for its investments.

Taking action

During their 1997 trip to Vietnam to adopt a child, Chantal Parent, Senior Advisor, Workforce Effectiveness, and her husband decided they had "both the power and the duty" to help address the disparities between North Americans and the Vietnamese people. On their return they took action, organizing toy and clothing drives for orphans, working on fundraising projects and sponsoring a Vietnamese teenager who has no home or family.

Global corporate objectives

Global Corporate Objectives	Performance Objectives and Strategic Priorities fiscal 2003
Be profitable to grow while fulfilling public policy mandate. – This objective covers the **financial sustainability** of the Bank to ensure that it fulfills its public policy mandate while maintaining sufficient profitability to support future growth.	**Amount outstanding in loan portfolio: $6.5 billion** **Percentage share of new financing (loans and venture capital) to KBIs and exporters: 51%** **Consulting revenues: $19 million**
	Fiscal 2003 strategic priorities – Increase financing activity through solutions that support innovation and productivity. – Transform portfolio while continuing to support traditional sectors. – Develop early-stage KBIs and fast-growing SMEs through venture capital investment and subordinate financing to stimulate Canada's innovative capacity. – Support SMEs in managing and growing their businesses through consulting services.
Generate a return on equity (ROE) at least equal to the government's long-term cost of funds.	**Return on equity (ROE): 5.5%** ***Internal rate of return (IRR):** **Direct investments: 25.0%** **Total investments: 25.0%**
	Fiscal 2003 strategic priorities – Develop early-stage KBIs and fast-growing SMEs through venture capital investment and subordinate financing to stimulate Canada's innovative capacity. – Focus on investments in smaller, high-technology companies and the commercialization of university research. – Concentrate on deals valued at $250,000 to $3 million to complement the subordinate financing offered by others. – Implement new work organization and strive for improved efficiency in Entrepreneurship Centers.
Establish effective and efficient processes that support local market understanding. – This objective ensures that the Bank strives for efficiency to support local market understanding.	**Productivity ratio: 51%**
	Fiscal 2003 strategic priorities – Enhance and streamline internal processes to enable local market understanding. – Use technology efficiently to support seamless service delivery. – Enhance integrated and portfolio risk management.

Customer satisfaction level at an all-time high of 90%

High marks for service

BDC customers gave the Bank top marks in fiscal 2002, raising our customer satisfaction level to an all-time high of 90 percent. The 2-percent increase over last year's rating is an indication that we are moving in the right direction as we refine our services to better serve Canada's small businesses.

Review of activities

Constantly evolving to meet customer needs

The Business Development Bank of Canada is a unique financial institution providing small and medium-sized businesses with high-risk financing, loans with flexible repayment terms and affordable consulting services. BDC, as one of the few providers of long-term financial support, fulfills a vital need in the marketplace by complementing the services of commercial financial institutions.

In fiscal 2002, the Bank served more than 20,000 Canadian small businesses. With its 1,200 employees and a cross-Canada network of more than 80 branches, the Bank continues to provide services tailored to the unique needs of small businesses, providing seed, development and expansion capital to support their strategic initiatives to optimize innovation and productivity.

The Bank is always attentive to its customers' needs and regularly adapts its products and management solutions to meet changing market requirements. To do so, it keeps a close watch on industry trends. Regardless of the economic situation, BDC is always there to support small business growth.

During fiscal 2002, one of BDC's top priorities was to improve its operating efficiency so that it responds better and even faster to small business needs.

To achieve this objective, throughout the last fiscal year, BDC conducted a major review of its business processes with a view to remaining closer to customers in order to identify their needs. To make its business development, loan authorization and disbursement processes faster and more efficient, the steps have been simplified. By streamlining its administrative procedures, the Bank intends to reduce loan processing time and enhance customer satisfaction. In concrete terms, this initiative will reduce loan authorization time by 50 percent and loan disbursement time by 25 percent.

In addition, the Bank has also further decentralized its decision-making, the purpose of which was to move decisional centers closer to clients. Almost 95 percent of credit decisions are now made at the regional level and take local economic conditions into account. In fact, the Bank has a high concentration of loan portfolio activities in rural areas.

This allows the Bank to be more responsive to local needs. Work organization was also restructured based on teams of account managers responsible for business development, portfolio administration and loan writing.

Moreover, over the years, the 19 BDC Entrepreneurship Centers responded to financing needs of up to $250,000.

As a result of these constant efforts, the Bank's operating efficiency has improved, as measured by its productivity ratio (which measures operating efficiency), which has improved from 60 percent in 1995 to 48 percent in 2002.

BDC is leading the way in recognizing small business needs and meeting them with customized, flexible and innovative solutions. For example, after the tragic events of September 11, the Bank offered all its clients the option of postponing their principal payments for four months starting October 1, to give them an opportunity to get back on their feet and develop plans for the future. Thirty-five percent of BDC's eligible clients across Canada took advantage of this program.

The stuff of life

When Customer Service Officer Elizabeth Humber heard about a Halifax radio station's "Stuff a Bus" campaign, she took up the challenge. To help fill as many buses as possible with non-perishable items for community food banks, Elizabeth got her local co-workers involved, organizing a contest for participants. Thanks in large part to these efforts, the campaign resulted in the "stuffing" of seven buses.

Review of activities

Customer satisfaction | Customer service has always been one of BDC's priorities. We examine with great interest the results of our annual customer satisfaction survey, since they are a good indicator of how effectively the Bank is meeting its customers' needs. In fiscal 2002, 90 percent of clients said they were satisfied with the Bank's service, an increase of 2 percent over the previous year.

A customer-focussed bank demands commitment from its employees | The success of the Bank certainly lies in the quality of its workforce, and BDC employees are showing their unwavering dedication to the organization and its customers. Through a diversity of programs that recognizes the contributions of employees, BDC continues to reinforce its commitment to being an employer of choice. A survey confirmed the dedication of our employees, whose commitment to the Bank reached 75 percent.

The Bank adheres to the philosophy that trained and motivated employees who continually invest in their personal development deliver the best customer service, which is why it has invested close to $5 million in training and created the BDC Learning Centre, an online continuing education program.

Meeting the needs of developing markets | The Bank continues to support the Aboriginal sector, women and young entrepreneurs. BDC also organizes and sponsors a wide range of activities for small business to support growth sectors in the Canadian economy.

Aboriginal Banking Services | To meet the needs of Aboriginal entrepreneurs, BDC has developed strategies for business startups, and financial products and services for innovative business. BDC will continue to work with schools, communities and other interested organizations in a joint effort to promote Aboriginal economic development.

The Aboriginal Banking team has been expanded to increase Aboriginal business activity nationwide in accordance with BDC's ongoing commitment to meet the needs of Aboriginal entrepreneurs. The team provides Aboriginal banking services. One member is responsible for the Aboriginal Business Development Fund (ABDF), which provides loans to help Aboriginal people achieve their dream of owning a business.

In a pilot project conducted in partnership with North Central Communities Futures Corporation, BDC offers peer lending to various First Nations communities in Northern Manitoba.

BDC Consulting Group helped the Membertou First Nation in Sydney, Nova Scotia, in its efforts to become the first indigenous government in North America to obtain ISO certification.

To promote entrepreneurship among young Aboriginal people and help them acquire business skills, in 2001, BDC launched a new business-based initiative: the E-Spirit Aboriginal Youth Business Plan Competition. The first year was a great success, with about 300 students representing 70 teams and 45 schools from across Canada participating. This competition is designed for Aboriginal students in grades 10 to 12. It focusses on a very important step in the process of starting a business: preparing a business plan.

More than 1,200 employees
80 branches and
20,000 small and medium-sized Canadian businesses

It all adds up

BDC's 1,200 employees in more than 80 branches across the country put their skills to work in serving over 20,000 small and medium-sized Canadian businesses. Innovation and productivity were the focus of many of the solutions and services they offered to customers.

Helping women entrepreneurs expand into world markets | Women entrepreneurs are another of BDC's target markets. Businesses owned by women constitute a fast-growing and important segment of the small business world.

To help women entrepreneurs meet new challenges in world markets, BDC has developed programs and internal committees responsible for women's business issues.

The Bank has created Bizlink teams in its branches to offer women entrepreneurs regional networking opportunities.

The Bank also founded and sponsors the first Canadian chapter of the Women Presidents' Organization (WPO), which helps women business leaders promote their companies outside their borders.

With studies showing that access to capital is still a major challenge for women entrepreneurs, BDC organized the first of a series of Financial Fitness Summits to help them increase their knowledge of financing.

In addition, BDC's Passport to Global Growth program highlights the advantages of globalization and shows entrepreneurs how to succeed in global markets.

Celebrating the entrepreneurial spirit across Canada | For 23 years, BDC has been organizing Small Business Week®, which celebrates the entrepreneurial spirit in Canada by highlighting the achievements of small business. In 2001, the main theme was *The Power of Innovation: Driving Small Business Growth,* and approximately 25,000 people participated in 300 activities organized for this week.

BDC's Young Entrepreneur Awards ceremony is one of the highlights of Small Business Week®. Year after year, this ceremony pays tribute to talented young entrepreneurs under the age of 30, selected for their initiative and achievements. The award winners are matched for a full year with prominent business leaders in their province or territory under a mentor program. The mentors give advice and help their protégés sharpen their business acumen, expand their network of contacts and meet new challenges. One of the 13 winning businesses also receives the Export Achievement Award, presented by Export Development Canada to the small business that has best opened up international markets.

Leading the way for small business | To help our customers cope with a changing economic environment, BDC Consulting Group has developed a business diagnostic tool to help entrepreneurs evaluate a company's vulnerability and develop an action plan. In about 20 towns across the country, the Consulting Group also organized discussion groups, where economists and experts in different aspects of the business world talked with more than 1,500 of the Bank's clients to help them put economic challenges into perspective and manage the impacts effectively.

Ryan Kalt, founder of NuMedia Internet, recipient of the 2001 Export Achievement Award.

"Your support, by way of postponing principal payments during this tragic time, is one that does not go unnoticed. It is for reasons like this that Indexable has chosen to deal with your institution."

Karen Maloney
Controller | Indexable Cutting Tools of Canada Ltd.
Welland, Ontario

"I wish to say how intuitive of your bank it is to recognize the possible need for assistance at this time of uncertainty and to act so quickly. We have always been impressed at the loyalty your bank demonstrates to your clients."

Judy Cornell
Co-owner | Inverness Falls Resort and War Eagle Lake Lodge
Whiteshell Provincial Park, Manitoba

Review of activities

With the help of Canadian accounting firms, the Consulting Group has developed a service to help entrepreneurs understand the federal government's tax credit program and obtain the research and development tax credits they qualify for.

Through BDC's virtual branch, BDC Connex®, small businesses can access a wide range of the Bank's financial products online. Thanks to faster and more effective technological tools, entrepreneurs can obtain the financing they need. BDC's Web site is also a comprehensive virtual library useful to new and more experienced entrepreneurs. It provides tools designed to help them assess their skills and the feasibility of their ideas.

Serving Western markets | To broaden its effectiveness and meet the needs of a greater number of small businesses across the country, BDC has developed a growth strategy for Alberta. It has expanded its network by opening two new branches in Calgary and Edmonton to serve this market better. This strategy also ensures that BDC's presence will reflect a truer picture of the Canadian economy.

Reaching out to the community | BDC continues its long-standing major social commitment through such timely, respected initiatives as Growing With You. Through this Canada-wide community program, the Bank supports local teams and sporting events for young people. By encouraging keen young athletes in such disciplines as downhill skiing, hockey, horseback riding, swimming and soccer, BDC contributes its leadership skills as it reaches out to the community.

In addition, BDC employees give their leisure time and energy to community projects and activities.

Strategic alliances | As a complementary financial institution, BDC focusses on forging strategic alliances to better serve the small business community. To date, BDC has entered into numerous strategic alliances with partners ranging from chartered banks and venture capital investment funds to government departments and Crown corporations.

BDC has ongoing alliances with the Laurentian Bank of Canada, the National Bank of Canada and the Quebec Food Processors Association, among others.

BDC Consulting Group has developed partnerships with Canada Economic Development for Quebec Regions, the Atlantic Canada Opportunities Agency (ACOA) and the Federal Economic Development Initiative for Northern Ontario (FedNor) to support its *e-strat* program, as well as with the National Research Council of Canada to support its Tech Strategy program.

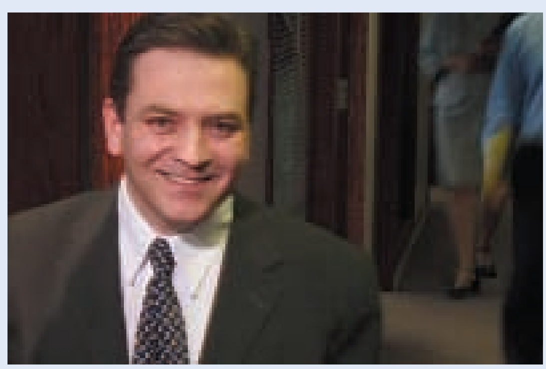
The Bank partners with Industry Canada in the Student Connection Program (SCP). This program was created to increase youth employment and provide Internet and e-commerce training at prices small businesses can afford.

In collaboration with Western Economic Diversification Canada, BDC offers financing programs for Franco-Manitoban small businesses and for those in knowledge-based industries.

BDC has a separate agreement with Farm Credit Canada to help small agri-food businesses and also partners with the ACOA, Forest Renewal BC and the National Research Council of Canada.

Rights minded

Pierre Champagne's concern for his fellow human beings reaches far beyond the borders of his Trois-Rivières community. This Branch Manager has devoted 15 years to Amnesty International, which lobbies to free prisoners of conscience throughout the world. Meeting one of the former prisoners in whose case he had been involved only strengthened his resolve. "It convinced me of the usefulness of our work," he says.



Review of activities

Committed to helping Canadian small businesses drive growth in fiscal 2002, BDC continued to provide services tailored to the unique needs of entrepreneurs with a particular focus on productivity and innovation.

The Bank served more than 20,000 Canadian small businesses. Many of the solutions and services provided are centered on productivity and innovation because if Canadian businesses are to maintain their place in the global race and contribute to the country's prosperity, this is where they need to concentrate their efforts.

Loans

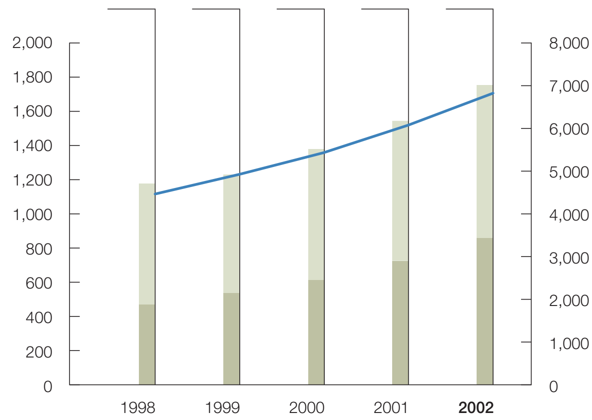
BDC loans are not of the "one size fits all" variety. The Bank's wide range of financial products is designed for every need. Entrepreneurs from the smallest micro-business to the expanding medium-sized enterprise find financing solutions that suit their requirements. BDC loans are tailored to support innovation and growth at every stage of business development.

Lending authorized reached $1,742 million in fiscal 2002, an increase of 13 percent from the previous year. Of the total increase in lending, 9 percent came from knowledge-based industries (KBIs) and the export sector, and 4 percent from other sectors. Loans authorized to KBIs and exporters increased by $135 million in fiscal 2002, from $720 million to $855 million. Total share of lending to this new economy sector was 49 percent, 2 percent higher than the previous year.

As at March 31, 2002, total lending committed had increased by more than $770 million since the previous year from $6,057 million to $6,827 million.

Total Lending Activities

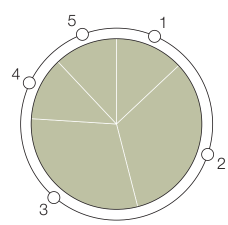
($ in millions)



	1998	1999	2000	2001	2002
Authorized to KBIs and exporters	465	540	609	720	**855**
Authorized to other sectors	707	690	763	818	**887**
Total lending authorized	1,172	1,230	1,372	1,538	**1,742**
Total lending committed	4,461	4,933	5,446	6,057	**6,827**

Distribution of Lending Customers by Geographic Area

as at March 31, 2002



1	Atlantic Provinces	13%
2	Quebec	33%
3	Ontario	30%
4	Prairies, Northwest Territories and Nunavut	12%
5	British Columbia and Yukon	12%

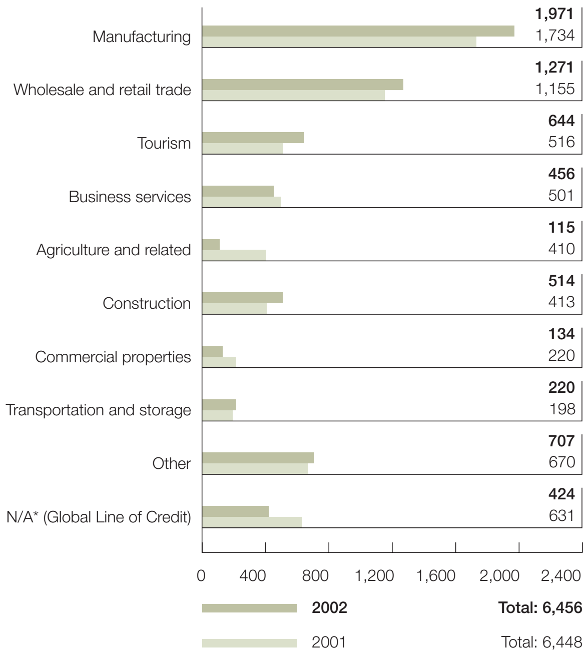
Student Business Loans

BDC has a long-standing partnership with Human Resources Development Canada (HRDC) to help students create and run a summer business through the Student Business Loans program. Financed by HRDC and administered by BDC, the program provides interest-free loans to full-time students aged 15 and over. Thanks to this program, many young people can learn the rudiments of operating a business and start training to become Canada's future entrepreneurs.

Review of activities

Lending Authorized — Classification by Industry

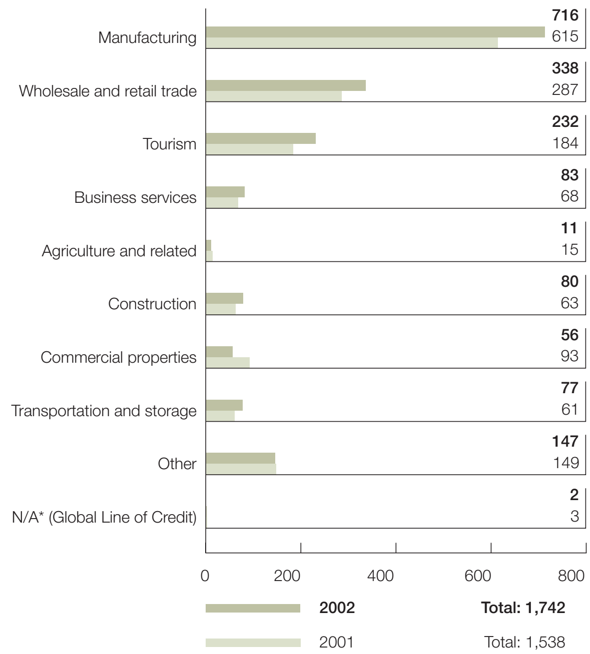
for the year ended March 31 *(in numbers)*



* Not available by industry

Lending Authorized — Classification by Industry

for the year ended March 31 *($ in millions)*



* Not available by industry

Committed to Lending Customers — Classification by Province or Territory

as at March 31

	2002 Number of customers	2002 Amount ($ in millions)	2001 Number of customers	2001 Amount ($ in millions)
Newfoundland and Labrador	**977**	**240**	916	202
Prince Edward Island	**157**	**45**	157	49
Nova Scotia	**636**	**141**	618	127
New Brunswick	**901**	**256**	902	232
Quebec	**7,037**	**2,739**	6,564	2,472
Ontario	**6,234**	**2,114**	5,624	1,742
Manitoba	**496**	**107**	502	103
Saskatchewan	**553**	**117**	576	116
Alberta	**1,334**	**412**	1,249	356
Northwest Territories and Nunavut	**75**	**29**	84	30
British Columbia	**2,360**	**604**	2,442	601
Yukon	**101**	**23**	119	27
Total	**20,861**	**6,827**	19,753	6,057

A family affair

Serving meals to the homeless at Toronto's Good Shepherd Centre is a family affair for François Viau and his wife, children and in-laws. It's one of the many volunteer jobs they do through the Saint-Louis-de-France parish and other charities such as Saint-Vincent-de-Paul. "It's good, particularly for my children, to be exposed to others who are not as fortunate in life," says François, Manager, BDC Consulting Group.

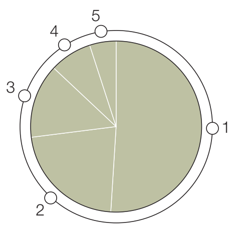
Review of activities

Responding to the needs of smaller businesses

BDC has an unwavering commitment to small business, and this is certainly evident in the results for fiscal 2002. The volume of lending authorized increased by 13 percent to over $1.7 billion this past year. Including the Global Line of Credit®, 73 percent of the Bank's lending transactions were for sums of $250,000 or less—and more than half were for $100,000 or less.

Lending Authorized — Classification by Size

for the year ended March 31, 2002



1	$100,000 or less	51%
2	Over $100,000 to $250,000	22%
3	Over $250,000 to $500,000	14%
4	Over $500,000 to $1,000,000	8%
5	Over $1,000,000	5%

Productivity Plus Loan | To reinforce its role in helping small businesses drive productivity, the Bank stepped up efforts to promote its Productivity Plus Loan, which is designed to help sound, export-focussed manufacturing companies obtain technology-enhanced equipment. Along with 100-percent financing to purchase equipment and tooling, a small business can receive a further 25 percent for costs related to installing and assembling the equipment and training employees to use it. Loans typically range from $50,000 to $5 million. In fiscal 2002, BDC provided close to 250 such loans for a total of $85 million.

Innovation Financing | BDC introduced Innovation Financing in fiscal 2000 for entrepreneurs looking to stimulate growth, finance R&D costs, expand into new export markets or adopt quality management solutions. This product provides financing of up to $250,000 for working capital purposes. In fiscal 2002, BDC provided more than 430 such loans, a substantial increase of more than 100 loans over last year, for a total of $48 million.

Entrepreneurship Centers | Very small businesses turn to BDC Entrepreneurship Centers for financing solutions. The centers cater exclusively to the unique needs of micro-business entrepreneurs, providing loans of up to $250,000.

To enhance service to these small businesses, BDC has expanded its network of Entrepreneurship Centers. BDC's 19 centers, which focus on startup and growing companies particularly in the knowledge-based and manufacturing sectors, saw strong growth activity. Compared to the previous year, lending volume through the centers rose by 70 percent from $58 million to $99 million in fiscal 2002.

Working in tandem with the Entrepreneurship Centers, BDC Consulting Group continued to provide sound advice to young entrepreneurs and micro-business clients to help them succeed. The Group's services are highly pertinent, since most failures among startups and young businesses occur due to a lack of efficient management practices.

Budding entrepreneurs

A new BDC initiative, the E-Spirit Aboriginal Youth Business Plan Competition, gave Aboriginal youth from 45 Canadian high schools a feel for business. Working with Aboriginal business mentors, and using a computer donated to each school, 70 teams developed detailed business plan proposals. Top honours went to After Shock, a used CD and music store, proposed by Dover Bay Secondary School in Nanaimo, British Columbia.

The growing Aboriginal market | BDC continued to contribute in the Aboriginal market through its Aboriginal Banking Unit. As at March 31, 2002, total lending committed to support Aboriginal business, at $40 million, represented an increase of over 55 percent from five years ago.

Growth in women-owned businesses | Women entrepreneurs are another BDC target market. The Bank recognizes that women-owned firms constitute a fast-growing and important segment of the small business world. In fiscal 2002, BDC made more than 1,300 lending transactions to women-owned businesses for a total amount of nearly $300 million. In fact, as at March 31, 2002, total lending committed to women entrepreneurs reached over $1.1 billion, a 12-percent increase from a year ago. The Bank will continue to work with women entrepreneurs, who are a driving force in the Canadian economy both as business owners and as employers.

As an integral part of its lending strategy, BDC provides micro-businesses financial support through products such as the Micro Business Program and the Young Entrepreneur Financing Program. As well, Student Business Loans and the Global Line of Credit® are both available online through BDC Connex®, the Bank's virtual branch.

e-business at the top of the Bank's agenda | e-business has become a priority for the Bank, particularly because the Internet can dramatically improve productivity in the small business realm. On the small business customer front, BDC held conferences with thousands of entrepreneurs to increase awareness of e-business. BDC Connex® uses the Web as a business channel and continues to be a popular choice with customers.

Subordinate financing

Subordinate financing combines features from debt financing and equity financing. This hybrid product helps businesses beyond the startup phase that need support to grow their business. These loans are fully subordinated to senior claims of other lenders.

The Bank complements the small number of lenders in this market by focussing its attention on fast-growing, innovative exporters, mainly in the manufacturing sector, whose financial needs cannot be met by traditional financing solutions. BDC concentrates more on smaller first-round financing than does the rest of the industry and provides terms and conditions based on the specific needs of the business.

Banking on women entrepreneurs

BDC moved women's business issues higher on the agenda in fiscal 2002. The Bank became a founding sponsor of the first Canadian chapter of the Women Presidents' Organization (WPO). It introduced programs designed to help women move their businesses into global markets and enhance their financial acumen. And it established teams that link women entrepreneurs and support their efforts to expand their businesses.

Review of activities

In addition, the Innovation Financing solution, providing loans of up to $250,000, is designed to help innovative businesses take advantage of new markets and technologies available to today's global players. This loan helps businesses adapt to ever-changing rules, develop innovation strategies and invent new products to improve their chances of success. Including innovation loans, BDC authorized more than 500 transactions, totalling $104 million in subordinate financing in fiscal 2002.

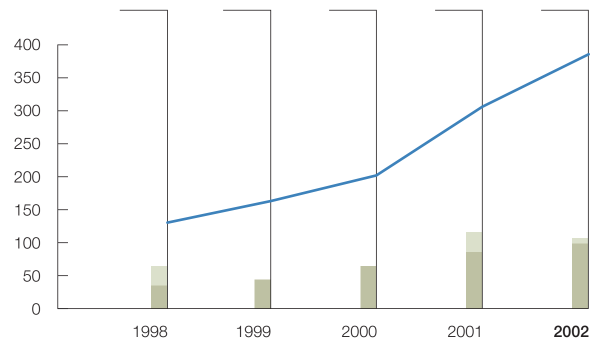
Venture capital

BDC's Venture Capital Group gets in on the ground floor by funding new ventures with the potential to become dominant players, particularly in the high-tech field. The Bank supports new ventures in sectors such as medical technologies, telecommunications, e-commerce, software, electronics and energy for funding at the very early stages of development.

The Bank's venture capital activities in fiscal 2002 represented a record year. BDC's venture capital commitment at year-end totalled $374 million, compared to $296 million in the previous year—an increase of 26 percent. To enhance clients' access to venture capital and to provide additional network expertise, BDC also partners with co-investors. In fiscal 2002, investee companies received an estimated additional $472 million from other investors, for a total of $578 million.

Venture Capital Activities

for the year ended March 31 *($ in millions)*



	1998	1999	2000	2001	2002
Direct investments authorized	33	42	63	84	**98**
Venture funds authorized	30	0	0	30	**8**
+ Total authorized	63	42	63	114	**106**
Total commitment as at March 31	125	157	195	296	**374**

BDC continues to actively invest in KBIs in the early stages of growth from seed through expansion. During fiscal 2002, the Bank authorized 63 venture capital investments for a total of $106 million. As well, as at March 31, 2002, 99 percent of the Bank's venture capital commitment was directed to KBIs, largely in the biotechnology, medical, health, electronics, communications and computer-related industries.

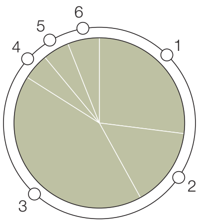
Close to the source

Who at BDC knows a region's entrepreneurs and their needs better than the employees who live and work there? That's why we're putting decision-making where it belongs—close to the customer. Almost 95 percent of the Bank's credit decisions are made at the local level, guaranteeing an in-depth understanding of area economic realities.

Almost 95% of the Bank's credit decisions are made at the local level

Venture Capital Customers — Classification by Industry

as at March 31, 2002

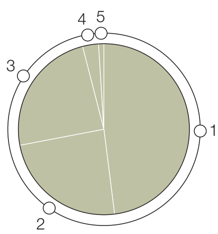


1	Biotechnology / medical / health	27%
2	Electronics	15%
3	Communications and computer-related	42%
4	Industrial	5%
5	Other industries	5%
6	Venture funds	6%

In fiscal 2002, 72 percent of BDC's venture capital investments authorized were directed to companies in the seed, startup or development stage. This reflects the Bank's commitment to financing highly promising, early-stage or exponential growth companies.

Number of Venture Capital Investments Authorized
Classification by Stage of Development

for the year ended March 31, 2002



1	Startup / seed	48%
2	Development	24%
3	Expansion	24%
4	Turnaround	3%
5	Venture funds	1%

BDC Consulting Group

Through its national network of private sector consultants, BDC Consulting Group helps entrepreneurs assess, plan and implement winning and innovative solutions, especially in the areas of growth, quality, export and e-business.

BDC Consulting Group continued to meet the changing needs of Canadian small businesses in fiscal 2002 by developing and providing practical and affordable consulting services that help drive productivity and growth.

Last year, the Group with its 110 employees and its national network of some 350 independent consultants was involved in more than 5,000 projects. The Group's revenues in fiscal 2002 were $18.2 million. This represents a slight increase over last year.

Revenues from the Group's growth line of business accounted for 48 percent of these revenues, while quality management revenues represented 27 percent, exporting 4 percent, e-business 4 percent and other areas 17 percent. Figures for fiscal 2002 also show that BDC Consulting Group's repeat business reached 39 percent, compared to 34 percent in fiscal 2001. This reflects a high level of customer satisfaction, 81 percent, with the quality and pertinence of the Group's services.

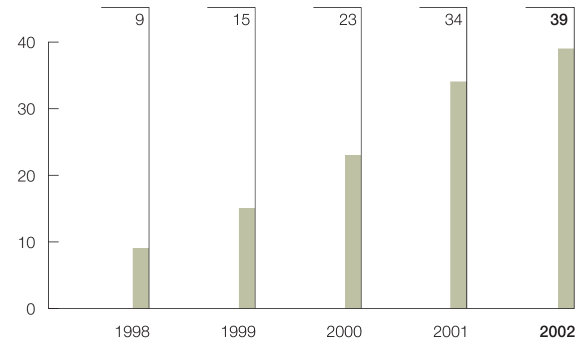
“*Your offer to postpone principal payments for the period of four months is an admirable gesture and you should be recognized for this.*”

Andrew Nielsen-Pich
President and Chief Executive Officer | Woodstone Country Inn
Galiano Island, British Columbia

Review of activities

Consulting Group Repeat Business

for the year ended March 31 *(percentage)*



Growth | The Group's Growth Potential Assessment, or GPA, which gives owners an overview of their business strengths, weaknesses and potential for growth in a variety of areas, including productivity-related issues, has proven to be one of the Group's most popular services.

Quality | The Group continued to provide consulting services to improve quality and ultimately help companies compete for international contracts. To date, BDC Consulting Group has provided these services to more than 1,000 companies that have become ISO certified. Adoption of the ISO 9000:2000 standard in January 2001 quickly led the Group to offer a new, related service. Complementary to that service are the Group's HACCP quality solution for the agri-food sector and the ISO 14000 solution for environmental concerns.

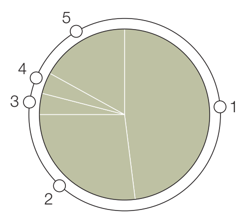
Exports | In addition to offering its New Exporter Program (NEXPRO) and market study services, the Group reinvigorated its export line by signing a new agreement with the Forum for International Trade Training (FITT). The agreement allows the Bank to use and adapt FITT's new export training program for BDC customers.

e-business | With e-business rapidly redefining the way business is conducted, BDC Consulting Group made e-business an objective in fiscal 2002. The Group introduced an *e-strat* program designed to help entrepreneurs devise sound e-strategies. In addition, it developed e-business readiness and relevance diagnostic tools on the BDC Web site, allowing entrepreneurs to do their own online e-business diagnoses.

The Group continued to respond to client needs with a new, decentralized structure that emphasizes the development of new products and services at the local level, a hallmark of the Group.

Consulting Group Revenue by Activity

for the year ended March 31, 2002



1	Growth	48%
2	Quality	27%
3	Exporting	4%
4	e-business	4%
5	Other	17%

Beyond soccer mom

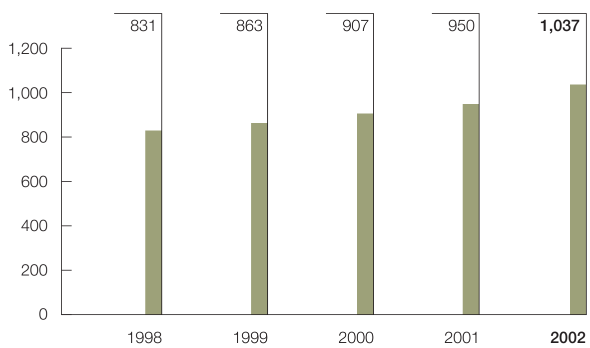
Edmonton's Consulting Group Manager Melodie Woods plays more than the role of soccer mom in her community of Ponoka. She's involved as the coach of her son's soccer team and as a hockey coach heading up a co-ed team that includes her daughter. "It's all about teaching life skills and building self-confidence in kids," she says. "I enjoy influencing these skills and attitudes through coaching."

Excellent performance in the tourism sector

Tourism continues to be the third-largest sector in BDC lending activity. In fiscal 2002, the Bank authorized loans totalling $232 million to tourism businesses. As at March 31, 2002, total commitments to this industry had reached $1,037 million, an $87-million increase from a year ago. Tourism is one of the fastest growing industries in Canada and around the world. As this industry has become more sophisticated and innovative, BDC has adapted its Tourism Investment Fund to respond to these changes.

Total Lending Committed to Tourism Industry

as at March 31 *($ in millions)*



Close to $5 million in the development and training of our personnel

On the leading edge

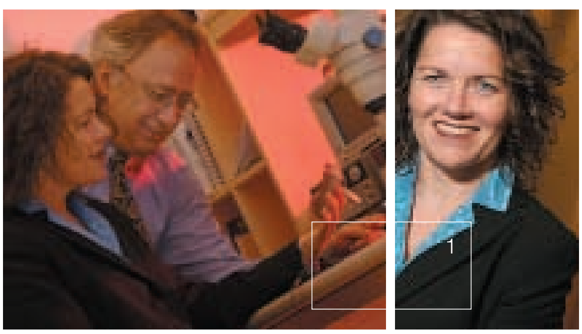
BDC employees possess the leading-edge skills needed to drive the growth of Canada's small businesses. And the Bank tangibly supports employee efforts to continually update these skills. In fiscal 2002, we invested close to $5 million in the development and training of our personnel.

BDC employees

BDC customers rely on the expertise and assistance of our employees to drive their innovation and growth. And employees consistently deliver, forging customer relationships that produce results. By combining commitment to customer needs with leading-edge skills, they help Canadian entrepreneurs expand their businesses and grow.

1 **Brenda Irwin** | Director
Venture Capital, Vancouver and
Pierre Leduc | CEO
NeuroStream Technologies Inc.

Brenda Irwin combines the strong people and organizational skills she gained as a science teacher with a business and marketing background to help startup companies move beyond academia into the world of business. One such company is NeuroStream Technologies, which has grown from an academic research program at Simon Fraser University only two years ago, to a BDC venture-financed company of which she is a board member. Brenda has assisted in refining business strategy, putting critical internal systems in place and focussing support to advance the technology for an integrated neurostimulation system.

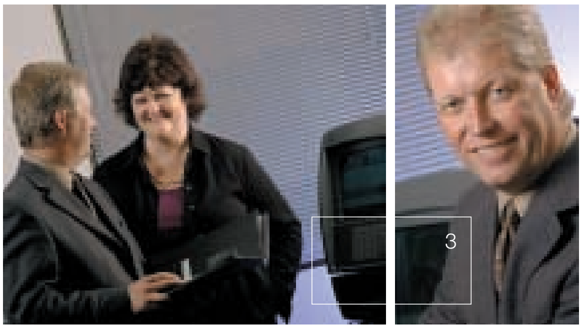


2 **Craig Levangie** | Area Branch Manager
Edmonton and
James Keirstead | One of the owners of
Blue Falls Manufacturing Ltd.

If Craig Levangie and his staff at the Edmonton Branch hear that a small business is expanding, they take the opportunity to check it out. This approach led to a successful relationship between BDC and Blue Falls, the manufacturer of the high-quality Arctic Spa. “They were surprised that we called them,” says Craig. An initial BDC loan enabled the business to build a new state-of-the-art plant. Two subsequent loans have helped the company expand and grow to the point where sales have more than tripled since 1999 with the spas being sold throughout Canada, the U.S. and Europe.

Giving something back

A breast cancer survivor herself, Goretty Tavares, Customer Service Officer with the Victoria Branch, is giving something back as a volunteer with the Reach to Recovery Program. She provides support through the British Columbia Breast Cancer Visitor Program, which matches breast cancer survivors with patients currently undergoing similar treatments or just recently diagnosed.

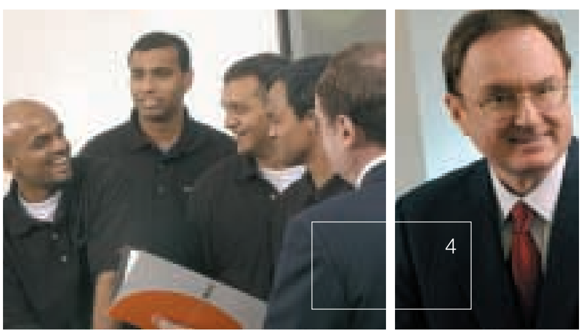


3 **Jeff Hill** | Manager
Subordinate Financing, London and
Kyle MacDonald | CEO
Phoenix Interactive Design Inc.

With knowledge of Phoenix Interactive Design Inc. that predated his career at BDC, Jeff Hill was able to see the company's potential for foreign expansion. "This was a smaller company dealing with very large global leaders," says Jeff of the producer of sophisticated software for ATM systems worldwide. Phoenix managers were looking for additional capital to take advantage of a timely opportunity in the market and they turned to Jeff, who helped them secure BDC financing based on his confidence in both their product and their management team.

4 **Joseph Rocke** | Partner
BDC Consulting Group, North York and
Mohan Markandaier | Director of Sales and Marketing
Pulse Software and Consulting Inc.

When four young Toronto entrepreneurs found the market was missing a cost-effective solution for interactive voice response and computer telephony integration, they formed their own company—Pulse Software and Consulting. They turned to Joseph Rocke of BDC Consulting Group to help develop a strategic plan. As a direct result of his assistance, and fueled by a subsequent BDC Working Capital loan, the company grew from eight employees to 25 today and is still growing. "Thousands of Canadian business owners and managers have become more competitive and more profitable via BDC consulting services," says Joseph. "We offer some of the top management consultants in Canada."

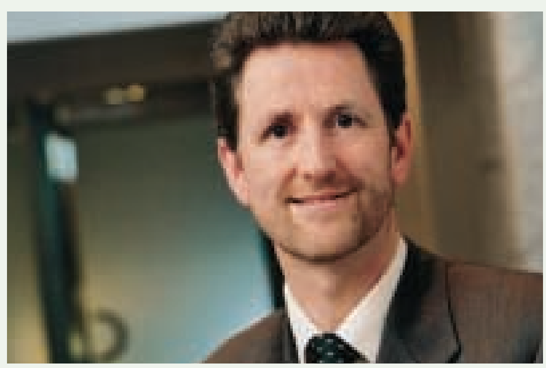


5 **Rachel Allen** | Account Manager
Entrepreneurship Center, Saint-Laurent with
Riad Haffar | President and Ziad Homsy | Vice-President
FluoroSeal Specialty Valves

When her clients call to say they need her, Rachel Allen gets to them as quickly as she can. FluoroSeal is a case in point. "I can get there in 10 minutes," she says. "I believe in being proactive when it comes to their evolving needs and in finding effective solutions to their problems." FluoroSeal, which manufactures specialty valves, started up in 2000 with support from BDC and has since received financing to purchase additional equipment that helped grow the business, leading to a tripling of its sales in its second year of operation.

Scouting adventurer

Richard Morris, Vice-President, Audit, Inspection and Risk Integration, is President of the Quebec Council for Scouts Canada and the proud father of two recipients of the Chief Scout Award. An essential part of his role is helping leaders throughout the province deliver programs that are relevant and interesting to today's youth. "Scouting combines education, leadership opportunities and community involvement," says Richard.

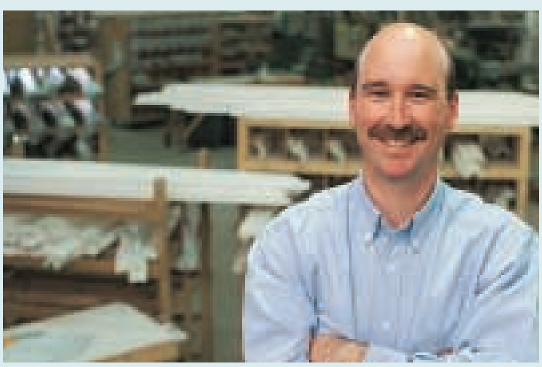


What does innovation mean to the Atlantic provinces

Atlantic Windows
A window on new markets

Atlantic Windows is a world-class manufacturer of vinyl windows and door systems and one of the fastest growing companies in Atlantic Canada today.

"Quality drives our business, and we have never deviated from that philosophy since our inception. In the past four years, we've seen over 90-percent growth in revenues, and a large part of that is linked to our ability to combine traditional craftsmanship and technology to produce some of the best window and door products in North America. When we had to find innovative ways to automate our production line to meet skyrocketing demands, BDC came through with unique financing options. The Bank's Consulting Group has also helped us achieve ISO 9001:2000 certification, which means our company can leverage world manufacturing quality standards."



Rob Miller | CEO
Atlantic Windows | Port Elgin, New Brunswick

It means breaking new ground
with fresh ideas...

Membertou Band
Making history

The **Membertou Band** provides its members with programs and services related to education, social security, health, economic development, human resources and justice. It is the first indigenous government in Canada to become ISO certified.

"We're always on the lookout for business opportunities with progressively minded companies. Whether it's tourism, construction or the food service sector, our partners must share our commitment to the principles of conservation, sustainability and innovation. And now that we've achieved ISO 9001:2000 compliance with the help of BDC's Consulting Group, we've become credible players in the global market economy and a role model for good governance in indigenous nations. Today, the success of our Band is concrete proof that by rolling up your sleeves, you can overcome any obstacles and win."

Eric Christmas | Director of Corporate Affairs
Membertou Band | Sydney, Nova Scotia

What does innovation mean to the Atlantic provinces

Today, the Atlantic provinces are shifting from more traditional sectors such as the fisheries sector to newer high-growth areas that make up the digital economy. Throughout the region, small businesses are exploring new avenues in e-business for more remote communities. As well, New Brunswick has created a solid telecommunications infrastructure for hundreds of companies by becoming the call centre capital of North America, an industry that employs more than 10,000 people in the province.

This intense business activity combined with a rapidly growing oil and natural gas industry is driving further growth in key areas such as construction, transportation and manufacturing. Today, BDC is helping these promising small businesses prosper by offering innovative financial products and services.

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

*Location of Entrepreneurship Centers

1. **Simon Larade,** Manager, BDC Consulting Group, Moncton, and Rob Miller, CEO, Atlantic Windows.

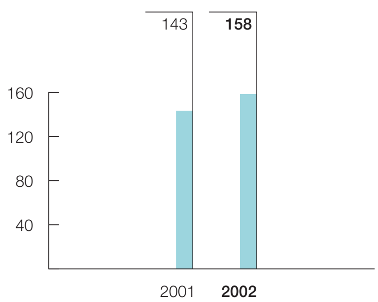
2. Quality manufacturing drives Atlantic Windows' growth.

Taking the plunge

With BDC's support, some 200 swimmers under the age of 10 came together to compete in the annual Future League Festival of Halifax. The league's participating boys and girls put in long hours in the water perfecting their competitive swimming techniques as they prepared for the big day.

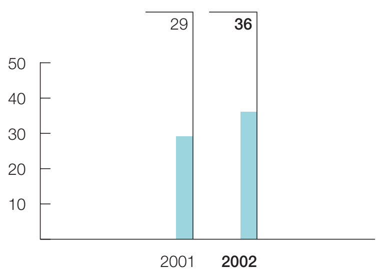
Lending Authorized

for the year ended March 31 *($ in millions)*



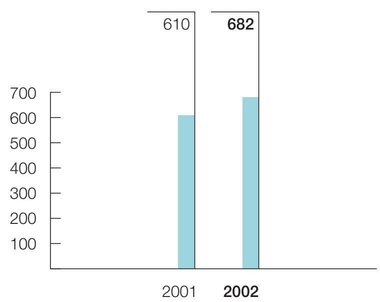
Share of Lending Authorized to KBIs and Exporters

for the year ended March 31 *(percentage)*



Commitment to Lending Customers

as at March 31 *($ in millions)*



Lending Authorized — Classification by Province

for the year ended March 31

	2002 Number	**2002** Net amount ($000)	2001 Number	2001 Net amount ($000)
Newfoundland and Labrador	**287**	**$ 65,749**	250	$ 48,628
Prince Edward Island	**25**	**4,157**	31	8,480
Nova Scotia	**140**	**31,937**	166	30,896
New Brunswick	**196**	**56,177**	212	54,730
Total	**648**	**$ 158,020**	659	$ 142,734
Share of lending authorized to KBIs and exporters		**36%**		29%

Commitment to Lending Customers — Classification by Province

as at March 31

	2002 Number of customers	**2002** Amount ($000)	2001 Number of customers	2001 Amount ($000)
Newfoundland and Labrador	**977**	**$ 240,214**	916	$ 201,943
Prince Edward Island	**157**	**45,084**	157	48,619
Nova Scotia	**636**	**140,930**	618	127,358
New Brunswick	**901**	**255,825**	902	232,111
Total	**2,671**	**$ 682,053**	2,593	$ 610,031

Consulting Group

for the year ended March 31

	2002	2001
Revenue ($000)	**$ 1,502**	$ 1,454
Projects (number)	**474**	549

1. Membertou Band is a progressive indigenous government.

2. **Holly Boston,** Manager, BDC Consulting Group, Halifax, and Eric Christmas, Director of Corporate Affairs, Membertou Band.

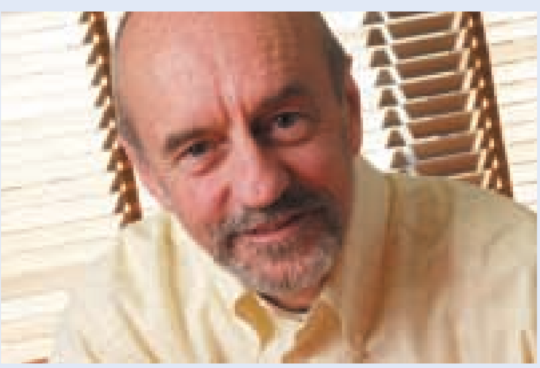
What does innovation mean to Quebec

Groupe Chlorophylle/L'Aventurier/Guide Aventure

An adventure in exporting

Groupe Chlorophylle/L'Aventurier/Guide Aventure designs, manufactures and sells one of Canada's most popular high-performance clothing and gear lines. The company also markets adventure travel and training.

"With subordinate financing from BDC, we were able to expand our chain of stores and capitalize on the exponential growth in the outdoor clothing segment. And now that the Bank is on board, we're also establishing footholds in the Japanese market, which represents millions of possible customers for us. Certainly what attracted Asian interest in our business was our meticulous attention to both design and functionality. That's where we've always innovated and that's how we've stayed ahead in the race. We're now very confident and ready to further expand into the U.S. and Europe."



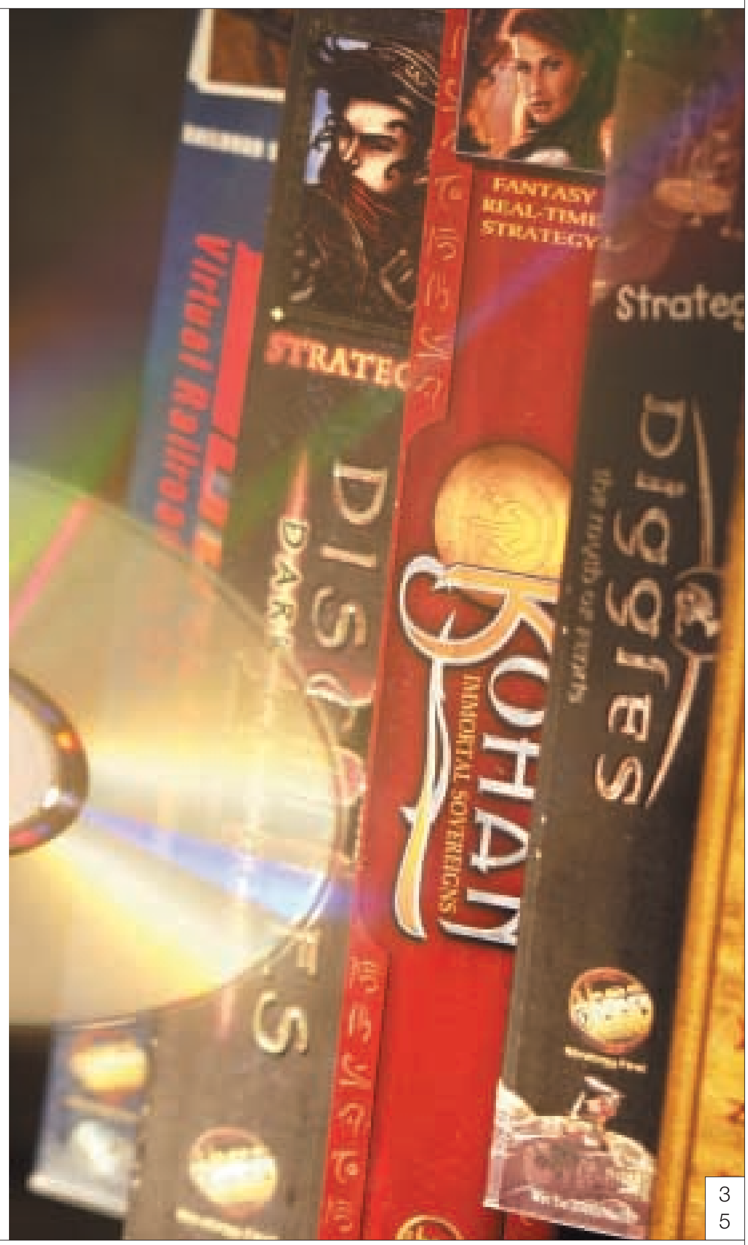
Gilles Couët | President
Groupe Chlorophylle/L'Aventurier/Guide Aventure | Chicoutimi, Quebec

It means tackling new and exciting opportunities with enormous potential...

Strategy First Inc.
Marketing is the name of the game

Strategy First Inc. is a leading Canadian developer and worldwide publisher of entertainment software. Today, the company ranks sixth in the North American gaming market.

"BDC's venture capital has enabled Strategy First to grow into the company that it is today. Although our industry is fiercely competitive, the Bank has always recognized our potential, helping us break new ground and become a leader in the worldwide market. With our experience as an independent developer, we have built a strong third-party publishing division that has made us the gateway for European companies looking to market their games in North America. This new business model has had a tremendous effect on our overall revenue. Over 1,000-percent growth in the past two years is a clear indication that Strategy First's future is bright!"



Don McFatridge | President
Strategy First Inc. | Montreal, Quebec

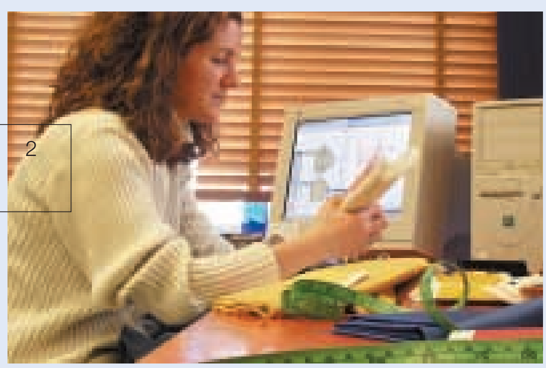
What does innovation mean to Quebec

Quebec's rapidly growing interactive entertainment industry, valued at $16 billion on a global scale, is making headlines. With its talented and creative workforce, Quebec is home to hundreds of small businesses that develop and sell "edu-tainment" products, console games and unique interactive software.

Another bustling business in the news is the biophamaceutical/ biotechnology sector, which is driving a surge of medical breakthroughs in diagnostics, preventive medicine and therapeutics. To help these innovative entrepreneurs excel, BDC provides sound strategic counselling and customized financing that drive growth and productivity.

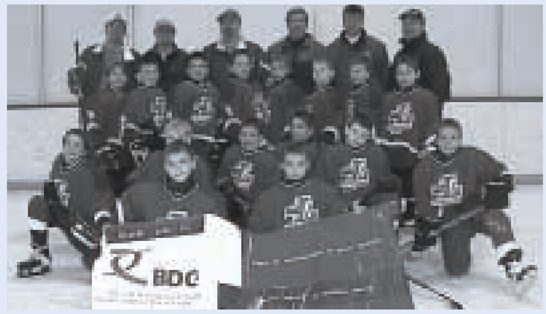
Management	Branches	
Alain Gilbert Vice-President and Area Manager, Eastern Quebec	Chicoutimi Quebec*	Rimouski Trois-Rivières
Guy Gervais Vice-President and Area Manager, Southern Quebec	Drummondville Granby	Longueuil* Sherbrooke
Gilles Lapierre Vice-President and Area Manager, Laval	Laval* Saint-Jérôme	Thérèse-de-Blainville
Michel Crête Vice-President and Area Manager, Montreal	De Maisonneuve Place Ville Marie*	Saint-Léonard
Patrice Bernard Vice-President and Area Manager, Western Quebec	Hull Pointe-Claire	Rouyn-Noranda Saint-Laurent*

*Location of Entrepreneurship Centers



1. **Richard Belley,** Senior Manager, Loans, Chicoutimi, and Gilles Couët, President, Groupe Chlorophylle/ L'Aventurier/ Guide Aventure.

2. Fabric and colour make up the Chlorophylle brand.

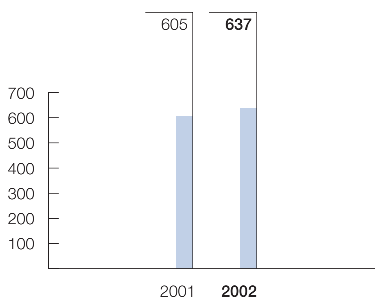


Spirit on ice

It takes spirit and grit to make it to the hockey finals and Quebec's Lakeshore Novice A Tigers demonstrated that's just what they have when they finished first in the A division of the 19th Buckingham Provincial Novice Tournament in December 2001. BDC proudly supported the team with a cash sponsorship and T-shirts, caps and badges.

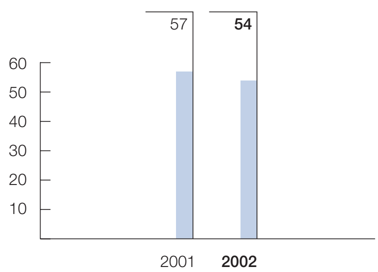
Lending Authorized

for the year ended March 31 *($ in millions)*



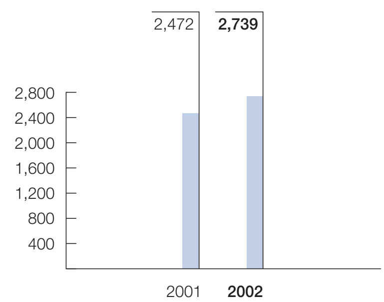
Share of Lending Authorized to KBIs and Exporters

for the year ended March 31 *(percentage)*



Commitment to Lending Customers

as at March 31 *($ in millions)*



Lending Authorized

for the year ended March 31

	2002 Number	**2002** Net amount ($000)	2001 Number	2001 Net amount ($000)
Quebec	**2,177**	**$ 636,891**	2,083	$ 605,309
Share of lending authorized to KBIs and exporters		**54%**		57%

Commitment to Lending Customers

as at March 31

	2002 Number of customers	**2002** Amount ($000)	2001 Number of customers	2001 Amount ($000)
Quebec	**7,037**	**$ 2,739,258**	6,564	$ 2,472,170

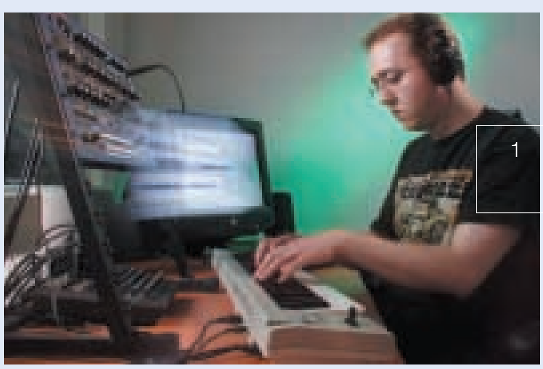
Consulting Group

for the year ended March 31

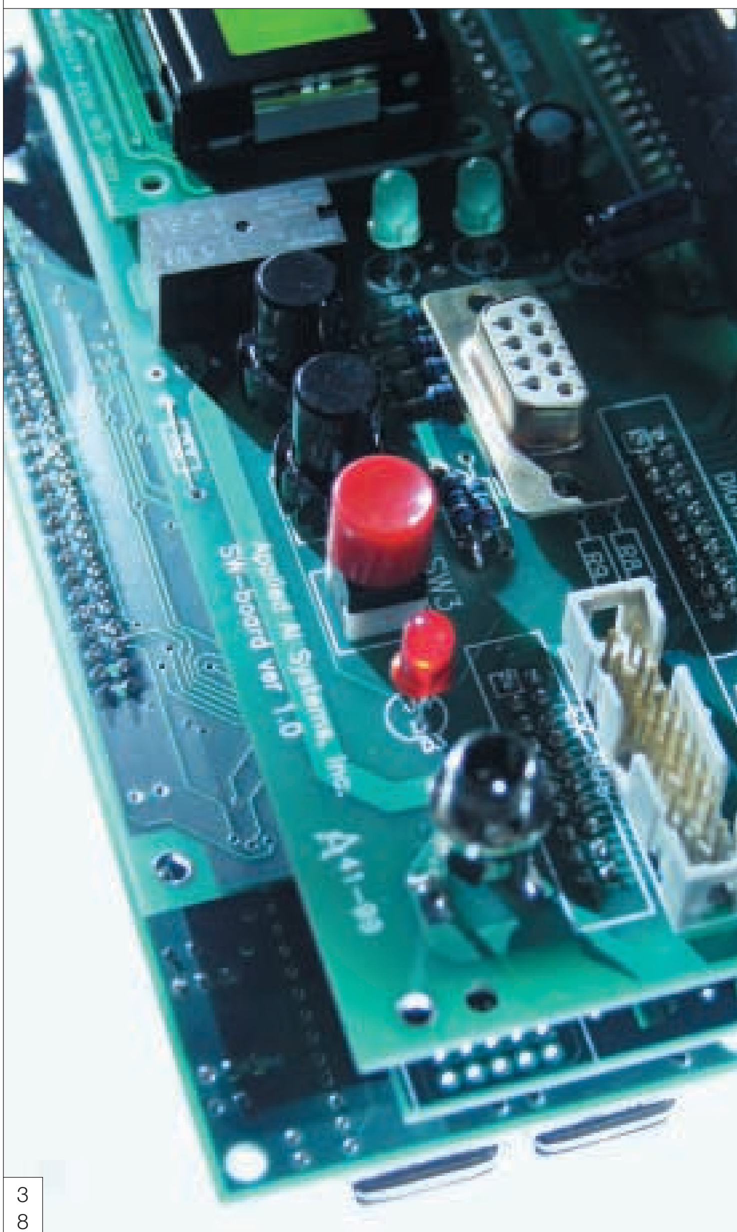
	2002	2001
Revenue ($000)	**$ 8,477**	$ 7,619
Projects (number)	**2,168**	2,468

1. Strategy First creates innovative games.

2. **Jacques Dénommée,** Director, Venture Capital, Montreal, and Don McFatridge, President, Strategy First Inc.



What does innovation mean to Ontario



Applied AI Synergy Inc.
Brain power at work

Applied AI Synergy Inc. is the longest standing artificial intelligence (AI) company in Canada specializing in intelligent mobile robots used in real-world applications and research.

"R&D is the focus of what we do, whether it's developing an intelligent camera to detect landslides and avalanches, or a robot that can deliver heavy objects in a farmer's field without a human driver. Today, we're exporting more than 85 percent of our technology to Japan, where the market for research encompasses literally hundreds of universities, national institutions and corporate laboratories. Our steady growth also meant that we had to find new space at the height of the high-tech frenzy where, in our case, rents were increasing by nearly 100 percent. That's when we turned to BDC to help us finance a building that was truly customized to our R&D needs. In the end, the Bank has really understood that our business has enormous long-term potential, not just for us, but for Canada."

Dr. Takashi Gomi | President
Applied AI Synergy Inc. | Carp, Ontario

It means creating a fertile ground for scientists...

RLP Machine & Steel Fabrication Inc.
Building on your talent

RLP Machine & Steel Fabrication Inc. prides itself in a strong diversification strategy—building everything from lawn mower parts to steel tanks used in the energy industry.

"Our strength is our people, and that's not a cliché in our case. In four years, we've quadrupled our growth and the size of our staff, and that has definitely meant paying close attention to human resources management. In fact, a large part of our success is rooted in constant training of both experienced and young employees who help us improve quality and productivity in the plant. BDC too has helped us develop new sectors of business through a Productivity Plus Loan, which was used to purchase computer-based equipment to build steel tanks for the energy sector. By exploring new business opportunities like these, our company has been able to ride changing cycles in the industry."

Stephen Symes | President
RLP Machine & Steel Fabrication Inc. | Timmins, Ontario

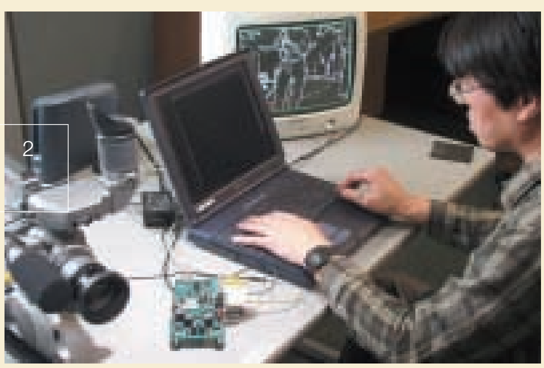
What does innovation mean to Ontario

Whether it's robotics or fibre optics, Ontario is at the forefront of discovery. The province is still Canada's manufacturing heartland, but today the regional economy has shifted to more research and development-intensive business with the largest concentration of R&D spending focussed on telecommunications and computer services.

Add to that a powerful synergy among the province's universities and the public and private sectors that has created a rigorous R&D network to develop the next generation of high technology. With a focus on supporting knowledge-based industries, BDC recognizes the long-term potential of companies that turn brilliant ideas into reality.

Management	Branches	
Pauline Rochefort Vice-President and Area Manager Eastern and Northern Ontario	Kingston Ottawa*	
Kevin Dane Vice-President and District Manager, Northern Ontario	Kenora North Bay Sault Ste. Marie	Sudbury Thunder Bay Timmins
Ronald Panetta Vice-President and Area Manager, Southern Ontario	Kitchener London*	Stratford Windsor
Michel Leduc Vice-President and Area Manager, Toronto	Barrie North York	Toronto* Toronto North
Brendan Cunneen Vice-President and Area Manager, Toronto East	Markham Oshawa	Peterborough Scarborough*
André Dusablon Vice-President and Area Manager, Mississauga	Brampton Halton Hamilton	Mississauga* St. Catharines

*Location of Entrepreneurship Centers



1. **Pierre Lauzon,** Senior Manager, Loans, Ottawa, and Dr. Takashi Gomi, President, Applied AI Synergy Inc.

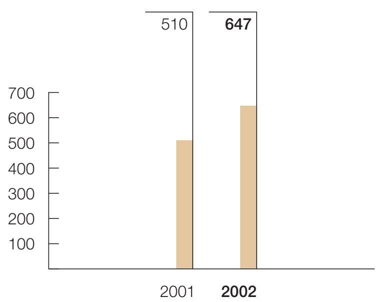
2. Applied AI Synergy conducts advanced robotics research.

A leg up

Young equestrian competitors from Eastern Ontario and Western Quebec get a “leg up” from BDC’s Ottawa branch, which sponsors them in their preparation for three very popular events. Organizers from the Nepean National Equestrian Park were pleased to thank BDC for its contribution “on behalf of the youth who work so hard to fulfill their competitive dreams and the families and volunteers who support them.”

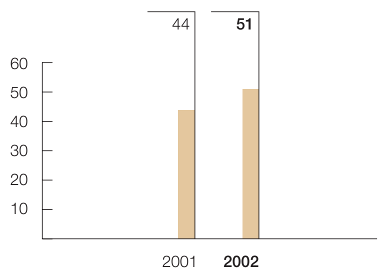
Lending Authorized

for the year ended March 31 *($ in millions)*



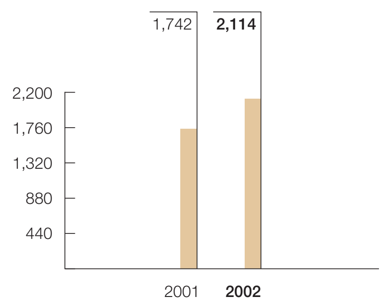
Share of Lending Authorized to KBIs and Exporters

for the year ended March 31 *(percentage)*



Commitment to Lending Customers

as at March 31 *($ in millions)*



Lending Authorized

for the year ended March 31

	2002 Number	**2002** Net amount ($000)	2001 Number	2001 Net amount ($000)
Ontario	**2,067**	**$ 646,826**	1,822	$ 509,626
Share of lending authorized to KBIs and exporters		**51%**		44%

Commitment to Lending Customers

as at March 31

	2002 Number of customers	**2002** Amount ($000)	2001 Number of customers	2001 Amount ($000)
Ontario	**6,234**	**$ 2,114,012**	5,624	$ 1,742,151

Consulting Group

for the year ended March 31

	2002	2001
Revenue ($000)	**$ 5,526**	$ 5,562
Projects (number)	**1,704**	1,513

1. RLP Machine & Steel Fabrication takes pride in productivity.

2. **Tim Whalen,** Branch Manager, Sudbury, and Stephen Symes, President, RLP Machine & Steel Fabrication Inc.

What does innovation mean to the Prairies, Northwest Territories and Nunavut

Hilary Druxman Inc.
Designed for innovative financing

Hilary Druxman Inc. is one of the fastest growing jewellery design companies in Canada and has earned a private label at Neiman Marcus, Barney's New York and Saks Fifth Avenue.

"Getting our feet into the international market was the best thing we ever did for our company, and BDC definitely played a key role in helping us grow revenues by 60 percent in five years. In the jewellery design business, you can save considerable costs by buying raw materials in bulk and the Bank's term loans have enabled us to do just that. As well, we were able to reduce our delivery time from eight weeks to two weeks by building a finished product inventory using BDC Innovation Financing. Using creative financing strategies can make all the difference for your bottom line."

Hilary Druxman | President
Hilary Druxman Inc. | Winnipeg, Manitoba

It means always expanding
your horizons...

RBK Millwork Ltd.
Crafting process and technology

RBK Millwork Ltd. is a premier supplier of architectural millwork and store fixture solutions. The company has made its mark in the industry with customer service excellence and quality workmanship.

"We see millwork as an art form here and it takes exceptionally skilled cabinet makers and technology to live up to that promise. That's precisely why we relied on a BDC Productivity Plus Loan to upgrade our design and production equipment and streamline what was once a very labour-intensive process. At the same time, we were able to bring our employees' skills in line with our company's evolution, providing training in cabinet-making, drafting and blueprint reading. Today, by working smarter and becoming more efficient, we can provide unbeatable quality and value to our clients and also realize a healthy return on investment."

Randy Kuzyk | President
RBK Millwork Ltd. | Edmonton, Alberta

What does innovation mean to the

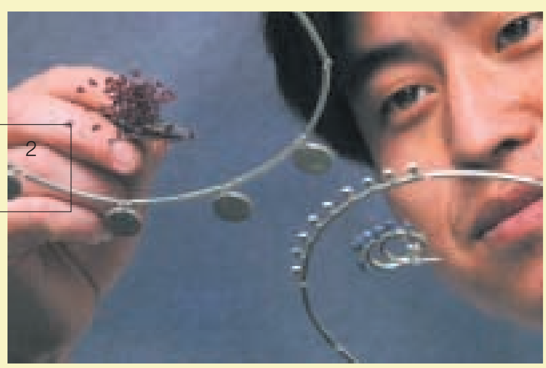
Prairies, Northwest Territories and Nunavut

Today, 70 percent of Canadian exporters are small businesses with sales of under $1 million, and many small businesses in the Prairies, Northwest Territories and Nunavut region are definitely a part of the growing export trend. A low population and small domestic markets make this part of the country a natural for exporting beyond Canada's borders.

Combine that with a burgeoning e-business industry in provinces such as Alberta, which gives small businesses instant access to the world market. As entrepreneurs here strive for growth, BDC is helping them become international players.

Management	Branches	
Wellington Holbrook Vice-President and Area Manager Manitoba and Saskatchewan	Brandon (Man.) Regina (Sask.) Saskatoon (Sask.)	Winnipeg (Man.)*
Laura Didyk Vice-President and Area Manager, Southern Alberta	Calgary (Alta.) Calgary North (Alta.)*	Cranbrook (B.C.) Lethbridge (Alta.)
Terry Quinn Vice-President and Area Manager Northern Alberta and Northwest Territories	Edmonton (Alta.)* Fort St. John (B.C.) Grande Prairie (Alta.)	Red Deer (Alta.) Yellowknife (N.W.T.)

*Location of Entrepreneurship Centers



1. **Susan Didyk,** Senior Manager, Loans, Winnipeg, and Hilary Druxman, President, Hilary Druxman Inc.

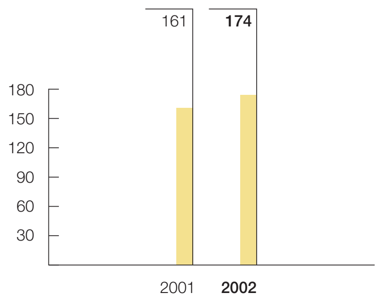
2. Hilary Druxman Inc. focusses on meticulous design work.

On the ball

The Manitoba Selects Soccer Team proved they were on the ball when they represented Manitoba at the National Championship Soccer Games held July 25–28 in Prince George, B.C. Team members—girls under 15 from a variety of soccer clubs across the city of Winnipeg—received financial support as well as BDC sports bags, backpacks, T-shirts and water bottles from Winnipeg's Entrepreneurship Center.

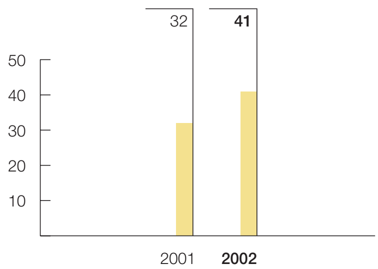
Lending Authorized

for the year ended March 31 *($ in millions)*



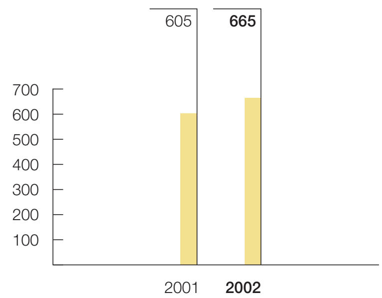
Share of Lending Authorized to KBIs and Exporters

for the year ended March 31 *(percentage)*



Commitment to Lending Customers

as at March 31 *($ in millions)*



Lending Authorized — Classification by Province and Territory

for the year ended March 31

	2002 Number	2002 Net amount ($000)	2001 Number	2001 Net amount ($000)
Manitoba	**185**	**$ 26,224**	210	$ 18,229
Saskatchewan	**169**	**25,873**	349	26,792
Alberta	**512**	**116,773**	634	110,231
Northwest Territories and Nunavut	**18**	**4,951**	15	6,303
Total	**884**	**$ 173,821**	1,208	$ 161,555
Share of lending authorized to KBIs and exporters		**41%**		32%

Commitment to Lending Customers — Classification by Province and Territory

as at March 31

	2002 Number of customers	2002 Amount ($000)	2001 Number of customers	2001 Amount ($000)
Manitoba	**496**	**$ 107,406**	502	$ 103,330
Saskatchewan	**553**	**117,088**	576	116,331
Alberta	**1,334**	**411,446**	1,249	355,827
Northwest Territories and Nunavut	**75**	**29,416**	84	29,876
Total	**2,458**	**$ 665,356**	2,411	$ 605,364

Consulting Group

for the year ended March 31

	2002	2001
Revenue ($000)	**$ 1,664**	$ 1,725
Projects (number)	**400**	474

1. Streamlined production at RBK Millwork Ltd.

2. **Paul Schnierer,** Senior Manager, Loans, Edmonton, and Randy Kuzyk, President, RBK Millwork Ltd.

New Society Publishers

Reading customers' minds

New Society Publishers is a progressive company that publishes books that contribute to building an ecologically sustainable and just society.

"Whether the subject is leadership or First Nations issues, we've set a precedent in the market by selling books that ultimately build a better world. So naturally, what's important to us is doing business in a way that walks the talk. For example, we're committed to printing on 100-percent post-consumer recycled paper and have encouraged other companies to innovate in printing. With the help of BDC's Cultural Industry Development Fund, we were able to revitalize our company sales through direct marketing initiatives and begin selling books on the Web. In fact, we were one of the first publishing companies to do this. Today, as well, 80 percent of our sales are exported and we're exceeding our revenue goals considerably."

Chris Plant | President
New Society Publishers | Gabriola Island, British Columbia

It means pioneering new business concepts...

The Aerie Resort

Sound financing travels far

The Aerie Resort is a high-end luxury resort and spa, a member of the prestigious Relais & Chateaux association and has been rated by Condé Nast as one of the top 100 hotels in the world.

“Travellers today are looking for a total experience where they are treated to a sanctuary for body and soul. So from the outset, I think BDC shared our confidence that we had designed an innovative hotel concept that would attract year-round guests. Our strategy was to not only offer beautifully appointed rooms, but to provide a culinary experience, taking full advantage of locally grown products from seafood to game and the province’s renowned wines. Guests can also enjoy full farm tours and adventure tours in the area. As we’ve grown over the past years, the Bank has helped us finance building expansions that ultimately makes us a better hotel.”

Markus Griesser | General Manager
The Aerie Resort | Malahat, British Columbia

What does innovation mean to British Columbia and Yukon

Small businesses in British Columbia and Yukon are actively developing new business opportunities such as eco-tourism, which injects more than $30 million into local economies annually. Travellers seeking authentic adventure and cultural experiences are definitely attracted by the region's beautiful wilderness, diverse wildlife and First Nations heritage.

And as a natural extension of this growth, Yukon's health, education and government services sector continues to be a mainstay of the region's economy, making up 80 percent of all new jobs in the region. As the British Columbia and Yukon economies make a major shift from natural resources to other promising industries, BDC is there to lend a hand.

Management	Branches	
Steve Zink Vice-President and Area Manager B.C. North and Interior	Kelowna (B.C.)* Kamloops (B.C.) Prince George (B.C.)	Terrace (B.C.) Whitehorse (Y.T.) Williams Lake (B.C.)
Brian Moist Vice-President and Area Manager, Vancouver	Campbell River Langley Nanaimo North Vancouver	Surrey* Vancouver* Victoria

*Location of Entrepreneurship Centers

1

2

1. Chris Plant, President, New Society Publishers, and **David Craig,** Account Manager, Victoria.

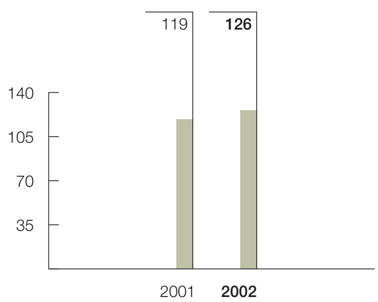
2. Teamwork counts at New Society Publishers.

Racing prowess

Vancouver Island's Mt. Washington Ski Club racers, aged 11 and 12, proudly displayed their BDC hats, water bottles and banner as they took part in the 2001–2002 season. And, of course, they also displayed their impressive skills on the slopes. These members of the BDC-sponsored K1 program have moved from the fundamental phase of skill development to the more structured Train to Train phase.

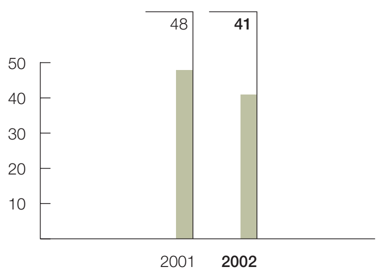
Lending Authorized

for the year ended March 31 *($ in millions)*



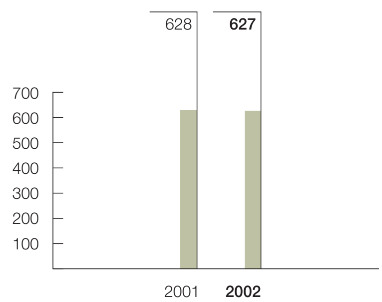
Share of Lending Authorized to KBIs and Exporters

for the year ended March 31 *(percentage)*



Commitment to Lending Customers

as at March 31 *($ in millions)*



Lending Authorized — Classification by Province and Territory

for the year ended March 31

	2002 Number	**2002** Net amount ($000)	2001 Number	2001 Net amount ($000)
British Columbia	**661**	**$ 123,297**	659	$ 116,853
Yukon	**19**	**3,233**	17	1,837
Total	**680**	**$ 126,530**	676	$ 118,690
Share of lending authorized to KBIs and exporters		**41%**		48%

Commitment to Lending Customers — Classification by Province and Territory

as at March 31

	2002 Number of customers	**2002** Amount ($000)	2001 Number of customers	2001 Amount ($000)
British Columbia	**2,360**	**$ 603,853**	2,442	$ 601,172
Yukon	**101**	**22,957**	119	26,397
Total	**2,461**	**$ 626,810**	2,561	$ 627,569

Consulting Group

for the year ended March 31

	2002	2001
Revenue ($000)	**$ 1,020**	$ 1,364
Projects (number)	**460**	656

1. The Aerie Resort serves up some local cuisine.

2. **Mary-Ellen Echle,** Senior Manager, Loans, Victoria, and Markus Griesser, General Manager, The Aerie Resort.

1

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Corporate governance

To BDC's Board of Directors, corporate governance is a matter of utmost importance. The Board is firmly committed to effective practices that ensure that the Bank operates according to solid business principles and all applicable legislation, while maintaining its role as an instrument of public policy in the Canadian economy. Board members, who represent the geographic and sector diversity of BDC customers and are well aware of their needs, believe that an efficient corporate governance regime that emphasizes openness and full accountability is key to maintaining the Bank's position as a complementary financial institution dedicated to small business.

In fulfilling their role of directing and managing BDC's business, the Board and its committees monitor the effectiveness of the Bank's corporate governance practices and approve any modifications. They approve the strategic orientation and the Corporate Plan, monitor the Bank's performance, authorize compensation policies, and ensure business risks are properly identified and appropriate risk management systems are implemented. They also ensure that proper financial reporting, internal control and audit systems are implemented.

The Bank's code of conduct and commitment to high legal, ethical and moral standards are reviewed by the members of the Board, who obtain assurance from management that the Bank has adhered to the standards.

To continue to fulfill their mandate efficiently, the directors held their annual strategy meeting in fiscal 2002, during which they not only reviewed the Bank's strategic priorities and all factors that have a significant impact on its economic environment, but also provided constructive feedback to management.

The Board subsequently undertook strict monitoring of goal achievement by periodically examining quarterly performance, as well as operational results in each area of the Bank's activities. Directors compared present performance levels to those of previous fiscal years and to those set out in the Corporate Plan.

Although the Bank has been managing risk effectively for many years, the Board and management have continued to emphasize integrated risk management by ensuring implementation of an effective, ongoing process to identify, measure and proactively manage all present and potential risks. This disciplined approach to risk management has enabled the Bank to increase the support it provides to Canadian small businesses in response to their ever-increasing needs.

Finally, the annual performance review of the Board of Directors and its committees, which is an important element of the governance process, was completed.

The Board met 10 times in fiscal 2002. Three of these meetings were held in different locations across Canada, providing Board members with the opportunity to meet with local clients, stakeholders and people from the community. These meetings have sparked a positive reaction and helped to raise BDC's profile across the country.

The Board of Directors delegates part of its work to five committees. These five committees review, monitor and supervise matters referred to them by the Board and make recommendations. All the committees are required to report regularly to the Board. A brief description of their main responsibilities and achievements for fiscal 2002 follows.

The Executive Committee | The Executive Committee, which handles important matters that come up between Board meetings, met 18 times in fiscal 2002. It approved loans and investments that exceeded the powers delegated to management and exercised other powers determined by the Board.

Chairperson: Cedric E. Ritchie

Members: Terry B. Grieve, V. Peter Harder, Peter G. Jollymore, Roslyn Kunin, Michel Vennat

Corporate governance

Governance Committee | The Governance Committee makes recommendations concerning the efficiency of the internal governance system. This includes determining the structure, mandate and membership of the Board's committees. Thus it was decided this year to reduce the number of committees to five, and to refer matters of risk management and business development directly to the Board of Directors. The Committee has again supervised the evaluation process that assesses the performance of the Board and its committees. The analysis of results will help determine areas requiring follow-up action during the next fiscal year.

Chairperson: Cedric E. Ritchie

Members: Jennifer Corson, James A. Durrell, Peter G. Jollymore, Cindy Sprague

Human Resources Committee | The Human Resources Committee supports the Bank's belief that its success lies in its people, and works to ensure that BDC training, compensation, succession and human resources strategic plans are designed to attract and retain competent, productive and motivated employees. In addition to approving the annual compensation budget, the Committee reviews the Bank's succession plans, compensation policy and human resources strategic plans. In fiscal 2002, the Committee continued to monitor the Bank's progress in attracting and retaining qualified people, while ensuring that compensation remained competitive. The Committee also continued to support the Bank's commitment to being an employer of choice by placing particular emphasis on the development of leadership and plans for succession in senior management.

Chairperson: Peter G. Jollymore

Members: Leo E. Cholakis, Jennifer Corson, Ann Cheryl Denny, Roslyn Kunin, Roger Plamondon, Cindy Sprague

Audit Committee | The Audit Committee oversees financial reporting, corporate financing, treasury management, performance measurement, internal control systems and codes of conduct. Its members, who are all external directors, help the Board safeguard the Bank's assets and manage its resources. It reviews the quarterly financial results and oversees the external auditors' involvement in the annual financial audit. It also reviews the work of the internal audit and inspection team and reviews the financial statements in the annual report prior to Board approval. In fiscal 2002, the Audit Committee discussed the matter of the independence of external auditors and began an in-depth review of the responsibilities of an audit committee.

Chairperson: Terry B. Grieve

Members: N. Murray Edwards, Roslyn Kunin, Oryssia Lennie, Cindy Sprague

Pension Fund Committee | The Pension Fund Committee monitors the activities of the pension fund, ensures that the fund is administered and financed in accordance with applicable legislation, and ensures that any changes to the plan reflect the Committee's terms of reference. In fiscal 2002, the Committee met to review the financial performance and stability of the pension fund. Members ensured that the Bank continued to receive excellent service from the external suppliers who administer the pension fund. For the pension plan year ending December 31, 2001, the fund will again report a surplus.

Chairperson: Leo E. Cholakis

Members: Clément Albert, Roslyn Kunin, Louise Piché, Roger Plamondon, Cedric E. Ritchie, Michel Vennat

Board of directors

Pictured from left to right:

James A. Durrell | President
Capital Dodge Chrysler Jeep Ltd. | Ottawa, Ontario

Roger Plamondon
Saint-Sauveur-des-Monts, Quebec

Leo E. Cholakis, L.L.B. | Managing Director
Kensington Building Ltd. | Winnipeg, Manitoba

Cynthia Bertolin
Edmonton, Alberta

Michel Vennat, O.C., Q.C.
President and Chief Executive Officer
Business Development Bank of Canada | Montreal, Quebec

Terry B. Grieve | Principal
Ventures West Management Inc. | Saskatoon, Saskatchewan

Roslyn Kunin, Ph.D. | President
Roslyn Kunin & Associates Inc. | Vancouver, British Columbia

Jennifer Corson | President
Renovators Resource Inc. | Halifax, Nova Scotia

Peter G. Jollymore
Saint John, New Brunswick

Gordon J. Feeney
Toronto, Ontario

Absent:

N. Murray Edwards | President
Edco Financial Holdings Ltd. | Calgary, Alberta

V. Peter Harder | Deputy Minister
Industry Canada | Ottawa, Ontario

Oryssia Lennie | Deputy Minister
Western Economic Diversification | Edmonton, Alberta

Cedric E. Ritchie, O.C. | Chairman of the Board
Business Development Bank of Canada | Toronto, Ontario

Ann Cheryl Denny | Program Director
for Aboriginal Programming
University College of Cape Breton | Sydney, Nova Scotia

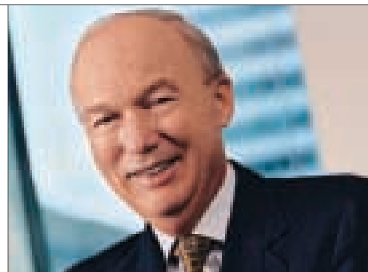
Cindy Sprague | President and CEO
OmniMark Technologies Inc. | Ottawa, Ontario

Our sincere appreciation is extended to Mrs Denny and Sprague for the role they played in the development of the Bank. Their mandate expired in March 2002.

Officers

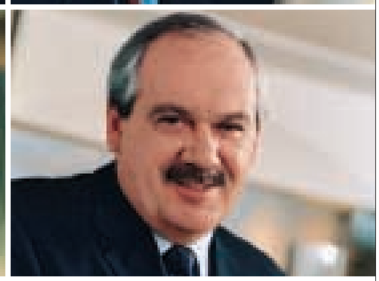
Michel Vennat, O.C., Q.C.
President and Chief Executive Officer

André Bourdeau
Executive Vice-President | Financial Services



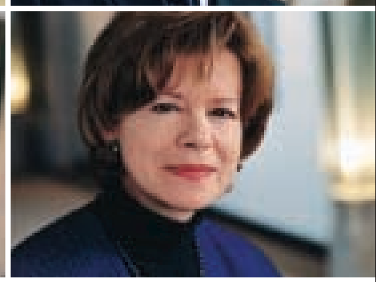

Luc Provencher
Executive Vice-President | Integrated Risk Management

Michel Ré
Executive Vice-President | Investments

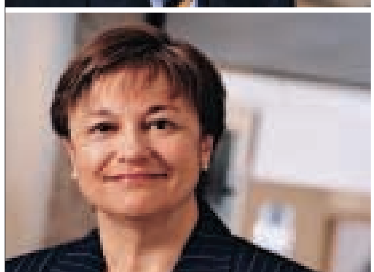
Guy G. Beaudry
Senior Vice-President | Corporate Affairs

Edmée Métivier
Senior Vice-President | Strategic Planning and Resources Management

Andrée LeBlanc Daviault
General Counsel and Corporate Secretary

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




Jacques Lemoine
Senior Vice-President | Credit

Michel Desjardins
Senior Vice-President | BDC Consulting Group


Richard Morris
Vice-President | Audit, Inspection and Risk Integration

Clément Albert
Vice-President and Treasurer


ECONOMIC BACKGROUND

After growing vigorously for several years, the economy began to slow in 2001, and the year began with uncertainty and fears of recession. However, policy stimulus combined with strong underlying fundamentals sparked economic growth in Canada of 2 percent at annual rates in the fourth quarter of 2001—modest growth by any standard, but it was enough to avoid recession and well ahead of general expectations. After expanding by 1.5 percent in 2001, the economy is forecast to grow by 2.6 percent in 2002 and by a robust 4.5 percent in 2003—the strongest performance in the G8.

The most dramatic development during the fourth quarter of 2001 was the massive liquidation of inventories, affecting a wide range of industries. As a result, industry in general will need to rebuild inventories to keep pace with sales, especially when growth gains momentum in the second half of 2002.

After stagnating through 2001, employment surged in the opening months of 2002, most notably in small and medium-sized businesses. This surge has provided a needed lift to the job market and has boosted income growth, the effect of which will be felt throughout the year.

Consumers have remained resilient. Confidence has rebounded, fueled by tax reductions; interest rates remain low; pent-up demand still exists; and employment is rising. These factors all indicate strong consumer-led demand.

Small businesses contribute significantly to the Canadian economy. During the 1999 and 2000 period (the latest period for which data are available), the number of small businesses in Canada grew by 12 percent, reaching more than 2 million. They employ more than 5 million Canadians and create 7 out of every 10 new jobs each year in this country.

Globalization, free trade and new technologies are putting increased competitive pressure on Canada's small businesses. This pressure comes from both domestic and foreign companies that have adopted new technologies faster and more effectively. To survive, small businesses have no choice but to improve their productivity. Innovation is a key driver of productivity. Innovative firms grow faster and are more productive than non-innovative companies.

Because of their relative importance in the economy, Canadian small businesses will have to play a leading role in adopting innovative practices if Canada is to improve on its performance. New technologies have spurred the development of a new breed of innovative small businesses that are often the driving force behind new products in fast-growing industries. This is especially true of high-tech startup companies, which are the greatest job creators and innovators in today's economy. Over the next few years, it will become increasingly important for small businesses to have access to the resources that will allow them to adopt innovations, so that they can improve their productivity and survive.

Given the current economic context discussed earlier, it is vital that the small business sector be supported and given the necessary tools and resources to continue its significant contribution to the country. As small businesses adapt to increasing competition and technological change, not all will be able to rely on private sector financing and consulting advice. BDC will therefore continue to meet the needs of thousands of Canada's small businesses each year, especially those fast-growing firms in Canada's knowledge-based economy, by developing initiatives specifically aimed at supporting more innovative practices in Canadian small businesses.

Management's discussion and analysis

FINANCIAL PERFORMANCE

Fiscal 2002 produced strong results for the Bank in spite of negative earnings from Venture Capital as a result of unfavourable market conditions. Portfolio growth in loans and in investments reached record levels, credit losses were lower than anticipated in the uncertain economic environment and operating expenses were well controlled.

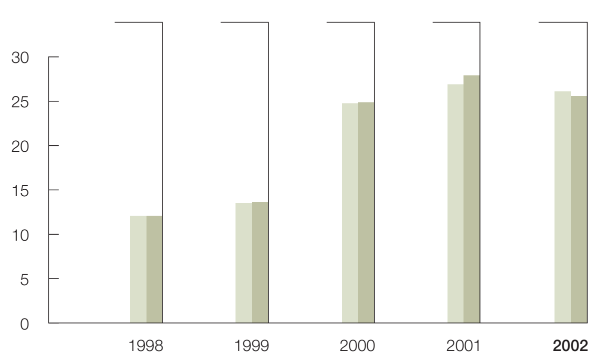
Despite unfavourable market conditions for divestitures, there was a steady demand for venture capital investment. The Bank authorized 63 deals totalling $106 million during fiscal 2002, compared to 71 deals for $114 million in fiscal 2001. The investment portfolio outstanding at March 2002 grew to $271 million at cost, from $206 million at March 2001.

However, net realized gains on investments amounted to only $2 million, compared to $76 million in fiscal 2001 and $113 million in fiscal 2000. Consequently, Venture Capital sustained an operating loss of $21 million for fiscal 2002, after write-downs of $13.8 million, the Bank's $5.1-million proportionate share of losses incurred by the seed funds and operating expenses of $10.7 million.

Internal rate of return (IRR) is a standard measure of performance in the venture capital industry. The moving 10-year average IRR of the Bank's portfolio of venture capital direct investments, before operating expenses, has grown from 12.1 percent in fiscal 1998 to 26.1 percent in fiscal 2002.

Venture Capital Internal Rate of Return (IRR)

for the year ended March 31 *(percentage)*



	1998	1999	2000	2001	**2002**
Direct Investments	12.1	13.5	24.8	26.9	**26.1**
Total Investments	12.1	13.6	24.9	27.9	**25.6**

The strong performance by loan operations exceeded the Corporate Plan objectives to the extent that it largely offset the shortfall from venture capital operations. The allowance for credit losses was maintained at a prudent 6.6 percent of the outstanding loan portfolio.

Return on equity of 5.7 percent, although lower than the record level of 12.6 percent in 2001, was higher than the government's long-term cost of funds.

Income Statement Discussion

LOAN OPERATIONS

Net interest income | The Bank's net loan portfolio showed solid growth, increasing by 12 percent from $5.1 billion at March 2001 to $5.7 billion at March 2002. Clients can choose between floating interest rates and a number of fixed term rates, which are adjusted periodically to reflect the latest market conditions. At March 2002, $3.9 billion of the loan portfolio produced interest at floating rates averaging 6.43 percent, and $1.9 billion produced interest at fixed rates averaging 8.83 percent. The net loan portfolio is financed by a debt of $5.0 billion at floating and fixed rates that closely match the maturities of portfolio assets, and by allocated equity of $0.7 billion. The average floating rate of 6.43 percent is significantly lower than the 9.45-percent rate in fiscal 2001, reflecting reductions in the Bank of Canada rates.

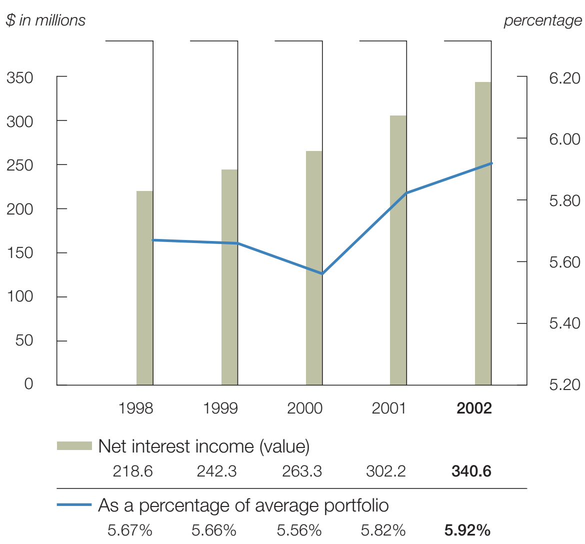
The net margin of 5.92 percent is the net interest income earned by the performing loan portfolio, expressed as a percentage of the total average portfolio. It shows an improvement of 10 basis points over the average of 5.82 percent in fiscal 2001, due to higher internal funds (5 points) and higher fee income from sundry complex transactions (5 points).

Management's discussion and analysis

Lower floating interest rates during fiscal 2002 meant that both interest income of $503.4 million and interest expense of $162.8 million were significantly lower than in fiscal 2001. However, net interest income of $341 million was 12.7 percent higher than the $302 million earned in fiscal 2001, in line with the portfolio growth.

Loan Operations Net Interest Income

for the year ended March 31



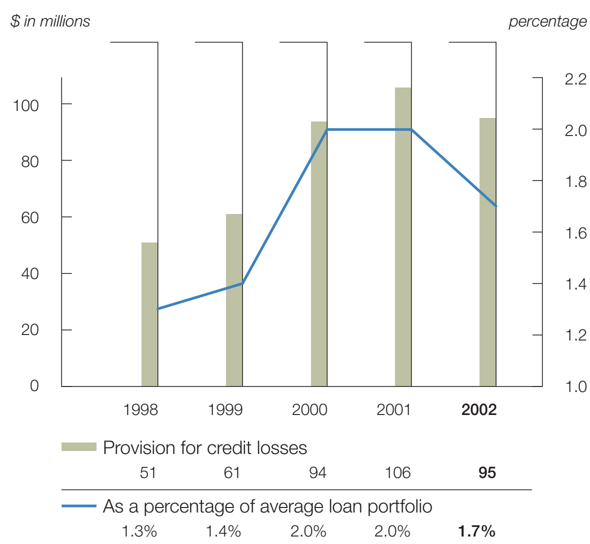
Provision for credit losses | The Bank's commitment to the small business sector, with emphasis on knowledge-based industries (KBIs) and startup operations, increases the probability of default. Accordingly, the Bank maintains the allowance for credit losses at a prudent level in recognition of the concomitant risks. Impaired loans of $268 million were slightly lower than the $272 million in fiscal 2001, while written-off loans increased from $40 million to $49 million. The exposure, net of underlying security, on those impaired loans was $100 million at March 2002. That exposure was fully covered by the specific allowance and resulted in a specific provision charge for the year of $56 million.

The general allowance of $301 million represents 5.2 percent of the performing portfolio of $5.8 billion, versus $262 million, or 5.1 percent of $5.1 billion, at March 2001. It is to cover the unidentified losses in that portfolio at March 2002. Maintaining the general allowance at that level required a general provision charge of $39 million.

The combined provision of $95 million for fiscal 2002 amounted to 1.7 percent of the average portfolio. It was $4 million higher than last year, excluding the $15-million special provision in fiscal 2001. The total allowance, at $401 million, remains at 6.6 percent of the portfolio and is in line with the long-term loss experience.

Provision for Credit Losses

for the year ended March 31



Operating and administrative expenses | Loan authorizations in fiscal 2002 were 13 percent higher than in fiscal 2001, while operating expenses of $165 million increased by only 4 percent, reflecting important gains in employee productivity and control over expenditures. Staff levels remained relatively stable during the year, which is important because salary and benefit costs account for half of the Bank's operating expenses. The Bank reduced other expenses through budgetary controls.

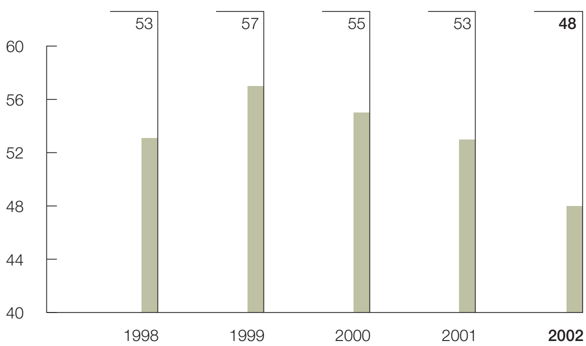
The Bank continued to improve its training and development programs, and implemented a far-reaching process improvement project during the year.

The accounting credit for pension income decreased from $13.1 million in fiscal 2001 to $9.9 million in fiscal 2002, increasing staff benefit costs by $3.2 million.

Consequently, the productivity ratio improved again—from 53 percent in fiscal 2001 to 48 percent in fiscal 2002. This important measure compares operating expenses to net interest income, and the lower ratio indicates improved productivity. In addition, the customer satisfaction rating increased from 88 percent in fiscal 2001 to 90 percent in fiscal 2002, indicating that both productivity and customer service increased simultaneously.

Loan Operations Productivity Ratio

for the year ended March 31 *(percentage)*

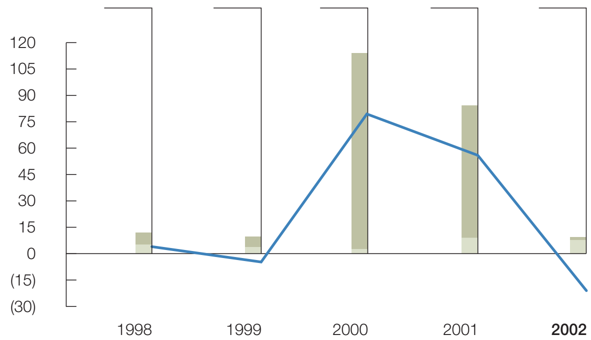


VENTURE CAPITAL OPERATIONS

Unfavourable market conditions adversely affected divestitures in fiscal 2002. Consequently, investment income fell significantly to $8.7 million, compared to $84.2 million in fiscal 2001. However, the investment portfolio of $271 million held its value well. In fiscal 2002, an additional loss of $5.1 million was booked, representing the Bank's proportionate share of written-down investments within the seed funds managed by external parties. Excluding the proportionate share of investments, the write-downs of $13.8 million were similar to the $13.3 million in write-downs recorded in fiscal 2001.

Venture Capital Operations

for the year ended March 31 *($ in millions)*

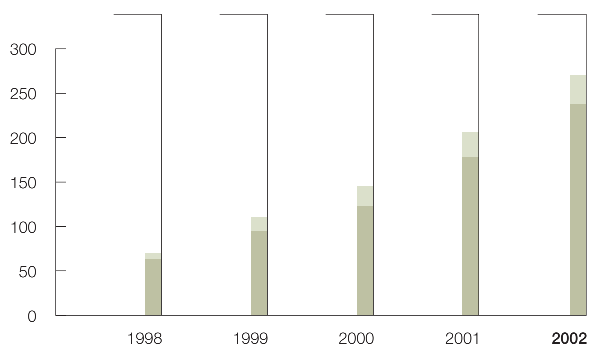


	1998	1999	2000	2001	**2002**
Realized gains on investments	6.9	6.0	112.7	75.8	**1.7**
Other income	4.5	3.1	1.6	8.4	**7.0**
+ Total investment income	11.4	9.1	114.3	84.2	**8.7**
Venture Capital operating profit (loss)	4.2	(4.1)	80.0	56.2	**(21.0)**

The activity level in new direct investments increased significantly during fiscal 2002, in spite of economic uncertainties, from $84 million to $98 million, and the total investment portfolio grew from $206 million to $271 million. At March 2002, unrealized gains were estimated at a further $56 million, which will be brought into income when the investments are realized in subsequent years, if the market conditions prevail.

Total Investment Outstanding

as at March 31 *($ in millions)*



	1998	1999	2000	2001	**2002**
Direct investments	63.1	95.0	122.8	177.8	**237.3**
Venture funds	6.9	15.3	22.3	28.6	**33.8**
+ Total investments	70.0	110.3	145.1	206.4	**271.1**

Operating and administrative expenses of $10.7 million in fiscal 2002 were lower than the figure of $14.7 million last year, with no accrual for incentive compensation.

Management's discussion and analysis

BDC CONSULTING GROUP OPERATIONS

Consulting services provided to Canadian businesses produced third-party revenues of $18.2 million, slightly higher than the $17.7 million in revenue in fiscal 2001. The net operating loss of $5.7 million was higher than the $5.1-million loss in fiscal 2001, after recording some one-time costs related to process improvements.

Reflecting the Bank's decision in September 1996 to fund the deficit in Consulting Group operations entirely from internal resources, the Bank has not requested a government appropriation since that time.

Balance Sheet Discussion

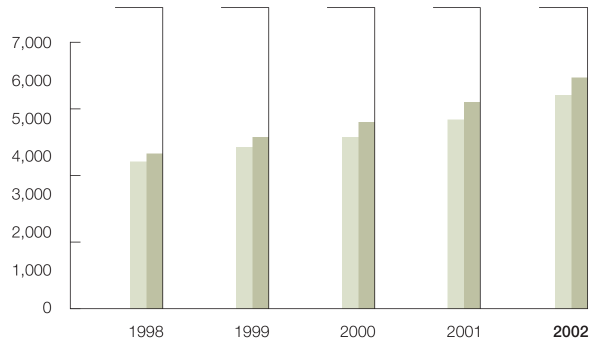
Accompanied by a 13-percent increase in the net loans and venture capital portfolios, total assets increased by $0.7 billion, from $6.2 billion at March 2001 to $6.9 billion at March 2002.

The Bank operates within established liquidity parameters to ensure that sufficient funds are available to meet customers' needs, while taking an organized approach to money market requirements. Cash and short-term investments at year-end amounted to $715 million, similar to the level of $674 million in 2001.

Net outstanding loans, venture capital investments, cash and short-term assets aggregating over $6.6 billion,* which comprised the Bank's principal assets, were funded by borrowings of $5.6 billion and shareholder's equity of nearly $1.0 billion. The net portfolio growth of $680 million during fiscal 2002 was mostly funded by borrowings of $648 million.

Total Outstanding Loans vs. Borrowings

as at March 31 *($ in millions)*



	1998	1999	2000	2001	**2002**
Loans	4,072	4,501	4,903	5,412	**6,071**
Borrowings	3,838	4,223	4,483	4,949	**5,597**

The venture capital portfolio of $271 million at cost increased by $65 million during fiscal 2002, excluding unrealized gains estimated at $56 million.

Capital assets of $29 million comprise furniture, tenant improvements and capitalized information technology investments, net of depreciation.

Other assets of $213 million include the unrealized gains of $153 million from derivatives, which are partly offset by unrealized losses of $36 million, as the Bank fully hedges all such transactions to minimize risk.

Shareholder's equity | Total shareholder's equity at year-end was $960 million, compared to $923 million last year. The resulting rise in the capital base will enable the Bank to increase its support for the growing needs of small businesses. For the sixth consecutive year, BDC has declared a dividend. The amount of the dividend for fiscal 2002 is $16.7 million on its preferred shares, payable to the Government of Canada.

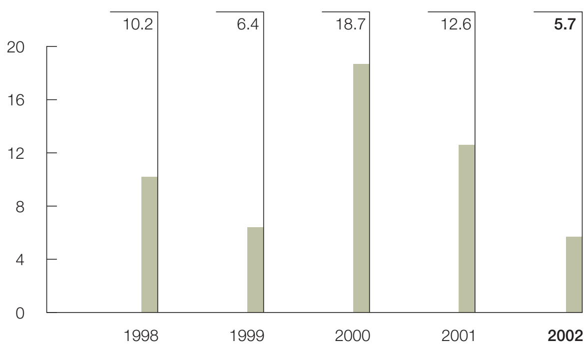
* Shares are held by persons subject to section 33 of the *Business Development Bank of Canada Act* in Toon Boon Technologies Inc., a $3.4-million investment, and in Alliance Medical Inc., a $380,000 loan.

The Bank operated within all statutory limits for the year ended March 31, 2002. At year-end, the debt-to-equity ratio was 5.8:1.

Net income of $53.7 million provided a return on average common shareholder's equity of 5.7 percent, 6.9 percent lower than in fiscal 2001. This decrease is due to higher levels of equity in fiscal 2002 and to the operating loss from Venture Capital that year.

Return on Common Equity

as at March 31 *(percentage)*



Comparison with 2002 Corporate Plan

Despite the uncertain economic environment, performance in loan operations was significantly better than forecast in the Corporate Plan: authorizations of $1,742 million were $137 million ahead of the plan level, the portfolio was $216 million higher, the margin was 10 basis points better and the provision for losses was $15 million lower, reflecting the quality of the transactions. Productivity gains were such that operating and administration expenses of $165 million were $7 million lower than planned. Consequently, net income of $80 million from Loans exceeded the plan by $35 million.

Venture Capital profit, however, was severely affected by a dearth of divestiture opportunities, given the adverse market. Consequently, venture capital operations incurred a loss of $21 million versus the planned $17-million profit—a swing of $38 million. However, investment activities during fiscal 2002 continued at a strong pace, with $98 million authorized in direct investments, above the plan level of $85 million, while the portfolio held its value relatively well.

BDC Consulting Group activities were also influenced by a tighter market, and revenues of $18 million fell short of the $20 million planned, with an operating loss of $5.7 million versus the $3-million loss planned. Those results, however, were in line with the fiscal 2001 results.

Consolidated net income of $53.7 million was close to the Corporate Plan level of $59 million, with the very strong performance from Loans offsetting the operating loss from Venture Capital.

2003 Corporate Plan

The Bank will continue to increase its support to small businesses. The loan portfolio will grow by 7 percent to $6.5 billion and produce net interest income of $358 million. After operating expenses of $180 million and provisions of $115 million, the results will yield a net income of $63 million.

Venture capital activities will continue at a high rate—$90 million in direct investments and $50 million committed to the fund-of-fund initiative. Divestitures will recover somewhat during the year, producing close to break-even net income. The Corporate Plan provides for an infusion of $75 million of additional equity to support an equivalent growth in the venture capital portfolio during fiscal 2003.

BDC Consulting Group will continue to focus on serving the needs of Canadian small businesses, and revenues will increase to $19 million, while the loss from operations will be reduced to $3 million.

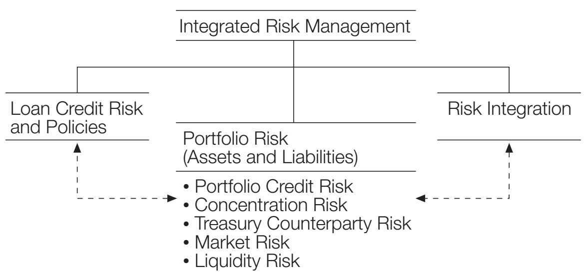
The Corporate Plan for 2003 anticipates consolidated net income of $59 million, compared to the $53.7 million recorded in fiscal 2002.

Risk Management Integration

OVERVIEW

The recent mandate review has clarified the way forward for the Bank. In this context, risk management is designed to help BDC achieve strategies and objectives consistent with the mandate. The Bank has well-established processes for managing business risks, primarily credit risk, market risk and operational risk, which are increasingly being focussed towards integration.

Governance | The Bank monitors its compliance with the Financial Risk Management Guidelines for Crown Corporations issued by the Minister of Finance. Management informs the Board regularly about the Bank's various risk exposures. A recently formed risk management group, headed by the Executive Vice-President, Integrated Risk Management, and reporting to the President and Chief Executive Officer, supports this.



The Asset and Liability Committee, which includes senior officers of the Bank, and the Bank's credit risk function periodically review the policies governing credit, market and liquidity risks related to the Bank's operations. The Committee's policies are approved by the Board of Directors and ensure financial risks are responsibly managed to safeguard the Bank's assets.

CREDIT RISK

Credit quality • Loan portfolio | *Credit risk is the risk of financial loss that arises from the possibility of default on an asset.*

The Bank's mandate requires it to lend to a high-risk segment of the domestic 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 more on the credit assessment of BDC's experience with like customers. Policies and procedures, together with risk evaluation tools developed by the Risk Group, support these business decisions. Credit decisions are decentralized to local professional staff and are subject to independent review and audit. All loans are subject to regular review according to risk, and reports are routinely provided to management and the Board.

A resulting measurement of credit quality is the level of impaired loans. These are loans for which, in the opinion of management, the Bank has no reasonable expectation of fully collecting the amount outstanding. At the Bank, despite significant increases in loan volumes and uncertain economic times, impaired loans amounted to $268 million at March 2002, compared to $272 million a year ago. This suggests that the performance of the small business sector has been robust. A specific allowance for credit losses of $100 million has been established to cover the net exposure on these loans.

A general allowance at March 2002 of $301 million relates to performing loans amounting to $5.8 billion. This is maintained to mitigate the ultimate exposure to loss from such loans and is determined based on historical performance, modelling techniques, estimated credit losses for the current phase of the economic cycle and judgment. To maintain the allowances, the Bank charged earnings with provisions at the rate of 1.7 percent of the average portfolio in fiscal 2002 and 2.0 percent in fiscal 2001.

Risk concentration • Loan portfolio | *Concentration risk is the risk of several loan assets or borrowers defaulting at the same time.*

Operating as it does within the domestic Canadian economy, the Bank's loan portfolio is extensively diversified, both geographically and by industry sector. However, given the focus on startup and early-stage financings, loans to knowledge-based and technology industries continue to increase as an important proportion of higher risk loans. The loan portfolio has grown at a compounded annual rate of over 10 percent for the past five years and now amounts to net $5.7 billion. That growth is matched by an increase in the number of loans outstanding, as the Bank continues to focus on the needs of small businesses.

As the Bank operates independently of any external guarantees or loss insurance, it assumes the entire risk on loan transactions and ultimately will experience losses on a certain proportion of them. BDC Consulting Group helps manage that risk exposure for some of those businesses by providing external expertise to improve the firms' probability of success.

Credit quality • Liquidity investments | The Bank has a restrictive policy governing its liquidity investment activity. Permitted securities for liquidity investments are those issued or guaranteed by the Government of Canada or a province, or by members of the Canadian Payments Association (CPA), therefore meeting stringent credit rating conditions. As at March 31, 2002, over 90 percent of the Bank's liquidity investments matured within three months.

Risk Exposure in Short-Term Investments and Securities

as at March 31, 2002 *($ in millions)*

	Term to maturity		
Credit rating*	Less than 3 months	3 months to 1 year	1 to 5 years
AAA	0.0	0.0	0.0
AA- to AA+	443.6	9.5	57.5
A to A+	205.9	0.0	0.0
Total	649.5	9.5	57.5

* From major credit agencies.

Derivative instruments | *Issuer/counterparty risk is the risk of the non-performance of a counterparty and the possible default of a treasury asset or risk transfer transaction, such as a derivative instrument.*

The Bank has a credit limit policy to monitor and manage the credit risk associated with derivatives. The Bank establishes global contractual limits regarding the creditworthiness of each counterparty. Counterparty credit risk exposure arises strictly when such instruments have positive market value. The Bank signs International Swaps and Derivatives Association (ISDA) agreements with each derivative counterparty and periodically reviews counterparties to ensure they adhere to its standards.

Counterparty Credit Risk Exposure

as at March 31, 2002 *($ in millions)*

	Term to maturity – Before impact of master netting agreements			After impact of master netting agreements
Credit rating*	Less than 1 year	1 to 3 years	3 years and over	
AAA	0.0	0.0	0.0	0.0
AA- to AA+	4.1	26.0	49.5	21.1
A to A+	6.5	0.0	0.0	4.6
Total	10.6	26.0	49.5	25.7

* From major credit agencies.

MARKET RISK

Market risk is the risk that the value of assets, liabilities or other financial instruments will vary because of changes in market prices.

Market risk includes exposure to interest rates, foreign exchange, liquidity and equity prices.

BDC gets its funds by issuing money market commercial paper and capital market long-term notes. The Bank has a market risk policy to monitor and manage the market risk exposure associated with these financial activities. Market risk factors, such as foreign exchange, equity or commodity prices, or other possible risk factors arising from funding activities, are hedged by the Bank at the transaction level. Canadian interest rate risk comprises the residual market risk exposure.

Interest rate risk | Interest rate risks are related to residual differences in the terms and amounts of assets and their underlying liabilities. The Bank uses borrowing strategies and derivative instruments to try to minimize those differences. As at March 31, 2002, 33 percent of the Bank's loan portfolio comprised loans with fixed interest rates, compared to 36 percent the previous year.

The following table shows the interest rate gap position of the Bank as at March 31, 2002, after accounting for the effect of derivative instruments.

Interest Rate Sensitivity Gap

as at March 31, 2002 *($ in millions)*

	Total assets	Total liabilities and shareholder's equity	Gap
Within 1 year	5,404	5,195	209
1 to 2 years	530	365	165
2 to 3 years	277	150	127
3 to 4 years	214	100	114
4 to 5 years	138	72	66
Over 5 years	231	0	231
Non-interest sensitive	103	1,015	(912)
Total	6,897	6,897	0

The Bank measures its interest rate risk by modelling the variability of its net interest income when subjected to a 2-percent shift in interest rates. As at March 31, 2002, this sensitivity would amount to 1 percent of projected net interest income.

The Bank uses the Value-at-Risk (VaR) methodology to measure the sensitivity of its economic value. For this purpose, the Bank uses a 99-percent confidence level and one year of historical data.

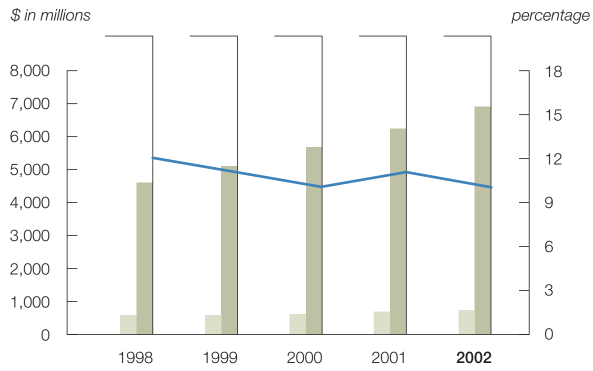
Foreign exchange risk | The Bank is not exposed to fluctuations in foreign currencies. Loan assets are maintained in Canadian currency, while borrowing liabilities originated in foreign currency are fully hedged at the transaction level to Canadian currency through the use of cross-currency swaps and foreign exchange forward contracts.

Liquidity risk | *Cash flow liquidity risk is the risk of an inability to obtain necessary funds to meet financial obligations.*

The Bank manages liquidity to ensure availability of funds at all times. Its liquidity policy requires close monitoring of operational cash flows and sets specific limits for day-to-day cash management.

Liquidity Ratio

as at March 31



	1998	1999	2000	2001	2002
Total assets (value)	4,588	5,098	5,666	6,226	**6,897**
Cash, short-term investments and securities (value)	557	546	578	674	**715**
Liquidity ratio	12%	11%	10%	11%	**10%**

Investments | By their nature, venture capital investments are high risk. Successful investments are realizable privately or through transactions on public financial markets that depend heavily on equity prices. The Bank mitigates such risks through conservative valuation, syndication of investments and regular monitoring, and divests its holdings on a phased basis, taking into account market conditions and applicable restrictions on such transactions.

OPERATIONAL RISK

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

The Bank has an internal control framework of systems and processes that it relies on to perform its business transactions. Comprehensive policies and processing procedures govern information processing, lending operations, staff management and other key operational functions.

The Bank has a comprehensive business recovery planning process to ensure continuity in its key business functions in case of disaster. It successfully tested this process during the year.

BDC manages the risks associated with technology and telecommunication failures through programs for replacement of computer systems and equipment, and through security and control procedures to ensure accurate, timely and efficiently managed information.

To manage the risks associated with human resources, the Bank encourages competency and supports development of employees' skills. The Bank has a comprehensive training and development program for staff and has introduced various incentives to further develop employee skills. This approach is supported by a "culture of ethics" founded on the Code of Conduct and linked to the Ombudsman's office. The Code of Conduct covers such things as conflicts of interest and reporting requirements for contacts by lobbyists. The Bank is also actively engaged in an employer of choice program to motivate staff and increase employee commitment.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

The financial statements of the Business Development Bank of Canada were prepared and presented by management in accordance with Canadian generally accepted accounting principles on a basis consistent with that of the preceding year. The information contained therein normally includes amounts requiring estimation, 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 financial statements.

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

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

Michel Vennat
President and Chief Executive Officer

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

Montreal, Canada
May 24, 2002

AUDITORS' REPORT

To the Minister of Industry:

We have audited the balance sheet of the Business Development Bank of Canada as at March 31, 2002, and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Bank as at March 31, 2002, 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 that have come to our notice during our audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Business Development Bank of Canada Act* and the by-laws of the Bank.

KPMG LLP
Chartered Accountants

Montreal, Canada
May 24, 2002

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
May 24, 2002

BALANCE SHEET

as at March 31 *($ in thousands)*	**2002**	2001
ASSETS		
Cash and short-term investments (Note 3)	**$ 632,441**	$ 605,955
Securities (Note 4)	**82,655**	67,808
	715,096	673,763
Loans, net of allowance for credit losses (Notes 5 and 6)	**5,669,513**	5,054,254
Venture capital investments (Note 7)	**271,064**	206,360
	5,940,577	5,260,614
Capital assets, net of accumulated amortization	**28,912**	32,318
Other assets (Note 8)	**212,619**	258,823
	241,531	291,141
TOTAL ASSETS	**$ 6,897,204**	$ 6,225,518
LIABILITIES AND SHAREHOLDER'S EQUITY		
Accounts payable and accrued liabilities	**$ 64,545**	$ 55,626
Accrued interest on borrowings	**129,226**	152,698
	193,771	208,324
Borrowings (Note 9)		
Short-term notes	**3,444,279**	2,604,399
Long-term notes	**2,152,764**	2,344,722
	5,597,043	4,949,121
Other liabilities (Note 10)	**146,070**	144,769
SHAREHOLDER'S EQUITY		
Share capital (Note 11)	**598,400**	598,400
Contributed surplus	**27,778**	27,778
Retained earnings	**334,142**	297,126
	960,320	923,304
Contingent Liabilities and commitments (Note 16)		
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	**$ 6,897,204**	$ 6,225,518

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

Approved by the Board:

Terry B. Grieve
Director

Michel Vennat
Director

STATEMENT OF INCOME AND RETAINED EARNINGS

for the year ended March 31 *($ in thousands)*	2002	2001
FINANCIAL SERVICES		
Loans		
Interest income	$ 503,442	$ 527,419
Interest expense (Note 12)	162,797	225,194
Net interest income	340,645	302,225
Provision for credit losses (Note 6)	95,000	106,000
Net interest income after provision for credit losses	245,645	196,225
Operating and administrative expenses (Note 13)	165,187	158,971
Income from Loans	80,458	37,254
Venture Capital		
Interest and dividends	3,608	5,870
Net realized gains on investments	1,747	75,756
Other	3,338	2,549
Investment income	8,693	84,175
Write-down on investments	18,948	13,306
Net investment (loss) income	(10,255)	70,869
Operating and administrative expenses (Note 13)	10,722	14,701
(Loss) income from Venture Capital	(20,977)	56,168
INCOME FROM FINANCIAL SERVICES	59,481	93,422
CONSULTING GROUP		
Revenue	18,189	17,724
Operating and administrative expenses (Note 13)	23,937	22,824
LOSS FROM CONSULTING GROUP	(5,748)	(5,100)
NET INCOME	53,733	88,322
RETAINED EARNINGS		
Beginning of year	297,126	222,648
Dividend on preferred shares	(16,717)	(13,844)
End of year	$ 334,142	$ 297,126

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

STATEMENT OF CASH FLOWS

for the year ended March 31 *($ in thousands)*	2002	2001
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES		
Net income	$ 53,733	$ 88,322
Adjustments to determine net cash flows:		
Net realized gains on venture capital investments	(1,747)	(75,756)
Provision for credit losses and write-down of venture capital investments	113,948	119,306
Amortization of capital assets	10,355	11,785
Change in interest receivable on loans	1,616	(3,932)
Change in accrued interest on borrowings	(16,552)	14,797
Translation adjustment on borrowings and securities	(84,337)	18,025
Net change in unrealized gains and amounts receivable on derivative financial instruments	63,133	49,403
Net change in unrealized losses on derivative financial instruments	(12,930)	(77,223)
Net change in other assets and other liabilities	(699)	3,035
NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	126,520	147,762
CASH FLOWS USED IN INVESTING ACTIVITIES		
Disbursements for loans	(1,868,894)	(1,710,228)
Disbursements for venture capital investments	(102,547)	(83,508)
Repayments of loans	1,157,019	1,162,094
Proceeds on sales of venture capital investments	20,642	84,705
Net acquisition of capital assets	(6,949)	(4,224)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(800,729)	(551,161)
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES		
Issue of long-term notes	798,945	511,542
Repayment of long-term notes	(943,271)	(672,561)
Net change in short-term notes	875,445	604,247
Net change in securities	(13,707)	21,067
Proceeds from issue of preferred shares	—	65,000
Dividend paid on preferred shares	(13,844)	(8,889)
Other	(2,873)	(4,955)
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	700,695	515,451
NET INCREASE IN CASH AND SHORT-TERM INVESTMENTS	26,486	112,052
CASH AND SHORT-TERM INVESTMENTS AT BEGINNING OF YEAR	605,955	493,903
CASH AND SHORT-TERM INVESTMENTS AT END OF YEAR	$ 632,441	$ 605,955
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Amount of interest paid in the year	$ 179,349	$ 210,397

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

March 31, 2002 *($ 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. The Bank is wholly owned by the Government of Canada and is exempt from income taxes.

The objectives of the Bank are to promote and assist in the establishment and development of business enterprises in Canada, especially small and medium-sized businesses, by providing a wide range of financial and consulting services complementary to those of commercial financial institutions. The Bank offers to 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* 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.

2. SIGNIFICANT ACCOUNTING POLICIES

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

Securities

Debt securities 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 netted against interest expense.

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 that are considered impaired.

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

For impaired loans measured on the basis of expected future cash flows, as explained under *Allowance for credit losses,* 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.

The allowance for credit losses comprises specific and general allowances.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 in 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 for which specific allowances cannot yet be determined. The amount is estimated based on historical loss experience and management's assessment of general economic and business conditions affecting the lending operations, recent loan loss experiences and trends in the credit quality of the loan portfolio.

Venture Capital Investments

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

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

Capital Assets and Amortization

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

Computer equipment and software	3-7 years
Furniture and fixtures	5 years
Leasehold improvements	over the term of the lease, maximum 15 years

Premiums, Discounts and Debt Issue Expenses

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

Translation of Foreign Currencies

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

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. These financial instruments are used as hedges for the sole purpose of matching assets and liabilities. These derivatives are accounted for on an accrual basis with the related revenue or expense recognized over the life of the hedged position as an adjustment to interest expense.

Premiums paid or received with respect to derivative financial instruments are deferred and amortized to interest expense over the lives of the derivative contracts.

Employee Future Benefits

The Bank maintains defined benefit pension plans for eligible employees. Periodic valuations are performed by independent actuaries to determine the present value of the accrued pension benefits 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The net pension expense or credit comprises the actuarially computed cost of pension benefits provided in respect of the current year's service, imputed interest on pension liabilities, expected income on plan assets based on an average of market-related values and the amortization of experience gains or losses, adjustments from plan amendments and transitional balances upon adoption of the current accounting policy. Amortization is charged on a straight-line basis over the expected average remaining service life of the employees covered by the plans.

Amortization of actuarial gains or losses is recognized in the expense for the year if the unamortized net actuarial gain or loss at the beginning of the year exceeds 10% of the value of the accrued benefit obligation or 10% of the fair market value of the plan assets, whichever is greater. Amortization corresponds to the excess divided by active employees' expected average remaining service life.

The Bank also provides life insurance and health care benefits for eligible retirees as well as other employee and retiree benefits which are accrued based on actuarial valuations.

3. CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments comprise bank account balances, net of cheques outstanding, and short-term bank deposits with maturities at original acquisition date of less than 90 days.

4. SECURITIES

	Term to maturity			
	Within 1 year	1 to 3 years	**2002 Total**	2001 Total
Canada				
Carrying value	$ 25,879	$ —	**$ 25,879**	$ 25,605
Yield	6.75%	—	**6.75%**	6.59%
Fair value	$ 25,936	$ —	**$ 25,936**	$ 26,132
Financial Institutions				
Carrying value	$ —	$ 56,776	**$ 56,776**	$ 42,203
Yield	—	2.84%	**2.84%**	5.80%
Fair value	$ —	$ 57,497	**$ 57,497**	$ 43,165
Total				
Carrying value	$ 25,879	$ 56,776	**$ 82,655**	$ 67,808
Yield	6.75%	2.84%	**4.09%**	6.10%
Fair value	$ 25,936	$ 57,497	**$ 83,433**	$ 69,297
Swap Contracts				
Notional amount	$ 24,950	$ 53,585	**$ 78,535**	$ 64,950
Adjusted yield (1)	2.00%	2.26%	**2.18%**	5.40%
Amounts denominated in foreign currencies included in the carrying value of securities				
		US dollars - 2001 36,964		$ 58,240
		US dollars - 2002 45,814	**$ 72,962**	

(1) After adjusting for the effect of related derivatives (see Note 15).

All securities held as at March 31 were issued by Canadian entities at fixed 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 adjust the interest rate and the foreign exchange risks associated with the above securities.

5. LOANS

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

	2002		2001	
Performing—floating	**$ 3,854,234**	**6.43%**	$ 3,282,891	9.45%
Performing—fixed				
Under one year	**473,370**	**8.19%**	415,658	9.67%
1 to 2 years	**439,889**	**8.50%**	220,343	9.28%
2 to 3 years	**211,761**	**9.16%**	364,963	9.37%
3 to 4 years	**247,302**	**9.64%**	174,633	9.66%
4 to 5 years	**162,552**	**9.34%**	235,669	9.74%
Over 5 years	**413,633**	**9.08%**	446,009	9.22%
Performing	**5,802,741**		5,140,166	
Impaired	**267,958**		272,242	
Total loans	**6,070,699**		5,412,408	
Allowance for credit losses				
General	**(300,746)**		(261,982)	
Specific	**(100,440)**		(96,172)	
	(401,186)		(358,154)	
Loans, net of allowance for credit losses	**$ 5,669,513**		$ 5,054,254	

The concentrations of the total loans outstanding by province and territory as at March 31 are set out in the table below. The Bank believes it does not have any significant concentrations in any individual or related group of clients.

Geographic Distribution	**2002**		2001	
Newfoundland and Labrador	**$ 215,141**	**3.6%**	$ 188,830	3.5%
Prince Edward Island	**42,261**	**0.7%**	41,140	0.8%
Nova Scotia	**128,716**	**2.1%**	112,203	2.1%
New Brunswick	**223,168**	**3.7%**	213,562	4.0%
Quebec	**2,483,772**	**40.9%**	2,239,607	41.4%
Ontario	**1,832,667**	**30.2%**	1,519,773	28.1%
Manitoba	**99,684**	**1.6%**	91,788	1.7%
Saskatchewan	**102,522**	**1.7%**	98,984	1.8%
Alberta	**354,743**	**5.8%**	309,950	5.7%
British Columbia	**539,734**	**8.9%**	543,699	10.0%
Yukon	**20,964**	**0.3%**	24,093	0.4%
Northwest Territories and Nunavut	**27,327**	**0.5%**	28,779	0.5%
Total loans outstanding	**$ 6,070,699**	**100.0%**	$ 5,412,408	100.0%

6. ALLOWANCE FOR CREDIT LOSSES

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

	2002	2001
Balance at beginning of year	**$ 358,154**	$ 294,804
Write-offs	**(49,008)**	(40,130)
Interest income due to accretion	**(5,100)**	(4,885)
Recoveries	**2,140**	2,365
	306,186	252,154
Provision for credit losses	**95,000**	106,000
Balance at end of year	**$ 401,186**	$ 358,154

7. VENTURE CAPITAL INVESTMENTS

The Bank maintains a portfolio of venture capital investments, which is focussed on companies with promising competitive positions in their respective marketplaces and strong growth potential. The concentrations of venture capital investments are listed below. The Bank believes it does not have any significant concentrations in any individual client.

	2002		2001	
Industry Sector	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Biotechnology/Medical/Health	**$ 80,692**	**$ 87,418**	$ 65,745	$ 95,830
Computer	**49,504**	**53,028**	38,530	41,712
Venture Capital Seed Funds	**25,917**	**39,676**	28,406	58,721
Venture Capital Funds	**7,885**	**10,495**	250	9,050
Electronics	**49,707**	**69,615**	27,139	40,728
Communications	**39,257**	**48,562**	34,235	55,410
Energy	**6,015**	**6,015**	2,794	2,824
Industrial	**3,484**	**3,890**	3,658	3,658
Consumer-related	**2,538**	**2,574**	2,538	2,574
Other	**6,065**	**6,200**	3,065	3,614
Venture capital investments	**$ 271,064**	**$ 327,473**	$ 206,360	$ 314,121

(See Note 14 for determination of fair value)

The preceding table includes $13,567 ($11,829 in 2001) of temporary investments, with a fair value of $14,548 ($11,829 in 2001).

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

Carrying Value	**2002**	2001
Common shares	**$ 121,441**	$ 114,491
Preferred shares	**129,879**	77,040
Debentures	**19,744**	14,829
Venture capital investments	**$ 271,064**	$ 206,360

The Bank has invested in T²C² Bio, T²C² Info, Western Technology and Eastern Technology seed funds over which it has joint control. Below is a summary of the Bank's recorded proportionate share of the assets, liabilities, revenues, expenses and cash flows of these funds.

	2002	2001
Current assets	**$ 3,949**	$ 2,924
Venture capital investments	**21,581**	25,077
Other assets	**13**	20
Current liabilities	**15**	76
Investment income	**2,311**	1,666
Write-down on investments	**5,142**	—
Operating and administrative expenses	**1,318**	1,119
Net (loss) income	**$ (4,149)**	$ 547
Cash flows from (used in):		
Operating activities	**$ (872)**	$ (1,006)
Investing activities	**410**	(8,588)
Financing activities	**1,748**	9,270

8. OTHER ASSETS

	2002	2001
Unrealized gains and amounts receivable on derivative financial instruments	**$ 153,283**	$ 216,415
Accrued benefit asset	**51,419**	37,883
Unamortized debt issue expenses on long-term notes	**794**	1,868
Other	**7,123**	2,657
	$ 212,619	$ 258,823

8. OTHER ASSETS (continued)

Unrealized gains and amounts receivable on derivative financial instruments are receivable from counterparties under derivative contracts and generally correspond to foreign currency and other adjustments in the underlying borrowings. Unrealized losses and amounts payable to counterparties under derivative contracts are included in “Other liabilities” (see Note 10) and in “Accrued interest on borrowings”.

9. BORROWINGS

The Bank issues debt instruments in world capital markets to fund its loan portfolio. All foreign exchange risk is hedged through the use of derivatives. In addition, where appropriate, the Bank enters into interest rate, cross-currency interest rate and equity-linked swap contracts to hedge the related interest rate and equity market risks. The table below shows the outstanding notes as at March 31.

			2002			2001	
			Principal	**Carrying**		Principal	Carrying
Maturity date	**Currency**	**Effective rate**	**Amount**	**Value**	Effective rate	Amount	Value
Short-term notes							
2002	US dollars				4.47%-5.81%	$ 610,100	
	CDN dollars					1,658,840	$ 2,604,399
2003	US dollars	1.77%-2.90%	$ 1,235,065				
	CDN dollars		1,488,305	**$ 3,444,279**			
Total short-term notes				**$ 3,444,279**			2,604,399

			2002			2001	
			Principal	**Carrying**		Principal	Carrying
Maturity date	**Currency**	**Effective rate***	**Amount**	**Value**	Effective rate	Amount	Value
Long-term notes							
2002	US dollars				4.57%-5.60%	$ 152,500	
	Yen				4.79%	2,000,000	
	CDN dollars				4.36%-5.03%	318,000	$ 573,905
2003	US dollars	1.77%-1.84%	$ 13,000				
	CDN dollars	1.88%-6.25%	276,500	**$ 296,272**	4.77%-6.25%	163,500	163,500
2004	CDN dollars	1.59%-6.10%	317,500	**317,500**	4.67%-6.10%	368,154	368,154
2005	Yen				4.69%	500,000	
	CDN dollars	1.83%-5.15%	181,000	**181,000**	4.78%-5.13%	60,000	68,384
2006	CDN dollars	1.75%-5.65%	235,098	**235,098**	4.56%-5.65%	178,984	178,984
2007	US dollars				4.71%-4.75%	15,196	
	Euro	1.85%	4,587		4.61%	4,587	
	CDN dollars	1.70%-6.01%	257,094	**263,224**	4.51%-6.01%	188,477	214,504
2008	CDN dollars	1.80%-4.20%	114,600	**114,600**	4.61%-5.71%	105,600	105,600
2009	CDN dollars	1.68%-5.39%	227,297	**227,297**	4.64%-5.39%	131,950	131,950
2010	Yen				4.69%-5.53%	5,100,000	
	US dollars	1.83%-5.82%	25,000		5.82%	15,000	
	CDN dollars	1.70%-1.92%	102,665	**142,493**	4.72%-4.95%	28,000	129,728
2011	Yen				4.54%-4.65%	1,500,000	
	US dollars	1.79%	10,000		4.71%	10,000	
	CDN dollars	1.66%-2.07%	65,000	**80,850**	4.36%-5.25%	65,000	103,927
2012	Yen	1.87%	500,000		4.65%-4.91%	7,600,000	
	CDN dollars	1.87%-1.93%	35,000	**48,276**	4.70%-4.83%	43,000	144,868
2014	Yen	1.83%-1.86%	1,600,000	**19,212**			
2015	Yen	1.81%-1.85%	2,600,000	**31,220**	4.58%-4.91%	10,700,000	133,723
2016	Yen				4.68%-4.70%	2,200,000	27,495
2017	Yen	1.82%-1.92%	16,300,000	**195,722**			
Total long-term notes				**$ 2,152,764**			$ 2,344,722

* *The effective rates on long-term notes are after giving effect to swap contracts when applicable. Information as to the repricing dates of the interest rate swap contracts is included in Note 15.*

9. BORROWINGS (continued)

The preceding table includes $1,592,764 in 2002 and $1,745,068 in 2001 of long-term notes payable that 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.

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 noteholders. The type of notes included in the preceding table are as follows:

	2002	2001
Interest-bearing notes	**$ 560,000**	$ 790,160
Notes linked to equity indices	**731,689**	485,298
Notes linked to currency rates	**104,890**	291,454
Notes linked to swap rates	**69,643**	119,867
Notes callable prior to maturity	**188,822**	270,950
Notes extendible beyond maturity	**118,000**	153,000
Other structured notes	**379,720**	233,993
	$ 2,152,764	$ 2,344,722

As at March 31, 2002, the payment requirements and maturities of long-term notes are as follows:

2003	**$ 296,272**
2004	**317,500**
2005	**181,000**
2006	**235,098**
2007	**263,224**
2008 and later	**859,670**
	$ 2,152,764

10. OTHER LIABILITIES

	2002	2001
Deferred income	**$ 927**	$ 1,420
Accrued benefit liability	**88,436**	78,903
Unrealized losses on derivative financial instruments	**36,150**	42,012
Other	**20,557**	22,434
	$ 146,070	$ 144,769

11. 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	**2002**			2001		
	Number of shares	**Amount**	**Dividend rate**	Number of shares	Amount	Dividend rate
Preferred shares						
Class A — Series 1	**500,000**	**$ 50,000**	**5.592%**	500,000	$ 50,000	5.595%
— Series 2	**500,000**	**50,000**	**6.545%**	500,000	50,000	6.545%
— Series 3	**500,000**	**50,000**	**5.515%**	500,000	50,000	5.515%
— Series 4	**400,000**	**40,000**	**5.548%**	400,000	40,000	6.270%
— Series 5	**400,000**	**40,000**	**6.251%**	400,000	40,000	6.270%
— Series 6	**650,000**	**65,000**	**4.879%**	650,000	65,000	4.933%
		295,000			295,000	
Common shares	**3,034,000**	**303,400**		3,034,000	303,400	
Total Outstanding Share Capital		**$ 598,400**			$ 598,400	

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 one 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 0.230% to 0.375%.

Statutory Limitations

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

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

12. INTEREST EXPENSE

	2002	2001
Interest on borrowings	**$ 195,127**	$ 264,166
Security and short-term investment income	**(32,330)**	(38,972)
	$ 162,797	$ 225,194

13. OPERATING AND ADMINISTRATIVE EXPENSES

	2002			2001		
	Financial Services		**Consulting Group**	Financial Services		Consulting Group
	Loans	**Venture Capital**		Loans	Venture Capital	
Salaries and staff benefits	**$ 89,437**	**$ 4,835**	**$ 18,479**	$ 79,276	$ 9,365	$ 16,369
Premises and equipment	**24,654**	**1,017**	**1,305**	25,486	868	2,353
Other expenses	**51,096**	**4,870**	**4,153**	54,209	4,468	4,102
	$ 165,187	**$ 10,722**	**$ 23,937**	$ 158,971	$ 14,701	$ 22,824

14. 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 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.

	2002			2001		
	Carrying value	**Fair value**	**Fair value over (under) carrying value**	Carrying value	Fair value	Fair value over (under) carrying value
Balance Sheet						
Assets						
Cash and short-term investments	**$ 632,441**	**$ 632,441**	**$ —**	$ 605,955	$ 605,955	$ —
Securities (Note 4)	**82,655**	**83,433**	**778**	67,808	69,297	1,489
Loans, net of allowance for credit losses	**5,669,513**	**5,680,904**	**11,391**	5,054,254	5,080,582	26,328
Venture capital investments	**271,064**	**327,473**	**56,409**	206,360	314,121	107,761
Other assets	**7,123**	**7,123**	**—**	2,657	2,657	—
	$ 6,662,796	**$ 6,731,374**	**$ 68,578**	$ 5,937,034	$ 6,072,612	$ 135,578
Liabilities						
Accounts payable and accrued liabilities	**$ 64,545**	**$ 64,545**	**$ —**	$ 55,626	$ 55,626	$ —
Accrued interest on borrowings	**129,226**	**129,226**	**—**	152,698	152,698	—
Short-term notes	**3,444,279**	**3,444,279**	**—**	2,604,399	2,604,399	—
Long-term notes	**2,152,764**	**2,155,999**	**3,235**	2,344,722	2,427,158	82,436
	$ 5,790,814	**$ 5,794,049**	**$ 3,235**	$ 5,157,445	$ 5,239,881	$ 82,436
			$ 65,343			$ 53,142
Derivative financial instruments (Note 15)	**$ 13,148**	**$ (19,977)**	**$ (33,125)**	$ 87,077	$ 89,430	$ 2,353
Total			**$ 32,218**			$ 55,495

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

Securities—The fair value of securities is provided in Note 4 to the financial statements.

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

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

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

Derivative financial instruments—The fair value of derivative financial instruments is provided in Note 15 to the financial statements.

15. DERIVATIVE FINANCIAL INSTRUMENTS

The Bank enters into derivative financial instruments as hedging transactions for the sole purpose of matching its assets and liabilities and hedging market risk exposure. These transactions are designed to reduce the Bank's exposure to mismatches in revenue and expenses resulting from fluctuations in interest rates and foreign exchange.

Depending on the circumstances, these transactions may include the following:

Swaps

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

Forwards and Futures

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

Options

Options are agreements in which the writer (or the seller) of the option grants the buyer the right, but not the obligation, to buy or sell a specific amount of a currency, commodity or financial instrument at a price agreed upon when the options are arranged. The writer receives a premium for selling this instrument.

15. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The following table provides the fair value of the Bank's derivatives portfolio as at March 31 as presented by unrealized gains or losses.

	2002			2001		
	Positive	**Negative**	**Net amount**	Positive	Negative	Net amount
Derivative financial instruments						
Interest rate swap contracts	**$ 4,355**	**$ 8,521**	**$ (4,166)**	$ 7,385	$ 21,199	$ (13,814)
Equity-linked swap contracts	**68,670**	**65,554**	**3,116**	70,854	41,391	29,463
Forward rate agreements	**85**	**1,597**	**(1,512)**	295	14	281
Cross-currency interest rate swap contracts	**8,159**	**24,867**	**(16,708)**	65,402	26,649	38,753
Currency forward contracts	**4,871**	**5,578**	**(707)**	34,747	—	34,747
Total fair value	**$ 86,140**	**$ 106,117**	**$ (19,977)**	$ 178,683	$ 89,253	$ 89,430
Less impact of master netting agreements	**60,410**	**60,410**	**—**	56,812	56,812	—
Total	**$ 25,730**	**$ 45,707**	**$ (19,977)**	$ 121,871	$ 32,441	$ 89,430

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

Credit risk

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

15. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Counterparty Credit Risk Exposure	Counterparty Ratings AAA	AA- to AA+	A to A+	Total
Gross positive replacement cost	**$ 48**	**$ 79,547**	**$ 6,545**	**$ 86,140**
Impact of master netting agreements	**(48)**	**(58,395)**	**(1,967)**	**(60,410)**
Replacement cost (after master netting agreements)	**$ —**	**$ 21,152**	**$ 4,578**	**$ 25,730**
Replacement cost (after master netting agreements)—2001	$ 39,164	$ 78,382	$ 4,325	$ 121,871
Number of counterparties				
March 31, 2002	**1**	**9**	**4**	
March 31, 2001	3	9	3	

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								**2002**		2001	
	Within 1 year	%	1 to 3 years	%	3 to 5 years	%	Over 5 years	%	**Notional amount**	**Replacement cost**	Notional amount	Replacement cost
Interest rate contracts												
$CDN payable — fixed	$ 71,300	4.87	$ 32,297	5.71	$ 47,195	5.58	$ —	—	**$ 150,792**	**$ —**	$ 319,993	$ —
$CDN receivable — fixed	138,359	4.90	—	—	—	—	152,800	5.62	**291,159**	**2,612**	552,530	5,295
Basis swaps	150,000	n.a.	—	—	—	—	—	—	**150,000**	**156**	1,015,000	426
Equity-linked swap contracts	53,859	n.a.	188,500	n.a.	412,129	n.a.	517,499	n.a.	**1,171,987**	**68,670**	557,239	70,854
Other contracts	23,000	n.a.	—	—	18,812	n.a.	15,647	n.a.	**57,459**	**1,587**	22,195	1,664
	436,518		220,797		478,136		685,946		**1,821,397**	**73,025**	2,466,957	78,239
Forward rate agreements	1,400,000	—	—	—	—	—	—	—	**1,400,000**	**85**	240,000	295
Cross-currency interest rate swap contracts	24,950	n.a.	43,585	n.a.	25,104	n.a.	502,529	n.a.	**596,168**	**8,159**	904,877	65,402
Total interest rate contracts	1,861,468	—	264,382	—	503,240	—	1,188,475	—	**3,817,565**	**81,269**	3,611,834	143,936
Foreign exchange contracts												
Currency forward contracts	2,009,089	n.a.	—	—	—	—	—	—	**2,009,089**	**4,871**	952,077	34,747
Total foreign exchange contracts	2,009,089	—	—	—	—	—	—	—	**2,009,089**	**4,871**	952,077	34,747
Total	$3,870,557	—	$264,382	—	$503,240	—	$1,188,475	—	**$5,826,654**	**$ 86,140**	$4,563,911	$ 178,683
Less impact of master netting agreements	—	—	—	—	—	—	—	—	**—**	**60,410**	—	56,812
Total	$3,870,557	—	$264,382	—	$503,240	—	$1,188,475		**$5,826,654**	**$ 25,730**	$4,563,911	$ 121,871

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

15. 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 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.

16. CONTINGENT LIABILITIES AND COMMITMENTS

As at March 31, 2002:

(a) various legal proceedings arising from the normal course of business are pending against the Bank. Management believes that the aggregate liability resulting from these proceedings will not be material.

(b) the undisbursed amounts on loans authorized total $748,938. These loan commitments are for an average period of three months ($71,176 in fixed, $677,762 in floating). The effective interest rates on these loan commitments vary from 4.25% to 20.0%. The undisbursed amounts on authorized venture capital investments total $66,887.

(c) the future minimum lease commitments under operating leases related to the rental of Bank premises are as follows:

2003	$ **17,270**
2004	**16,890**
2005	**16,594**
2006	**15,716**
2007	**14,193**
2008 - 2020	**101,098**
	$ **181,761**

17. EMPLOYEE FUTURE BENEFITS

The Bank maintains defined benefit pension plans (the "Pension Plans") for eligible employees, which provide post-retirement benefits based on number of years of service and average final pay. The Bank also provides life insurance and health care benefits for eligible retirees, as well as other employee and retiree benefits (the "Other Plans").

17. EMPLOYEE FUTURE BENEFITS (continued)

Pension and other post-retirement expense is included in Salaries and Staff benefits and is as follows:

	Registered Pension Plan		Supplemental Pension Plans		Other Plans	
	2002	2001	**2002**	2001	**2002**	2001
Plan expense (credit)						
Current service cost	**$ 12,501**	$ 10,024	**$ 909**	$ 519	**$ 2,653**	$ 2,191
Interest cost on benefit obligation	**24,662**	22,733	**1,871**	1,361	**4,785**	4,554
Expected return on plan assets	**(37,258)**	(35,025)	**(190)**	(216)	**—**	—
Amortization of transitional obligation (asset)	**(13,441)**	(13,441)	**(267)**	(267)	**315**	315
Amortization of net actuarial loss	**—**	—	**497**	—	**2**	19
Curtailment loss	**—**	—	**—**	—	**765**	—
Expense (credit) for the year ended March 31	**$ (13,536)**	$ (15,709)	**$ 2,820**	$ 1,397	**$ 8,520**	$ 7,079

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	
	2002	2001	**2002**	2001	**2002**	2001
Change in accrued benefit obligation						
Balance at beginning of year	**$ 348,124**	$ 309,057	**$ 26,057**	$ 18,356	**$ 68,271**	$ 61,672
Current service cost	**12,501**	10,024	**909**	519	**2,653**	2,191
Interest cost on benefit obligation	**24,662**	22,733	**1,871**	1,361	**4,785**	4,554
Benefits paid	**(15,780)**	(15,911)	**(390)**	(403)	**(2,015)**	(1,921)
Actuarial (gain) loss	**(8,568)**	22,221	**1,414**	6,224	**901**	1,775
Balance at end of year	**360,939**	348,124	**29,861**	26,057	**74,595**	68,271
Change in fair value of plan assets						
Balance at beginning of year	**$ 474,038**	$ 445,481	**$ 3,943**	$ 4,084	**$ —**	$ —
Employee contributions[1]	**167**	35	**—**	—	**—**	—
Employer contributions	**—**	—	**131**	145	**398**	461
Actual return on plan assets during the year	**(5,891)**	44,433	**143**	117	**—**	—
Benefits paid	**(15,780)**	(15,911)	**(390)**	(403)	**(398)**	(461)
Balance at end of year	**452,534**	474,038	**3,827**	3,943	**—**	—
Surplus (deficit) at end of year	**$ 91,595**	$ 125,914	**$ (26,034)**	$ (22,114)	**$ (74,595)**	$ (68,271)
Employer contributions after December 31	**—**	—	**34**	20	**92**	150
Unamortized transitional obligation (asset)[2]	**(87,368)**	(100,809)	**249**	(17)	**2,169**	3,249
Unamortized net actuarial loss	**47,192**	12,778	**7,282**	6,324	**2,367**	1,756
Accrued benefit asset (liability) at end of year[3]	**$ 51,419**	$ 37,883	**$ (18,469)**	$ (15,787)	**$ (69,967)**	$ (63,116)

1 Employees of the Bank are currently not required to contribute to the Pension Plans for current service. The Bank has the ultimate responsibility for ensuring that pension obligations are adequately funded over time. In specific circumstances, employees are allowed to contribute amounts to the Pension Plans for the recognition of years of service that are not already recognized.

2 Transitional balances as at April 1, 2000 and past service costs from amendments to the plans are amortized on a straight-line basis over the active employees' expected average remaining service life. The active employees' expected average remaining service life under the Pension Plans ranges from 6.8 years to 8.5 years. The expected average remaining service life of the active employees covered by the Other Plans is 13 years for all but one of the plans, in which case it is 8.5 years.

3 Net amount recognized in balance sheet as "Other liabilities" or "Other assets", as appropriate.

17. EMPLOYEE FUTURE BENEFITS (continued)

Included in the preceding 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	
	2002	2001	**2002**	2001
Fair value of plan assets	**$ 3,827**	3,943	**$ —**	$ —
Accrued benefit obligation	**29,861**	26,057	**74,595**	68,271

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

	Registered Pension Plan		Supplemental Pension Plans		Other Plans	
	2002	2001	**2002**	2001	**2002**	2001
Significant actuarial assumptions						
Discount rate at beginning of year	**7.00%**	7.30%	**7.00%**	7.30%	**7.00%**	7.30%
Discount rate at end of year	**6.70%**	7.00%	**6.70%**	7.00%	**6.70%**	7.00%
Expected long-term rate of return on plan assets[1]	**8.00%**	8.00%	**5.00%**	5.00%	**—**	**—**

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

The average rate of compensation increase is expected to be inflation which is assumed to be 3.25% (in 2001, 3.75%) plus a 0.5% productivity gain plus an adjustment for merit and promotion.

For measurement purposes, medical costs were assumed to increase with inflation, plus a further increase of 3.0% in 2003 graded down by 0.5% each year to 1.5% for 2006 and subsequent years (in 2001, an increase of 3.5% for 2002 graded down by 0.5% each year to 1.0% for 2007 and subsequent years).

18. 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.

19. SEGMENTED RESULTS OF OPERATIONS

The operations of the Bank are grouped into the business segments of Loans, Venture Capital and the Consulting Group. Disclosure of each segment's revenues, expenses and net income is set out in the Statement of Income consistent with the practice in previous years.

20. COMPARATIVE FINANCIAL DATA

Certain comparative figures have been reclassified to conform with the presentation adopted in 2002.

innovation means

employing **keen young minds** and **experienced talent** | embracing **process** and **technology** | looking systematically for **new markets** for existing products

listening and responding to the rapidly evolving **needs of customers** | seeking **new** and **different forms of financing** | focussing on **rigorous marketing**

Five-year operational and financial summary

OPERATIONAL STATISTICS for the year ended March 31 (*$ in thousands*)	**2002**	2001	2000	1999	1998
FINANCIAL SERVICES					
Total financing committed as at March 31					
Amount	**$ 7,201,678**	$ 6,353,362	$ 5,641,379	$ 5,090,228	$ 4,586,083
Number of customers	**21,016**	19,884	18,807	17,923	17,414
Committed to lending customers as at March 31					
Amount	**$ 6,827,489**	$ 6,057,285	$ 5,446,309	$ 4,933,237	$ 4,461,411
Number of customers	**20,861**	19,753	18,708	17,833	17,335
Committed to investment customers as at March 31					
Amount	**$ 374,189**	$ 296,077	$ 195,070	$ 156,991	$ 124,672
Number of customers	**155**	131	99	90	79
Total financing authorized					
Number	**6,519**	6,519	6,412	6,082	5,815
Net amount	**$ 1,848,109**	$ 1,652,076	$ 1,435,288	$ 1,271,937	$ 1,234,968
Lending authorized					
Number	**6,456**	6,448	6,350	6,035	5,773
Net amount	**$ 1,742,088**	$ 1,537,914	$ 1,372,492	$ 1,230,130	$ 1,171,977
Investments authorized					
Number	**63**	71	62	47	42
Net amount	**$ 106,021**	$ 114,162	$ 62,796	$ 41,807	$ 62,991
FINANCIAL STATISTICS					
Net interest income as a percentage of average loan portfolio	**5.92%**	5.82%	5.56%	5.66%	5.67%
Provision for credit losses as a percentage of average loan portfolio	**1.7%**	2.0%	2.0%	1.4%	1.3%
Operating and administrative expenses as a percentage of average loan portfolio	**2.9%**	3.1%	3.0%	3.2%	3.0%
Loan operations productivity ratio	**48.5%**	52.6%	54.7%	57.4%	53.3%
CONSULTING GROUP					
Revenue from activities	**$ 18,189**	$ 17,724	$ 19,396	$ 17,823	$ 21,458

Five-year operational and financial summary

FINANCIAL INFORMATION *($ in thousands)*	**2002**	2001	2000	1999	1998
STATEMENT OF INCOME for the year ended March 31					
Net income (loss)					
Loans	**$ 80,458**	$ 37,254	$ 25,320	$ 42,124	$ 50,737
Venture Capital	**$ (20,977)**	$ 56,168	$ 80,039	$ (4,124)	$ 4,217
Consulting Group	**$ (5,748)**	$ (5,100)	$ (4,254)	$ (5,216)	$ (9,480)
Net income	**$ 53,733**	$ 88,322	$ 101,105	$ 32,784	$ 45,474
BALANCE SHEET as at March 31					
Loans, net of allowance for credit losses	**$ 5,669,513**	$ 5,054,254	$ 4,608,188	$ 4,248,745	$ 3,838,305
Venture capital investments	**$ 271,064**	$ 206,360	$ 145,107	$ 110,298	$ 70,046
Total assets	**$ 6,897,204**	$ 6,225,518	$ 5,666,333	$ 5,098,461	$ 4,587,989
Total shareholder's equity	**$ 960,320**	$ 923,304	$ 783,826	$ 583,832	$ 507,058
Total liabilities	**$ 5,936,884**	$ 5,302,214	$ 4,882,507	$ 4,514,629	$ 4,080,931
Average loan portfolio	**$ 5,749,376**	$ 5,194,279	$ 4,736,601	$ 4,281,607	$ 3,855,662

BDC services in brief

BDC is structured to offer a variety of flexible and specialized financial products, as well as consulting services to help Canadian small businesses grow and successfully compete in an ever-changing global environment. The Bank's philosophy is to listen and respond to the needs of entrepreneurs with timely and relevant business solutions.

BDC Financial Services

The Bank provides a wide range of term loans with flexible repayment conditions. BDC supports companies at every stage of their growth in almost every sector of the economy. The Bank is very active in the manufacturing and tourism sectors, and maintains a particular focus on knowledge-based and exporting industries. BDC also responds to the particular needs of growing target markets, such as women, Aboriginal and young entrepreneurs.

Subordinate financing of up to $250,000 is offered to growing businesses with promising market niches. This form of higher-risk financing falls between debt and equity.

BDC Investment Group

BDC Investment Group offers venture capital and subordinate financing. The Venture Capital team provides equity to early-stage high-technology companies that have a clear vision of their market and excellent growth potential, and are export-oriented. The Subordinate Financing team offers quasi-equity loans for cash flow financing needs of fast-growing and more mature small businesses.

BDC Consulting Group

Through its national network of private sector consultants, BDC Consulting Group offers small business entrepreneurs affordable, customized and effective solutions to enhance their management skills. It also helps entrepreneurs assess, plan and implement winning strategies, especially in the areas of growth, quality, export and e-business. BDC Consulting Group provides solutions that enable growth-minded businesses to take their place in the world economy.

BDC Connex®

BDC Connex® offers its clients the entire range of BDC's financial products online, such as the Global Line of Credit® and the Student Business Loans program. This virtual branch is readily accessible to small businesses wishing to be informed about BDC products and services, as well as to do business online.

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