

BDC Corporate Plan Summary

2008-2012

Operating Budget

Capital Budget

Canada 





This is a summary of the Corporate Plan that was approved by the BDC Board of Directors in January 2007 and by the Governor in Council in the Spring 2007 in accordance with the provisions of the *Financial Administration Act*.

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EXECUTIVE SUMMARY

This document is the Summary of the Corporate Plan of the Business Development Bank of Canada (BDC) for the fiscal 2008 to 2012 planning period. The Plan builds on BDC's successful 62-year history in creating and developing successful Canadian firms which can grow and compete in changing market places, both locally and globally.

Canada's Development Bank

BDC is a Crown corporation wholly-owned by the Government of Canada. Set out in the *BDC Act*, BDC's mandate is to support Canadian entrepreneurship through term financing, subordinate financing, consulting services, and venture capital. Since receiving its new legislation in 1995, BDC has been profitable year after year, paying \$118.7 million in dividends to its sole shareholder, the Government of Canada.

BDC is Canada's "**Development Bank**". It is the only financial institution in Canada solely dedicated to the development of entrepreneurship. The value it has created for the public at large and its shareholder is measured by the thousands of successful Canadian SMEs (small and medium-sized enterprises) that BDC has helped prosper.

Named among Canada's Top 100 Employers in 2006, BDC serves 27,000 entrepreneurs from coast to coast through its 92 branch network.

BDC is a small niche player with 3.5% of the Canadian term financing market and 6% of the venture capital market. BDC operates where there are market deficiencies, complementing the services offered by other financial institutions.

A Unique Financial Institution

BDC focuses on start-up companies, innovators, manufacturers and exporters who continue to face lower financing approval rates. A comprehensive approach to risk assessment, with commensurate pricing, allows BDC to help these businesses whose financial needs often fall outside the risk tolerance of traditional lenders. Its project-based term financing protects precious working capital for these SMEs, supporting balance sheet diversification and growth.

Equally important is the long-term view taken by the Bank. BDC is a patient lender that accompanies its clients through good times and bad. It provides flexible terms and conditions and adjusts payment schedules to its clients' unique business cycles. This is particularly relevant for service sectors such as tourism and construction.

BDC has a significant regional presence and its dedicated employees have close, valued-relationships with Canadian entrepreneurs and a unique knowledge of their needs. Being close to its clients enables BDC to be a pioneer in developing innovative services. Unique in the market, BDC has developed know-how in financing intangibles assets, such as training and intellectual property, to support productivity improvement, a well-recognized gap in Canada.

BDC Consulting also sets BDC apart in the market. Consulting services, delivered via a roster of 500 private independent consultants, help entrepreneurs manage their businesses, whether it be advice on how to improve competitiveness through operational efficiency or manage human resources and skill shortages.

These characteristics make BDC a unique partner for Canadian entrepreneurs. Clients indicate in annual surveys that BDC's flexibility during every stage of their enterprise's development and its quality service are the main reasons why they choose BDC as their partner and trusted advisor. Internationally, BDC is recognized as a benchmark Development Bank among its 100 some counterparts worldwide.

Opportunities and Challenges in the Planning Period

BDC has built a thriving platform from which to support Canadian SMEs and will continue to respond to the challenges and opportunities facing its clients during the planning period.

Canada is entering a new era of globalization. With it has come the rise of emerging economies and a changing industrial structure. The effect on BDC's manufacturing clients - a cornerstone of its portfolio at almost 7,000 strong - has been significant. BDC has and will continue to respond by increasing awareness of emerging markets among its client-base, helping them develop action plans to become more competitive, and financing implementation of their emerging market strategies. These strategies will see BDC clients improve productivity and integrate emerging economy inputs so they may benefit from a global supply chain; this will enable them to successfully compete in existing markets and capture new ones.

BDC's Business Ownership Transition (BOT) strategy, first introduced last year, has seen a tremendous uptake among BDC clients. The strategy makes entrepreneurs aware of the importance of business transition, and helps them plan the process and finance the transaction. One of the key differentiating features of BDC's approach is its capacity to finance a higher percentage of intangible assets (goodwill) in BOT transactions which often falls outside the risk appetite of traditional lenders. BDC's BOT strategy has been well-received by other financial institutions as it gives them the opportunity to combine their traditional services with BDC's higher risk financing to provide a complete package to their clients.

BDC Venture Capital Strategy

As a venture capitalist, BDC invests in 270 Canadian companies (205 directly) bringing research and technological innovations to the world marketplace.

At the request of the Minister of Industry, an external assessment of BDC's venture capital (VC) activity was conducted in 2006. The results of the assessment are extremely positive. BDC has played a positive contra-cyclical role in the industry since 2001 while overall investments have declined in Canada. BDC is actively fulfilling its mandate to address venture capital market deficiencies in early-stage technology investments. The assessment confirmed that BDC is a catalyst in both direct and fund investments. Moreover, BDC is an engine of commercialization with 61% of its seed and early-stage investment linked to 14 universities and research labs across the country. BDC has also succeeded in attracting close to three times the industry average of foreign investors in its portfolio companies. These investors bring networks, technology, market and management know-how to BDC's investee companies.

Over the last five years, BDC has consistently leveraged over four dollars from the VC industry for every one it has invested.

Building on its achievements and experience, for the planning period, BDC will:

- ▶ favor investments in earlier stage technology, and in the process, fill market gaps created by the higher risk level of these transactions
- ▶ continue to attract capital to the very early-stage asset class through a fund strategy
- ▶ identify technologies and sub-sectors that are promising and focus investments and activities on these areas
- ▶ regularly review the status of the portfolio to concentrate effort on potential winners in order to add value to such investee companies and attract additional investments from other investors to support their growth

- ▶ when appropriate, manage third party money (such as in the GO Capital fund¹) to leverage BDC's impact in the market, a clear recognition of BDC's expertise in the market and
- ▶ become a catalyst for commercialization by working more collaboratively with Natural Sciences and Engineering Research Council and the National Research Council to create a commercialization continuum that helps Canadian innovations reach the world stage.

The VC Strategy recognizes that BDC's VC portfolio still is considerably young and that it will need to nurture companies for close to ten years in order to bring its businesses to maturity and optimize exit.

BDC's Strategic Framework

Building on a balanced scorecard approach, this year's Plan introduces a new planning framework – a Strategy Map.

The Map ensures that resources are aligned to the Bank's strategic actions and clearly articulates the outcomes BDC wants to achieve for both clients and the shareholder.

Equally important, this Plan provides a structured accountability framework from which to measure performance and report on how BDC continues to support Canadian SMEs through its Strategy.

Conclusion

BDC's performance to date has been excellent. Over the planning period, BDC will continue to play an important complementary role filling market gaps. It will be profitable, and continue to pay dividends to the Government of Canada.

BDC will remain an innovator in financing SME projects with the goal of improving their productivity and increasing their competitiveness, both locally and globally. BDC will also build on its current expertise and act as a catalyst in the market to attract private independent investments to accelerate commercialization of research in Canada. As outlined in the Corporate Plan, BDC will accomplish all of the above and continue its growth within its existing financial capabilities.

¹ GO Capital Fund is a \$50 million fund to support the creation of companies in all sectors of science and technology, including natural sciences, life sciences and information technology. The GO Capital Fund is a partnership with both public and private sectors. BDC is the General Partner and is responsible for managing GO Capital's investments for the other limited partners/institutional investors.

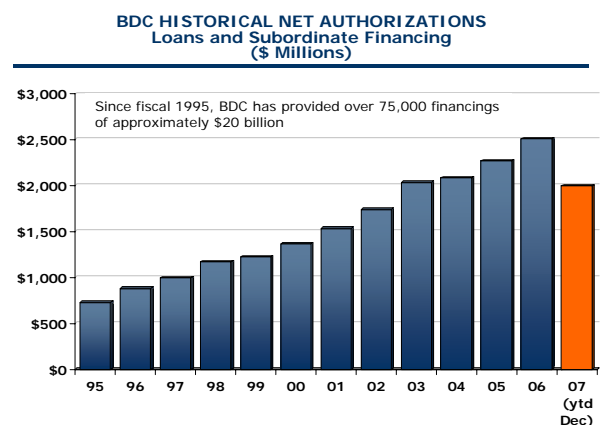
1.0 INTRODUCTION

1.1 Corporate Mandate

- ▶ The Business Development Bank of Canada (BDC) is a Crown corporation wholly-owned by the Government of Canada. Set out in the *BDC Act, 1995*, BDC's mandate is to support and develop Canadian entrepreneurship through term loan financing, venture capital (VC), subordinate financing, and consulting services.
- ▶ BDC is Canada's "**Development Bank**". It is the only financial institution in Canada solely dedicated to the development of entrepreneurship. BDC accompanies SMEs from inception (commercialization of applied research, for instance) to maturity (such as established manufacturers), and, supports several cycles of innovation and productivity improvement.

1.2 Operating and Borrowing Powers

- ▶ BDC's financial services are intended to complete those provided by other financial institutions. As such, BDC is a pioneer in the financial services industry in developing innovative solutions and services that address emerging and existing market deficiencies. In fulfilling this complementary role, BDC is increasingly becoming a quasi-equity bank, providing under-secured financing to SMEs nation-wide.
- ▶ BDC is a small niche player with approximately 3.5% of the term lending market.² BDC VC plays a prominent role in very early stage VC. To leverage its limited resources, BDC partners with other financial institutions and investors.
- ▶ BDC secures the money it lends from international capital markets. Its financings are provided directly to Canadian SMEs on a commercial basis, at rates commensurate with risk. BDC, in essence, acts as a financial intermediary between capital markets and Canadian SMEs.
- ▶ BDC is required to earn a return on equity (ROE) that is at least equal to the Government's average long-term cost of capital. BDC does not receive annual appropriations from the Government. On the contrary, as sole shareholder of BDC, the Government receives annual remuneration from the Bank's profits. To date, BDC has paid \$118.7 million in dividends to the Government.³
- ▶ BDC has a network of 92 branches⁴. It serves approximately 27,000 Canadian entrepreneurs and has a committed portfolio of over \$10 billion in loans, subordinate financing and venture capital. BDC delivers about 2,000 consulting mandates yearly. Using a decentralized approach, credit decisions are made close to the client and on the basis of the viability of the entrepreneurial project.



² Source: SME Financing Data Initiative, Statistics Canada, Industry Canada, Finance Canada, 2006 release based on Calendar 2004 data

³ In fiscal 2006 alone, BDC paid \$20.8 million in dividends to its Shareholder

⁴ Number of branches as at December 31, 2006

Key Services

BDC Financing

Secured loans and specialized solutions (under and unsecured) designed particularly to support start-ups, investment in intangible assets, business growth projects, innovation projects, equipment financing for modernization purposes, and business ownership transition.

BDC Subordinate Financing

Hybrid instrument combining elements of both debt financing and equity financing, which is offered to more mature businesses in support of specific growth projects.

BDC Venture Capital

Equity investments to cover every stage of a company's development cycle, from seed through expansion, with a focus on early-stage companies developing disruptive technologies with the potential to become world leaders in niche markets in four target sectors: life sciences, telecommunications, information technology and advanced technologies.

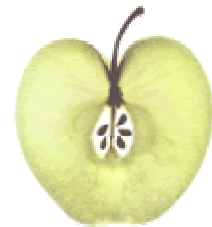
BDC Consulting

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

1.3 Core Values

Recently named one of the Top 100 Employers in Canada, BDC leverages the talent of its 1,700 people who are the cornerstone of BDC's success. BDC's client-centric approach is a shared value amongst all employees. This is reflected in the core values of the organization, which were developed through a consultative process with employees across the country:

- ▶ Ethics
- ▶ Client connection
- ▶ Team spirit
- ▶ Accountability
- ▶ Work-life balance



1.4 Mission and Vision Statements

"Our mission is to help create and develop small and medium-sized enterprises (SMEs) through timely and relevant financial services (loans, venture capital and subordinate financing) and consulting services".

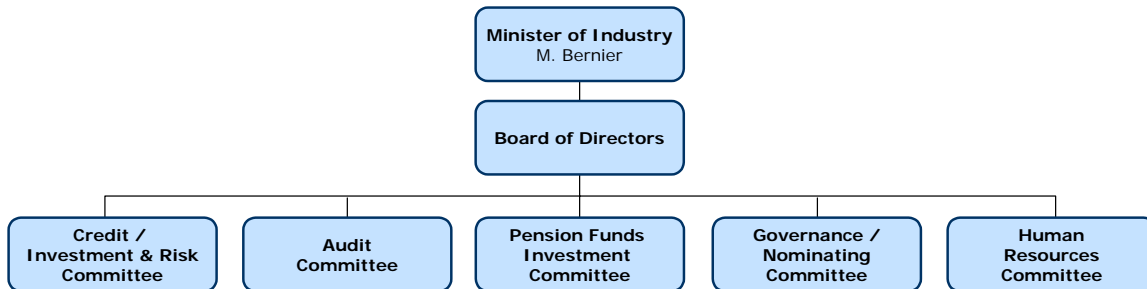
"We envision making a unique and significant contribution to the success of dynamic and innovative entrepreneurship for the benefit of all Canadians."

1.5 Governance

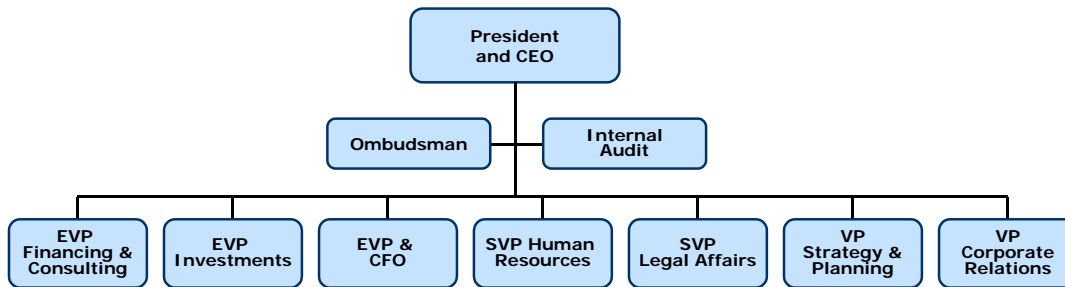
BDC works at arm's length from the Government of Canada. All business decisions are made autonomously and within a well-defined governance structure. BDC is accountable to Parliament through the Minister of Industry. Priority letters from the Minister of Industry to the Chairman of BDC's Board of Directors provide policy direction.⁵ BDC's management then develops the strategies to implement this policy direction.

⁵ The most recent letter from the Minister of Industry is presented in section 1.7

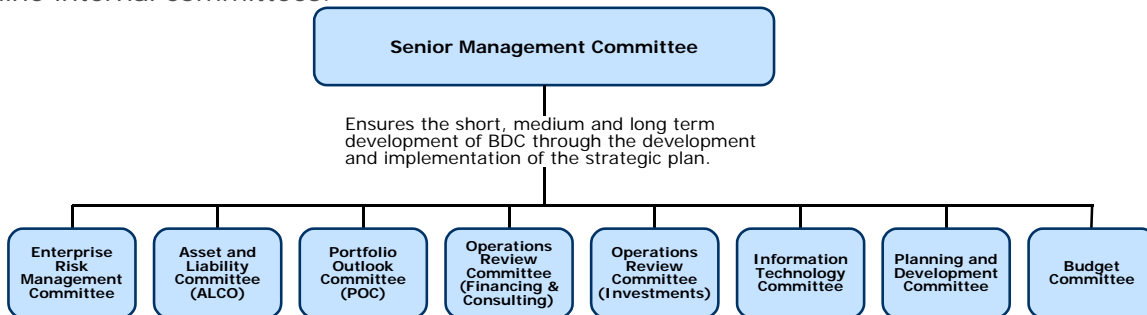
1.5.1 Board and Committee Structure



1.5.2 Organizational and Management Structure



As part of the new internal governance structure and to create cross-functional efficiencies, BDC also realigned its management committee structure. The following chart presents the nine internal committees.



1.5.3 Ombudsman

The BDC Ombudsman’s role is to ensure that clients and staff are treated fairly and equitably. The Ombudsman also ensures good governance by facilitating the confidential resolution and, in some cases, disclosure of internal and external wrongdoings. To that end, the BDC Ombudsman works at arm’s length from BDC management, while remaining an integral part of its governance structure. She is accountable to the President and CEO for all matters excluding the internal disclosure of wrongdoing (for which she reports to the Audit Committee of the Board of Directors). The BDC Ombudsman also reports annually to the Board of Directors.

On the client side, the Ombudsman oversees BDC's Total Care Program, which offers a Charter of Client Rights, a Complaint Handling Process and an Independent Mediation Process. The BDC Ombudsman monitors the application of the Charter of Client Rights and co-ordinates the Independent Mediation Process. The Ombudsman's work is client and employee driven and crosses all levels of management at BDC. BDC Compliance to Treasury Board Secretariat Policies

1.6 BDC Compliance to Treasury Board Secretariat Policies

In its capacity as a federal crown corporation, BDC is fully compliant in displaying the "Canada" wordmark in all of its corporate identity applications.

BDC respects the *Official Languages Act*, and its operations are in adherence to the regulations and policies implemented by the Treasury Board Secretariat, giving special attention to the economic and social development of minority official language communities.

1.7 Ministerial Priorities Letter

Minister of Industry



Ministre de l'Industrie

Maxime Bernier
Ottawa, Canada K1A 0H5

July 17, 2006

Mr. Cedric Ritchie
Chairman of the Board
Business Development Bank of Canada
5 Place Ville Marie, Suite 400
Montréal, Quebec H3B 5E7

Dear Mr. Ritchie:

I would like to take this opportunity to review the Business Development Bank of Canada's (BDC) current priorities, and highlight those on which the Board of Directors and officers of the Bank should focus as you move forward in the upcoming corporate planning process.

The Government of Canada is committed to ensuring that Canada has the right environment for fostering competitive businesses, an environment which welcomes and supports innovative firms, entrepreneurs and investors.

BDC plays a key role in developing this environment, filling a unique market niche as a complementary financial service provider and working in partnership with both the public and private sectors, providing a range of services available at all stages of a firm's development. With a continued emphasis on innovative firms and exporters, BDC works with entrepreneurs to create and grow firms that would not otherwise have been established or would fail to reach their full potential if not for the Bank's products and services. The success of BDC in addressing the needs of these higher risk firms results from a unique understanding of the evolution of client needs as businesses grow, and the tailoring of products and services.

Continual developments in the venture capital marketplace mean the Bank must frequently assess market trends and adjust its investment strategies accordingly. To better understand how BDC is meeting these challenges, I am suggesting that you consider getting an independent report on the Bank's venture capital strategy and activities. The content of this report should assist you in the preparation of the 2008-2012 Corporate Plan.

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Canada

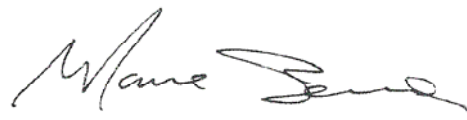
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With respect to governance, the Auditor General noted in the 2004 Special Examination of BDC that the Bank had made significant progress, particularly with regard to risk management and conflict of interest. This government places a strong emphasis on accountability and transparency so, while I see this as a positive development, I look forward to further updates on this in your 2008-2012 Corporate Plan. This government is also committed to excellence in governance, to which a quality Board of Directors is fundamental. To this end, I encourage you to reflect on the skills needed and to propose members with the specialized knowledge and experience that BDC requires.

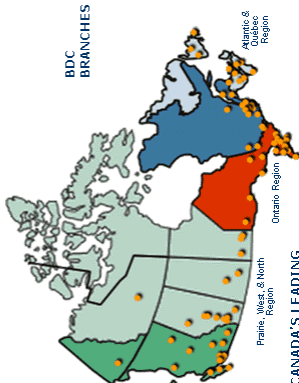
Looking ahead, the government is committed to helping to develop successful Canadian-based firms that can grow and compete in the global marketplace. I encourage BDC to continue to play an important role in supporting smaller firms and firms undertaking private sector R&D; promoting successful commercialization and adoption of new technologies; helping Canadian firms meet the challenges and opportunities of globalization, in both domestic and international markets; and working collaboratively with other financial Crown corporations, including through venture capital activities, to avoid overlap and duplication. I look to BDC to be flexible in responding to the individual needs of small and medium-sized enterprises, to develop appropriate responses to emerging issues such as business ownership transfer, and to continue its work in supporting the development of Canadian Aboriginal entrepreneurs.

In closing, the Business Development Bank of Canada plays a key role in fostering an entrepreneurial culture in Canada, where ideas can be transformed into successful businesses that thrive and compete at home and abroad. I look forward to the report on your venture capital activities and to your 2008-2012 Corporate Plan to see how BDC responds to these challenges and opportunities.

Sincerely,



Maxime Bernier



BDC BRANCHES

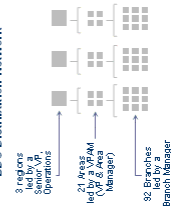
AS CANADA'S LEADING DEVELOPMENT BANK, BDC:

- ▶ creates and develops successful Canadian firms which can grow and compete in changing market places
- ▶ inspires and supports Canadian entrepreneurship
- ▶ addresses and serves all stages of business development, from start-up to expansion
- ▶ covers the financing needs of manufacturers, exporters, and service industries
- ▶ finances investment in intangible assets to support productivity improvement
- ▶ provides entrepreneurial access to professional and affordable consulting services
- ▶ ensures the availability of value-added equity (through venture capital investments and subordinate financing) to support the formation of technology-centric enterprises in Canada

BDC: A LOCAL BANK

- ▶ BDC's national network, including many branches in rural areas, allows it to respond to the economic diversity of Canada's different regions.

BDC Distribution Network



Mandate

To support Canadian entrepreneurship by providing financial, consulting and venture capital services. BDC is also mandated to be a complementary lender in the market. Financing and investments are to fill out or complete services available from commercial financial institutions

Mission

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

Vision

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

Core Values

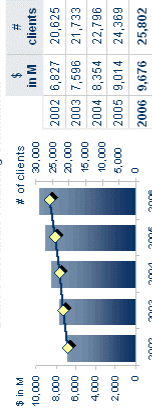
- To uphold the core values that define BDC and strengthen its corporate culture:
- ▶ Ethics
- ▶ Client connection
- ▶ Team spirit
- ▶ Accountability
- ▶ Work/life balance

BDC Financing

Long-term bank financing designed particularly to support business growth, start-ups, and innovation strategies, and to offer equipment financing for modernization purposes. BDC financing offers:

- Co-Vision** Financing designed for start-ups and home-based entrepreneurs covering equipment, working capital, and franchise costs
- Productivity** Financing for new or used equipment and machinery and related soft costs geared to improving productivity
- Private Loans** Financing to support business growth and support the development and implementation of an innovation strategy
- Corporate Finance** Specialized support for medium-sized firms that fall outside the risk appetite of other lenders
- Business Transition** Total support for business ownership transition. Financing for tangible and intangible assets (such as intellectual property, goodwill and client list). Subordinate financing available for more complex or structured transactions. Consulting services help define, develop and implement a transition plan and preserve and/or increase the value of the business

Loans/Subordinate Financing Commitment



BDC Financing by Size of Firm

(Total Loans & Subordinate Financing Outstanding/Committed)

# of employees	# of BDC clients	% of BDC clients	Total (\$M)	Total (%)
0-4	9,483	36.8%	1,668.4	17.1%
5-9	5,404	20.9%	1,115.8	11.5%
10-14	3,069	11.9%	879.8	9.1%
15-19	1,883	6.5%	625.5	6.5%
20-49	3,968	15.3%	2,322.9	24.1%
50-99	1,253	4.9%	1,285.5	13.3%
Over 100	952	3.7%	1,778.3	18.4%
Total	25,802	100%	9,676.2	100%

78% of BDC clients are firms under 20 employees

BDC Financing Activities by Province (includes Loans & Subordinate Financing)

Province	\$M Auth.	# of BDC clients	\$M Comm.	# of clients
NI/Ed & Lab.	93	514	387	1,468
PEI	11	30	51	133
NS	74	286	237	807
NB	89	392	364	1,109
Quebec	906	3,028	3,749	9,029
Ontario	765	2,238	3,099	7,672
Manitoba	69	288	199	652
Saskatchewan	45	165	128	477
Alberta	222	634	635	1,765
NWT & Nunavut	5	11	31	59
BC & Yukon	230	920	796	2,632
Total	2,509	8,506	9,676	25,802

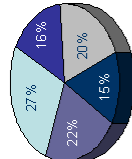
BDC AT A GLANCE

BDC Venture Capital

Provides venture capital for every stage of a company's development cycle, from seed through expansion, with a focus on early-stage and fast-growing businesses. 40 highly specialized investment professionals are organized in 6 teams: Seed, Funds, Telecom, Life Sciences, Advanced Technologies and Information Technology

- ▶ Commitment of \$654.8 million to 193 clients (includes funds)
- ▶ Offices in Halifax, Montreal, Ottawa, Toronto, Calgary & Vancouver
- ▶ Investments in eleven specialized funds

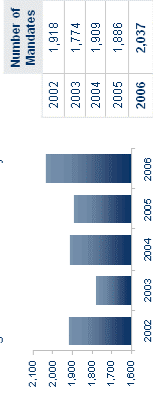
Percentage BDC Venture Capital Portfolio by Speciality



BDC Consulting

Offers customized business consulting services delivered through a national network of consultants and designed to help Canadian entrepreneurs maximize their management savvy

Consulting services represent an integral part of BDC's value proposition to the client. In fiscal 2006, BDC delivered over 2,000 consulting mandates across the country



BDC Subordinate Financing

Offers a hybrid instrument combining elements of both debt financing and equity financing to more mature and growing businesses with excellent potential. BDC has a strategic alliance with the Caisse de dépôt et placement du Québec (CDP) to reaffirm its prominent position in the Canadian subordinate financing market

For the 12 months ended March 31st, 2006:

- ▶ Subordinate Financing Transactions Authorized: 104
- ▶ BDC Portion: \$47 M
- ▶ CDP Portion: \$46 M

Unless otherwise noted, all data are as at Fiscal Year End (March 31st, 2006)

Public Policy Highlights
Authorized Fiscal 2006

	#	\$M
SMALL LOANS (<\$50,000) (includes Loans and Subordinate Financing)		
Loans authorized \$250,000 or less	6,252	\$645
% of total transactions	74%	22%
Commitment \$250,000 or less	4,567	-
% of total	54%	-
Start-ups		
- Co-Vision	802	\$47
- Other	420	\$167
Total	1,222	\$214
DEVELOPING ENTREPRENEURIAL MARKETS (includes Loans and Subordinate Financing)		
Aboriginal	80	\$13
Young (34 years old or less)	1,055	\$166
CONSULTING MANDATES (#)	2,037	-
ENTREPRENEUR CENTRES	2,492	\$205
SPECIALIZED SOLUTIONS		
Productivity Plus Loan	687	\$180.9
Innovation	1,880	159.5
Co-Vision	802	47.3
Other	64	37.4
Total Specialized Solutions	3,433	\$425.1
Subordinate Financing (50%)	104	47.1
Total Specialized Solutions including Subordinate Financing	3,537	\$472.2

Note: Figures may not add up because of rounding

BDC: A CLIENT-CENTRIC ORGANIZATION

In 2006, 72% of new clients had approached other financial institutions prior to choosing BDC. The top reasons cited as to why they chose BDC: terms and conditions and excellent client service.

BDC Client Satisfaction Survey (2002-2006)



BDC's client satisfaction survey is conducted annually by an independent firm.

BDC STRATEGY MAP

Our Mission To help create and develop Canadian SMEs through timely and relevant financial and consulting services
Our Vision To make a unique & significant contribution to the success of dynamic & innovative entrepreneurship in Canada
Our Values Ethics, Client connection, Team Spirit, Accountability, Work/Life Balance

SHAREHOLDER VALUE

Key outcomes ensure that we deliver shareholder value.

DESIRED KEY OUTCOMES

Public Policy

Create and develop successful Canadian firms which can grow and compete in changing market places	Inspire and support Canadian entrepreneurship
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Client

Create unique and valued relationship with Canadian entrepreneurs

Financial Sustainability

Maintain sufficient profitability to reinvest in client growth	Fulfill development role while remaining financially sustainable
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Strategic actions drive the key outcomes.

STRATEGIC ACTIONS

Respond to Market Trends

- Enable SMEs to benefit from globalization

- Facilitate successful business ownership transition

- Support investment in intangible assets

- Commercialize research

Be a market differentiator

- Act as a gateway to best practices through consulting

- Develop entrepreneurial markets

- Be innovative and agile

Operational Excellence

- Seek efficiency gains

- Protect core portfolio

Management Excellence

- Remain focused on governance, transparency and accountability

- Continuously improve risk management bank-wide

- Benchmark to adopt suitable best practices for BDC's size

Our resources enable us to execute strategic actions.

RESOURCES

Human Capital

Attract, develop and retain engaged talent	Develop effective leadership	Foster learning and development
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Information Capital

Integrate lending platform and expand business intelligence	Improve IT productivity & controls
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Organizational Capital

Network to foster relationships and expand reach

2.0 CORPORATE STRATEGY

2.1 Strategic Actions (What is our context and what is our strategy for responding?)

Building on a balanced scorecard approach, this year’s Plan introduces a new planning framework – a Strategy Map. The Map ensures that resources are aligned to the Bank’s strategic actions and clearly articulates the outcomes BDC wants to achieve for both clients and the shareholder. Equally important, this Plan provides a structured accountability framework from which to measure performance and report on how BDC continues to support Canadian SMEs through its Strategy.



2.1.1 Respond to Market Trends

Enable SMEs to benefit from globalization

CONTEXT

Overall, the Canadian economy has performed remarkably well considering that it continues to adjust to a number of powerful global forces including the rise to prominence of China and India, which has led to both stronger global demand for many Canadian goods and services, as well as increased competition for some Canadian firms.

Most Canadian industries continue to gain from strong consumer spending, business investment and strong global demand for raw materials and energy products.

Manufacturers

However, some manufacturing sectors are suffering from the sustained appreciation of the Canadian dollar, slower economic growth in the US and competition from emerging markets. It is estimated the sector has lost 83,000 jobs this year and 200,000 since the end of 2002.

Manufacturing sub-sectors with low value-added products and labour intensive activities are experiencing the most difficulties. In the last five years, profit margins for the textile, furniture, wood, paper and rubber and plastics products manufacturers declined substantially, with the first wave of production from emerging countries overtaking activities in these sectors.

For most other manufacturing sub-sectors, especially for manufacturers of machinery, electronic equipment and aerospace products, profit margins remain healthy but competition remains fierce. They need to get ready for the next wave of expansion from emerging economies in higher value-added manufacturing activities.



PROFIT MARGINS TRENDS
 7-YEAR AVG (1999-2006), LAST YEAR (Oct 2005 to Sept 2006),
 AND LAST QUARTER (July – Sept 2006) , IN %



Exporters

Exports play a significant role in Canada’s economy. In 2005, they represented 42% of GDP, with 81.4% going to the US, and 6.6% going to countries other than the major developed economies. Of the 6.6%, 1.6% of exports are shipped to China. Recent statistics show, however, that China is surpassing Canada as the US's biggest supplier of imports⁶, a trend that is not expected to reverse according to most observers. Therefore, growth prospects for Canadian exporters lie in the potential of the emerging middle classes of developing economies (such as China). And, as governments in developing countries continue to ease restrictions on foreign investment, investment opportunities for Canadian companies will continue to broaden over the next two to three years.

Financing for manufacturers and exporters

The latest survey results from Canadian Manufacturers Exporters (CME) released October 5th, 2006⁷ reveal that manufacturers/exporters have become increasingly savvy about what they need to succeed in the global environment. They realize the importance of reducing costs, operating more efficiently, and adopting innovation, etc. However, investments in physical assets, as well as intangible ones such as research, innovation, and human capital are becoming increasingly expensive. The CME report states that many manufacturers and exporters are showing weaker profitability. This is affecting their ability to make investments in innovation and impeding their growth in the global context.

In order for SMEs to take full advantage of the opportunities presented by globalization, they need access to adequate financing.

⁶ Source: Canadian Manufacturing, Dark Side of the Loonie, Douglas Porter, CFA, Deputy Chief Economist, Economic Research, BMO Capital Markets, November 2006

⁷ Source: 2006-2007 Management Issues Survey, Canadian Manufacturers & Exporters

According to the latest available data from Statistics Canada, **manufacturers experienced significantly lower financing approval rates (64% approval rate in 2004 versus 78% in 2000)**. Financial institutions have been more cautious in lending to SME manufacturers due to declining profits during the 2000-2004 period (profits for all businesses rose by 8.6% while SME manufacturers experienced a 13.4% decline).⁸

The issue of finding adequate financing is considered a growth issue for SME manufacturers and exporters. In 2004, 27% of manufacturers reported that financing constraints affected the growth of their businesses (compared to 20% of All SMEs category). Three out of every ten exporters (29%) reported that difficulty in obtaining financing acted as a growth impediment, compared to only 19% of non-exporters.⁹

Obtaining Financing as Obstacle to Growth	%
All SMEs	20
By Industry	
Manufacturing	27
Wholesale/retail	26
Professional services	13
Knowledge-based	16
Tourism	25
Primary/agriculture	16
Other industries	20
Exporters	29
Non-exporters	19
Innovative businesses	40
Non-innovative businesses	19

BDC RESPONSE

Assisting manufacturing clients to compete and prosper in a global economy is and will continue to be a key priority for BDC. Manufacturers are a cornerstone of the BDC portfolio, with 6,839 clients and representing over 35% of its value. BDC will continue to mobilize time, energy and resources to support this important sector. The following is a summary of what BDC has undertaken and its strategy for the planning period:

External Analysis

BDC identified problems in the manufacturing sector early on and reacted by co-financing a large study to assess the impact of China on the sector as well as the strengths and weaknesses of various sub-sectors in relation to the emerging market. It revealed the concern that Canadian manufacturers perceive themselves to be "ready" for globalization when, in fact, they are not.

The study found that in today's reality, Canadian manufacturers need to improve their value proposition and offer *specialized, niche products or services*. This involves adoption of a combination of strategies that focus on R&D and innovation, supply, production, and marketing and sales. Most importantly, these "differentiation" strategies require ongoing improvements in productivity and product development. In addition, manufacturers must also have a global view of their supply chain. They should consider adding imported components to their production to raise the economies of scale and cost competitiveness. This four-pronged differentiation strategy is depicted in the following diagram.

Focus of differentiation	R&D and innovation	Supply	Production	Marketing and sales
Differentiation strategy	<ul style="list-style-type: none"> – Continuously improve technology – Develop new functionality – Enhance product design and features – Protect and patent technology – Stay at the cutting edge of new trends 	<ul style="list-style-type: none"> – Reduce delivery lead time (just-in-time) – Make the supply chain dovetail with that of customers or suppliers – Master supply and logistics IT – Increase imported content 	<ul style="list-style-type: none"> – Produce short and customized series – Produce hard-to-copy niche and specialty products – Invest in productivity and continuous improvement 	<ul style="list-style-type: none"> – Boost the brand – Enhance product-related service – Improve the quality of technical support – Bolster after-sales service – Control the distribution network – Stay attuned to customer demand

Source: SECOR/TAKTIK, Report: Syndicated Study on China, July 2006

To supplement the external study, BDC conducted an internal analysis of its manufacturing portfolio in March 2006.

⁸ Source: The Daily, Statistics Canada, February 21, 2006

⁹ Source: Statistics Canada, Survey on Financing of Small and Medium Enterprises, 2004

- ▶ The purpose of the study was to identify the:
 - trends in its manufacturing portfolio
 - main challenges facing manufacturers
 - impacts of providing targeted financial support
 - appropriate action to be taken by BDC to support existing clients faced with structural challenges
- ▶ BDC determined that:
 - the manufacturing sector was underperforming everywhere (except for Alberta)
 - trends in the portfolio were in line with macro-economic data

BDC Manufacturing Plus

- ▶ These two analyses led to the development of a dedicated initiative called Manufacturing Plus. Its objective is to bring Canadian manufacturers to a solid global competitive position.
- ▶ BDC first examines its portfolio and identifies those manufacturing and exporting clients whose risk profile is worsening. It proactively contacts certain clients from that list. BDC also looks at the high performers in the portfolio, to analyze and understand their best practices.
- ▶ BDC then approaches those clients whose risk profile is worsening and applies the following criteria to determine whether the client is at the stage where it would benefit from additional financing. BDC would provide additional financing if:
 1. the client is aware of the reasons for the decrease in profitability of the business
 2. a dedicated differentiation Action Plan has been prepared by the client who also demonstrates the willingness to implement it
 3. BDC brings expert advice to assess and validate the Action Plan, either:
 - internally with documentation and/or an external source of validation
 - through BDC Consulting (which can assist in identifying the causes for decreases in gross margins and profitability and helps develop an action plan to remediate the issues)
 - or through other consultants.
- ▶ Once the Action Plan is validated, BDC can finance the project so that manufacturers can execute one or more of the four differentiation strategies indicated in the external study described earlier.
 - For example, in order to execute a Production Differentiation strategy, where competitive advantages are gained through hard-to-copy niche and specialty products, BDC can provide a Productivity Plus Loans (PPL). The loan would be used to improve the productive capacity of the business through new or upgraded machinery and equipment (and the necessary training required to use them) so that the business can produce short and customized product series.
- ▶ In order to sustain competitive advantages in the market, BDC Consulting can also provide a diagnostic of production processes to improve efficiency and support organizational and manufacturing re-design.

Revitalizing Canadian Manufacturers and Exporters

Looking ahead, BDC recognizes that all manufacturers must be in a position to seize opportunities and stave off threats posed by globalization. In this context, manufacturers must have a well-defined strategy to address globalization. Today, manufacturers can no longer grow if they have no positioning strategies in regard to improving productivity and maximizing supply chain value. Sooner or later, every industry sector will be affected.

All of BDC's business solutions, including Subordinate Financing, can provide the financial resources companies need to support them as they develop these new markets.

BDC will address the next steps over the planning period:

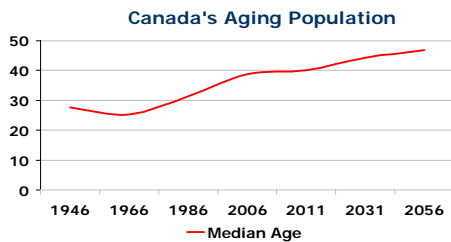
- ▶ **Analyze the impacts of the Manufacturing Plus and refine as required.**
- ▶ **Support the retention of some "core manufacturing" in Canada.** BDC will conduct more research on this issue.
- ▶ **Build awareness** amongst entrepreneurs of the importance of globalization. Identify both threats and opportunities of an evolving integrated trade model. Support their initiatives through appropriate **training**.
 - **BDC Consulting** will play an active role in this area in helping companies define their business strategies, both in terms of an overall strategy and more specifically in regard to productivity and the positioning of the company's products on local and export markets.

At the time of writing, BDC's **Going Global**, is being piloted in Sudbury, Ontario. The pilot is a step-by-step approach to exporting that provides practical information to help evaluate export potential and readiness. Based on a Group Seminar concept, the program covers everything from international trade financing to cultural differences in marketing. Individual counseling with an export advisor helps the entrepreneur adapt the concepts to position the company's export strategy.
 - BDC Consulting will improve its capacity to help manufacturers manage their supply chain.
- ▶ **Ensure the strategy remains relevant.** To ensure the strategy remains relevant, a representative from the BDC Corporate Finance team recently traveled to China to learn more about the market realities and thus build capacity to **accompany** select manufacturers to China and other emerging markets. (BDC is already accompanying some of its investee technology companies as part of its venture capital service offering).
- ▶ **Provide project financing.** Recognizing that the world economy is becoming increasingly integrated and that successful companies are outsourcing some of their activities to third parties, BDC will continue to provide project financing to leverage domestic assets thus enabling Canadian companies to establish abroad. It will also continue to provide a higher level of financing through Subordinate Financing for investment and support productivity gains through PPL Loans in foreign markets.
- ▶ **Seek ways to help foreign companies establish in Canada.** Through its discussions with other development banks and with Foreign Affairs Canada, BDC is looking at ways in which to help foreign companies establish in Canada.
- ▶ **Partner** with the Federal Government's Trade Commission offices and Export Development Canada to leverage existing services for BDC's clients.

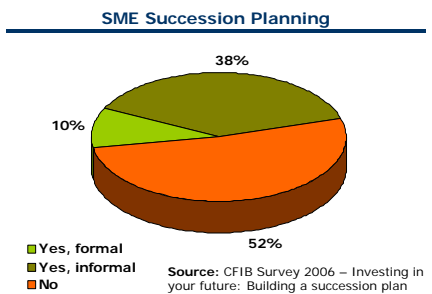
Facilitate successful business ownership transition

CONTEXT

Longer life spans and falling fertility rates are aging the population of many countries at an accelerating rate. By 2050, the world's population over the age of 65 will triple¹⁰.



In Canada, after 2010, the baby boomers will begin to retire, and by 2025, 20.4% of the population will be over age 65—double the share seen in 1980. There will be fewer people in the active labour force to support the retiring baby boomers. This situation is exacerbated by the fact that an increasing number of Canadians are choosing to take early retirement. The average age of retirement has dropped from 64.9 years of age in 1976 to 60.9 in 1998, where it has more or less remained.¹¹



According to the 2006 Canadian Federation of Independent Businesses (CFIB) survey, 34% of SME owners intend to exit ownership or transfer control of their businesses within five years, with this figure jumping to 66% when extended to the next 10 years.

The same study found that only 10% of SME owners have a formal plan to sell, transfer or wind down their business in the future, while 38% of owners have an informal, unwritten plan. More than half of SMEs do not have a succession plan.

This is worrisome given that SMEs employ the majority of working Canadians (SMEs employ about 60% of the working population) and they are key contributors of both job and economic growth. Thus, in 10 years, 660,000 SME owners could actually exit their businesses. In 5 years alone, 340,000 owners could exit, thereby potentially impacting over 2 million jobs in Canada's job market.

According to the CFIB, a major obstacle in carrying out a succession plan is financing.

There are different ways to finance a succession plan: investment by the purchaser, dividends to the vendor over time, credit from the vendor (balance of sale) and outside financing in the form of a term loan (if there are assets that can be used as security) or mezzanine or equity financing.

BDC RESPONSE

As a leading development bank, business ownership transition (BOT) is important for BDC on a number of fronts:

- ▶ Similar to demographic trends, BDC's client profile is getting older. Today, about 17% of BDC's client base (approximately 4,300 clients) are entrepreneurs 55 years or older. The number of manufacturing clients in the portfolio over the age of 55 is also quite significant.

STRATEGIC ACTIONS

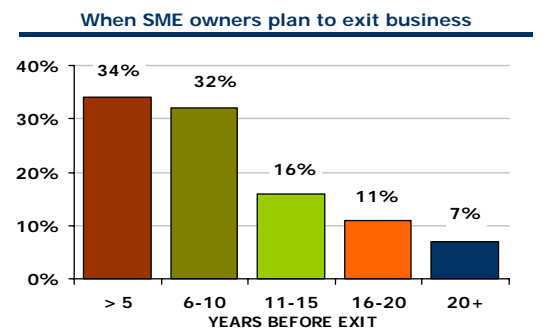
Respond to Market Trends

Enable SMEs to benefit from globalization

Facilitate successful business ownership transition

Support investment in intangible assets

Commercialize research



¹⁰ Performance and Potential 2005-06 – The World and Canada, Trends Shaping our Future, The Conference Board of Canada

¹¹ Ibid

- ▶ Change of ownership represents the fastest growing segment of BDC's lending activity: over the last year, there was 87% growth in terms of number of loans & subordinate financing and 64% growth in dollars authorized.
- ▶ From a risk management perspective, BDC must keep aware of what will happen to existing businesses with whom it has long-term commitments.

BDC Transition Service Offering

Over the last year, BDC developed a BOT Strategy designed to support the broad spectrum of issues surrounding BOT. Resources across all BDC groups have been deployed.

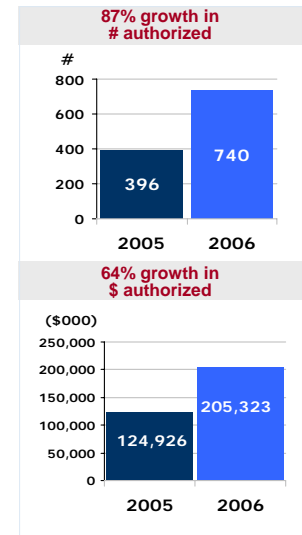
With the launch of a designated solution (the Transition Program) in the Fall of 2006, BDC's support for business transfer now encompasses all of BDC's financing solutions and covers a wide range of transaction sizes (from \$50,000 to \$10 million).

Through BDC Consulting support, the development of a tailored Transition Plan ensures the long-term value of the business.

Over the planning period, BDC will ensure that the strategy:

- ▶ allows BDC to play a leadership role by making entrepreneurs aware of the importance of planning the business transition process
- ▶ helps entrepreneurs plan the transition and supports their successors
- ▶ differentiates BDC from others by financing a higher percentage of intangible assets associated with business transition (particularly through co-financing arrangements). One of the key differentiating features of BDC's approach is its capacity to finance a higher percentage of intangible assets which typically fall outside the risk appetite of traditional lenders. This feature is critical since the last dollar deployed by BDC to finance an intangible could make the difference to a successful business transition.

BDC's service offering has been well received by CFIB, clients and other stakeholders. It is also strongly supported by other financial institutions as it gives them the opportunity to combine their services with BDC's higher risk financing to support the successful business transition of their clients.



Support investment in intangible assets

CONTEXT

The latest research on sustainable economic growth focuses on the importance of intellectual capital. It is the knowledge and experience acquired by people and organizations – the intellectual capital - that leads to increased business revenue and profit. Such intangible assets are increasingly recognized as a value driver of economic growth and productivity. Boosted by globalization, the participation of emerging markets and competitive pressure to climb further up the development ladder, developed economies are moving away from low value-added activities and shifting towards knowledge-based and innovation-driven activities.

In fact, a recent study in the *Journal of Small Business Management*¹² which compared the situations of bankrupt firms to non-bankrupt firms in an attempt to identify root causes of bankruptcy found that while both samples found intellectual capital to be important, the non-bankrupt sample found it significantly more important. This evidence provides insights into the resources required by SMEs to help reduce the incidence of failure.

Intangible assets: the link to increased productivity

A 2006 OECD study¹³ also stresses the importance of investment in intangible assets. Relying on several other studies, it suggested that intangible assets make a substantial contribution to economic growth. To that end, it found that since the mid '90s, human capital has become a key driver of growth as it contributes between 15% and 90% to labour productivity growth in G7 countries.¹⁴

Take the example of the US economy. Between 1995 to 2000, US productivity grew by 2.5% on average per year; this compared to an average of 1.5% per year from 1970 to 1995. Between 2000 to 2005, productivity grew by 3%, an unusual occurrence considering the expected drop in productivity when economic growth is slower (2001 recession followed by a slow recovery, 9/11, corporate governance scandals and rising energy costs).

In 2000, productivity gains were associated with rapid technological progress and increased investment in new information and communication technologies. Yet, a similar focus on IT investment was observed in other countries, but those countries did not experience the impressive productivity gain seen in the US. In fact, Europe, which was on par with US productivity growth in 1995, has been experiencing a decline since then (van Ark and Inklaar, 2005). *The fact that US spending on intangible assets was at least even with tangible asset investment is seen as the catalyst to the surge in productivity growth since 1995.*

This is further reinforced by Wharton marketing professor David Reibstein who asserts that 50% of current corporate value is in intangible assets compared to 20% forty years ago. And, just as large corporations have been moving toward investment in intangible assets to improve their innovation capabilities, small businesses also need to make these investments.

Impact of Investment in Intangible Assets in Canada

A recent study by Statistics Canada identified investment in intangible assets as an important driver of success in surviving and growing firms¹⁵.

STRATEGIC ACTIONS

Respond to
Market Trends

Enable SMEs to benefit
from globalization

Facilitate successful
business ownership
transition

Support investment in
intangible assets

Commercialize
research

¹² Small Form Bankruptcy, Richard Carter and Howard Van Auken, *Journal of Small Business Management* 2006 44(4), pp493-512, October 2006

¹³ "Creating value from intellectual assets" Meeting of the OECD Council at Ministerial level 2006, OECD Council

¹⁴ Ibid

¹⁵ Innovation Capabilities: The Knowledge Capital Behind the Survival and Growth of Firms by Baldwin, John R., Gellatly, Guy

Even though this kind of investment is known to have the highest leverage on productivity and innovation, financial institutions (FIs) are reluctant to finance intangible assets (R&D, labour training, specialized competencies, human capital, patents, etc.) because of the lack of security and higher risk nature of the transactions. So, while Canada has sustained good levels of investment in machinery and equipment and operational facilities, these investments have had a limited impact on productivity since they have not been coupled with investment in intangibles.

Moreover, while innovators¹⁶ cite working capital as a key financing need, there is a dearth of financing in this regard which has resulted in an impediment to growth. Approximately 40% of Innovators say that obtaining financing is obstacle to growth (double the proportion of All SMEs).¹⁷

Obtaining Financing as Obstacle to Growth	%
→ All SMEs	20
By Industry	
Manufacturing	27
Wholesale/retail	26
Professional services	13
Knowledge-based	16
Tourism	25
Primary/agriculture	16
Other industries	20
Exporters	29
Non-exporters	19
→ Innovative businesses	40
Non-innovative businesses	19

BDC RESPONSE

As a development bank, created to meet financing gaps, BDC recognized (in 2000) that a structural need existed in the market to provide quasi-equity to finance intangible assets. BDC responded and will continue to support investment in intangibles assets through several vehicles:

Financing

BDC's Innovation Financing provide support for:

- developing new markets and products
- R&D costs associated with introducing these new products or services
- implementation of a marketing plan or growth strategy
- adoption of quality management standards, such as ISO certifications and HACCP.

This financing is complemented by BDC Consulting which creates additional value from intellectual assets to boost productivity.

Subordinate Financing

Because subordinate financing is based on economic values, it is a good financing tool for companies that rely more on intangibles assets than fixed assets to create wealth.

Way Forward

The tremendous appetite for these solutions has validated BDC's evaluation of the market need. Going forward BDC must ensure the appropriate focus of these solutions to ensure its limited resources are targeting sectors that are at risk due to market forces such as globalization. In addition to targeting certain sectors, BDC will analyze where these investments drive the most pronounced improvement in productivity when accompanied by investment in hard assets. BDC will ensure the appropriate level of internal capacity to provide this advice and service.

¹⁶ SMEs which spend more than 20% of their revenues on R&D

¹⁷ Based on Statistics Canada, Survey on Financing of Small and Medium Enterprises, 2004

Commercialize research

CONTEXT

Commercialization refers to activities that transform knowledge and technologies (whether developed in Canada or abroad) into new products, processes or services, in response to market opportunities.¹⁸ Commercialization contributes greatly to an economy's innovative capacity. Unfortunately, only a fraction of new innovations in Canada reach the market and few produce significant income.

According to a report by the Milken Institute, Canada has the fastest rate of growth in external patent applications and industrial R&D investment among the G7 nations. In addition, Canada has the second highest number of biotech companies in the world, with more than 500 products in Canada's biopharma product pipeline.¹⁹

The independent Council of Canadian Academies (CCA) recently completed a study which identifies the scientific disciplines and technological applications where Canada currently excels, and those that have the potential to emerge as future strengths and generate significant benefits for the economy.

As underlined by the Minister of Industry in a recent interview, the CCA reported four macro-areas, of particular Canadian scientific and technological strength: natural resources, information and communications technologies . . . , and health and related life sciences and technologies . . . , as well as emerging multi-disciplinary fields including aboriginal health, aging, gender and health, and environmental science and technology (S&T).²⁰

Commercialization and Risk Capital

The Conference Board of Canada, in concert with the Leaders' Roundtable on Commercialization, developed a national vision and strategic plan to improve innovation-based commerce in Canada. Their strategy articulates measurable targets and calls for actions by all sectors, centered around: skilled people, research linkages, risk capital and supply chains (among others). With respect to risk capital, they recommend an increase in international and domestic risk capital investment in Canada, and greater focus on bigger deals.²¹

Over the past year, the Government's Expert Panel on Commercialization acknowledged labour-sponsored venture capital corporations' historical dominant position in the Canadian venture capital industry and the weak participation of institutional investors. The Panel recommended the removal of barriers to investment for foreign venture capital investors. They recommended more access to foreign sources of risk capital which would not only provide Canadian firms with better access to larger pools of capital, but will allow them to benefit from the more experienced and specialized financial and management expertise available in the US.



¹⁸ Source: "People and Excellence: The Heart of Successful Commercialization", Expert Panel on Commercialization, Talent/Research/Capital, Volume II: Supporting Material, page 2

¹⁹ Source: "Mind to Market: A Global Analysis of University Biotechnology Transfer and Commercialization", The Milken Institute, September 2006, page 299

²⁰ Policy Briefing – Innovation, The Hill Times, November 6, 2006

²¹ Leaders' Roundtable on Commercialization, Picking a Path to Prosperity, A Strategy for Global-Best Commerce, Conference Board of Canada, April 2006

BDC RESPONSE

As discussed fully in the Venture Capital section of this Plan, BDC is present in very early-stage investment. In seed investment activity (including indirect investments in Seed & Commercialization Funds), it is playing a leadership role in terms of catalyst but also in terms of expertise development (e.g., by training representatives from the National Research Council).

It is in the earliest of stage of commercialization that equity investment becomes critical. Few venture capitalists take an interest at this end of the market because it can take seven to ten years or longer of nurturing very early stage investments before solid financial footing is reached and exit opportunities present themselves. Too many risks associated with technology, management and competition are deterrents for would-be investors.

- ▶ In fiscal 2006, BDC invested \$22.7 million to support commercialization of research. This represented 57% of total industry dollars invested in seed.
- ▶ This amount was invested in 24 seed ventures, representing approximately 69% in terms of number of transactions in the industry.
- ▶ Since inception of the BDC Technology Seed Group in fiscal 2003, it has reviewed over 1,000 business plans and helped to raise an additional \$151 million from over 30 investors in the industry. In total, it has a portfolio of 39 companies, with \$75 million committed. BDC investments have resulted in employment growth in these firms from 90 employees to over 500.
- ▶ About 40% of BDC's total venture capital portfolio companies originate from universities and labs – these are companies that need the expertise and long-term commitment that BDC offers. With respect to BDC's Technology Seed investee companies, 61% were conceived from university and national lab technologies, with 22 technology firms coming from university labs alone.

2.1.2 Be a Market Differentiator

Act as gateway to best practices through consulting

CONTEXT

Global competition, particularly from newly industrialized economies including China, India, Russia, Brazil, Eastern Europe and Eastern Asia, is changing the way in which Canadian SMEs compete. Globalization is forcing Canadian entrepreneurs to take a more innovative approach at the way they manage their businesses to gain competitive advantages.

STRATEGIC ACTIONS

Be Market Differentiator

Act as gateway to best practices through consulting

Develop entrepreneurial markets

Be innovative and agile

BDC Consulting Market Context

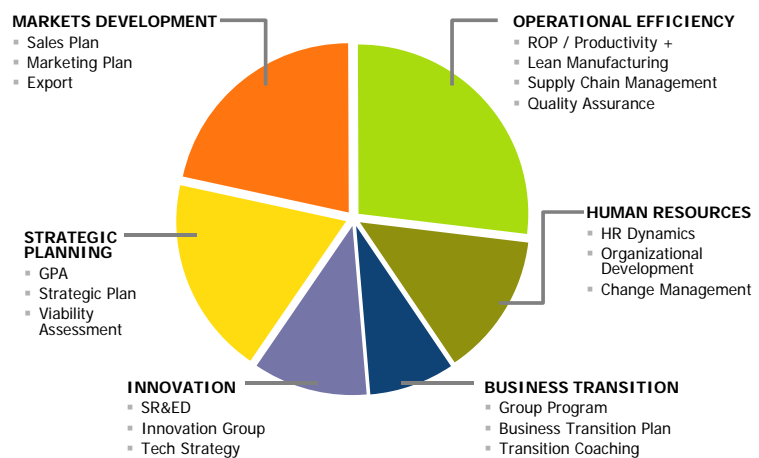
- Sound management ability is a key success factor for SMEs
 - 15% of Canadian SMEs purchase management consulting services annually
 - Canadian consulting market estimated at \$2 billion
 - 56% of Canadian manufacturers say they are implementing improvements based on lean principles
 - 45% of Canadian manufacturers derive 20% or more of their sales from products introduced in the last three years
 - 34% of entrepreneurs plan to exit their business in the next five years, but only 10% have a formal Transition Plan
- Sources: Varia

BDC RESPONSE

BDC Consulting

- ▶ BDC Consulting increases the value proposition to the entrepreneur. It is a market differentiator for the Bank. BDC delivers concepts, ideas and research and development that entrepreneurs can immediately translate into the management of their own firms.
- ▶ This type of management expertise is readily available to larger firms at costs they can easily absorb. However, in light of globalization pressures, affordable expertise will be a must for small and medium-sized firms.

CORE CONSULTING SOLUTIONS: TRADITIONAL BUSINESS STRATEGY



During the planning period, BDC will continue to implement its strategic four-year plan which commenced over the last year. This plan involves the following key strategies:

1. **extend reach** into more Canadian markets

BDC is piloting several approaches during fiscal 2007 to make consulting services available to more entrepreneurs. These new market approaches, which will include the addition of **specialization** (e.g., specialized focus and key positions in designated areas), will allow BDC to extend services to some geographical and market areas where it was not feasible under the previous business model. BDC will also leverage existing BDC alliances and enhance their scope to include consulting services.

2. **diversify** service offering

BDC will diversify its consulting services and harmonize their delivery across all markets to provide a uniform client experience.

Significant investments will be made to the development of methodologies and tools in the core consulting areas identified in ongoing market reviews.

This approach will require continuous training of the internal workforce as well as the network of private external consultants. These changes were initiated in fiscal 2007 and will continue throughout the planning period.

- ▶ Other key area of focus will be to increase "In-House" capacity: BDC will examine ways to increase its in-house consulting capacity to address more complex entrepreneurial issues such as supply chain management and industry consolidation.
- ▶ Early results of the Consulting strategies are positive. All key performance indicators are either on target or ahead of target. This confirms the value of being a market differentiator for Canadian entrepreneurs.

New Internal Initiatives for the Planning Period

- ▶ Optimize sourcing, recruitment, selection and training of human resources
- ▶ Complement business model with unique ways to serve Canadian SMEs
- ▶ Develop BDC Consulting methodologies for each of the six Core Consulting Solutions and develop of a formal continuous improvement process
- ▶ Improve the efficiency of Market Impact business strategy
- ▶ Develop a strategy to address the needs of larger Canadian SMEs
- ▶ Continue to optimize business processes
- ▶ Focus on integration with BDC Financing

Develop entrepreneurial markets

CONTEXT

BDC is Canada’s development bank and thus an important instrument of public policy in filling market deficiencies. While all of BDC services promote and develop entrepreneurship, business formation and growth, they also indirectly support innovation, exporting, community development and the commercialization of research. By helping Canadian SMEs to grow and succeed, BDC makes a substantial contribution to the Canadian economy.

With the sustained strong economy, financial institutions (FIs) are experiencing good liquidity, which means they are currently very active in the SME market, especially with good clients. However, according to Statistics Canada data, FIs have less appetite to provide:

- ▶ financing to firms in the start-up position
- ▶ financing for product and market development, particularly for fast-growth firms
- ▶ smaller loans (although some FIs are more selective than others)

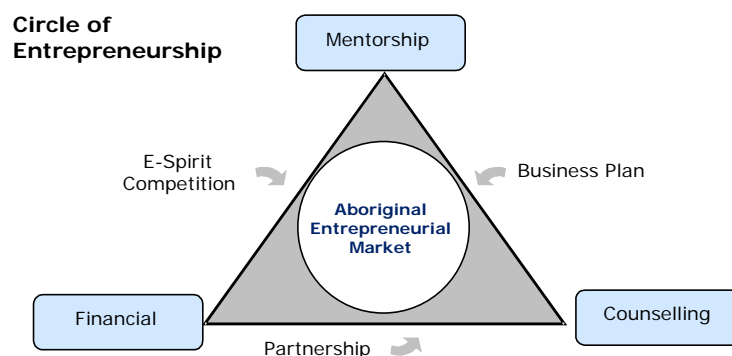
As indicated earlier, there are lower approvals rates for manufacturers.

BDC RESPONSE

- ▶ BDC will continue to provide dedicated support for specific entrepreneurial segments (e.g., Aboriginal, Young, Immigrants & Visible Minorities).
- ▶ BDC will provide dedicated support to mandate-related segments of the market such as smaller loan transactions, businesses in the start-up position and businesses which need project financing and financing for intangibles.
- ▶ It will also continue to provide support to Canada’s smaller businesses, including those in more remote locations, through financing and consulting resident in Entrepreneurship Centres and through its alliance with Community Futures Development Corporations.
- ▶ BDC will report annually, through the Corporate Plan and Annual Report processes, its achievements in these areas.

Aboriginal Entrepreneurial Markets

BDC is committed to the development of the Aboriginal entrepreneurial market. Its strategy focuses on three main areas as depicted below:



STRATEGIC ACTIONS

Be Market Differentiator

Act as gateway to best practices through consulting

Develop entrepreneurial markets

Be innovative and agile

1) *Create economic development in Aboriginal communities through an integrated, branded approach: the “Circle of Entrepreneurship strategy”*

- ▶ BDC committed \$1 million towards the establishment of three Aboriginal Business Development Funds as follows:
 - i. In Northwestern Ontario, a fund is providing loans to entrepreneurs in seven First Nation communities.
 - ii. In partnership with BDC, the Wakenagun Community Futures Development Corporation is serving nine First Nation communities in the James Bay area.
 - iii. Keyano College in Fort McMurray, Alberta provides training for Aboriginals from First Nations and Metis communities in Alberta. In partnership with BDC, it is able to offer loans to Aboriginal students graduating from its management and entrepreneurship programs.Discussions are also underway with a number of Aboriginal organizations for a fourth fund.
- ▶ In all of the funds, financing is delivered at the grassroots level and involves amounts varying between \$5,000 to \$20,000. The loans are fully repayable with terms varying from two to three years depending upon the cash flow expectations of the project.
- ▶ BDC’s E-Spirit is an Internet-based Aboriginal Youth Business Plan Competition offered across Canada to high school students. E-Spirit began in 2000 and, to date, over 200 schools and 2,500 students have participated in the annual competition, building entrepreneurship awareness in Aboriginal youth.

2) *Support Aboriginal entrepreneurship through core financing and consulting services*

- ▶ Although there are many public and private organizations that offer financing and consulting services, there will continue to be deficiencies in the Aboriginal market. BDC will support their growth by providing valuable project financing (Innovation Loans and Subordinate Financing) and other more traditional forms of financing. BDC Consulting will also play a critical role by providing services in strategic planning, building operational capacity, feasibility studies and quality certification.

3) *Increase reach through strategic partnerships*

- ▶ Formal partnerships and joint ventures with public and private organizations will be developed to extend reach and gain efficiencies.

Immigrants & Visible Minorities

- ▶ The changing demographic landscape in Canada is making Immigrant and Visible Minority entrepreneurship one of the fastest growing SME segments. This trend will continue to have a tremendous impact on the Canadian economy.
- ▶ BDC recognizes the benefits of this phenomenon for SME creation and dynamism and is focusing on it as one of its core strategies. Strategic actions will continue to be implemented over the planning period.
- ▶ BDC’s Diversity Action Plan (DAP), first developed in 2002, includes visible minority entrepreneurs as one of its main elements. Strategies to reach those entrepreneurs - located all across the country but mainly in urban areas – will continue to be implemented, both nationally and on a local basis. A good example is BDC’s collaboration with business associations such as the Association of Chinese Canadian Entrepreneurs.
- ▶ BDC will develop additional local market strategies to better attract ethno-cultural entrepreneurs, to become one of their trusted advisors and support them in their entrepreneurial challenges.

Young Entrepreneurs (less than 35 years old)

- ▶ According to FDI surveys, young entrepreneurs are more likely to identify access to financing as an obstacle to business growth than other entrepreneurs. They are also more likely to have their application refused. This can largely be explained by the fact that young entrepreneurs are often at the start-up stage and have limited or no track records.
- ▶ Young entrepreneurs represent 12% of BDC's client portfolio, while this market accounts for 9% of all entrepreneurs in Canada. Recognizing that youth are essential to renewing the entrepreneurial landscape, and especially with an aging population, BDC will continue to adapt its solution offering to respond to the young entrepreneur market. Start-up financing (Co-Vision loans), and Entrepreneurship Centres established in 20 key locations across the branch network, address the particular challenges faced by young entrepreneurs.
- ▶ With the launch of the Business Ownership Transition Program in fiscal 2007, BDC will support young entrepreneurs in their ability to "receive the torch" from their elders and sustain business viability in Canada.
- ▶ The well-recognized BDC Young Entrepreneur Awards are a key component to the annual Small Business Week held in October of each year.
- ▶ Over the planning period, BDC will stay on course with these initiatives to ensure that its strategies and actions reach a greater number of young entrepreneurs.

Be innovative and agile

CONTEXT

Conducting original research is critical for any organization that wants to innovate.

BDC RESPONSE

BDC Research Agenda

BDC is developing a Research Agenda to improve its knowledge of entrepreneurship and issues facing SMEs. It will also position BDC as the SME expert in Canada. The Research Agenda will examine key issues such as business creation, business growth (the “S”mall to “M”edium phenomenon) and survival. It will involve collaboration with academia, and the Financing Data Initiative (FDI) partners (Statistics Canada, Industry Canada and Finance Canada), among others.

The centerpiece of the Agenda was launched in the Fall 2006 when BDC issued an RFP (Request for Proposal) to undertake an analysis of the success factors of BDC’s start-up and early-development small enterprise loan portfolio. The overall project objective is to further BDC’s knowledge of these clients with respect to growth and growth-related trends during the early stages of the entrepreneurial cycle. The outcome of the research project will be a rich resource for BDC in designing new financial and non-financial services as well as risk management tools.

Another project to be considered during the planning period is a statistical analysis by Statistics Canada on the impact of BDC’s financing and consulting services with respect to creation, growth and survival of SMEs in Canada. Key performance indicators – including revenue, profitability and survival rate - will be observed for BDC clients and then compared to a population of non-BDC clients that have similar characteristics in terms of industry, size, development stage, and location. This project will be unique in that, to this point, research on SME growth has been confined to employment growth.

BDC is providing financial support for CIRANO, which is an inter-university research centre. It provides access to the best researchers for firms seeking innovative ways to improve the efficiency of its activities. A member of BDC’s Senior Management Committee sits on the board.

BDC will also investigate ways to better understand financing of intangible assets. These assets are often not recorded as assets but rather as expenses and, as such, their relevance in the market is underreported. BDC will work with Statistics Canada to reveal the true prevalence of these assets in the market to ensure that appropriate financial solutions are available.

New R & D initiatives

BDC will undertake a number of new R&D initiatives to support its role as a market differentiator:

- ▶ Supply chain management consulting
- ▶ Building capacity in low-end quasi-equity
- ▶ Extending the reach of current solutions

BDC’s new Planning and Development Committee will act as a Think Tank for BDC’s business line leaders to explore future innovations in this regard.

STRATEGIC ACTIONS

Be Market Differentiator

Act as gateway to best practices through consulting

Develop entrepreneurial markets

Be innovative and agile

2.1.3 Operational Excellence

Seek efficiency gains

CONTEXT

Being a Crown Corporation, BDC has the distinction of blending the institutional requirements of a lending organization and government-owned operation. This mix of mandates requires the Bank to continuously read the current and emerging markets to adapt to its requirements, while at the same time offering security and stability. This is a challenge that necessitates proactive initiatives as well as a philosophy of ongoing improvement.

BDC RESPONSE

New Organizational and Committee Structure

As mentioned in Section 1, BDC recently adopted a new organizational and committee structure. The aim of this new internal governance structure is to create cross-functional efficiencies over the planning period.

BDC Financing – Value Project

BDC's business model and processes will be assessed and reviewed with a view to improving end-to-end processes efficiency for all client requests. In particular, this initiative will improve the client experience and timeliness and quality of services over several planning periods. BDC has recently undertaken a benchmarking initiative in which lending processes have been assessed against a number of North American financial institutions. A project is now being established to identify and make changes arising from this benchmarking exercise.

Among them are the processes related to existing clients which represent more than 50% of all authorizations. BDC will strive to streamline its underwriting process in existing client transactions. Similar efforts will be brought to the process of disbursements for existing clients. Having a one-size-fits-all approach to disbursements can create an unnecessary paper burden for existing clients. A review of the disbursement process to ease the burden for existing clients will continue over the planning period.

Legal

In its support role, Legal Services is continually reviewing its processes to improve department and bank-wide process efficiency. To this end, several important initiatives have begun and will continue over the planning period:

- ▶ A centralized, in-house system for the taking of security of loans of up to \$250,000 has been established. Having three centres to deliver the service will speed up disbursements (reduce timeline by half) and lower costs for borrowers (small fee much lower than outside law firms). This will also enable BDC to earn interest on loans faster and spend less time following up.
- ▶ The letter of offer will be refined to address specific needs of bigger and smaller loans and these will be automated during the planning period.

BDC Consulting

Internally, BDC Consulting conducted a Kaizen review to optimize its business processes in the areas of business development, consulting project management and post-delivery client service. The process harmonization, which was developed through the identification of best



practices, will foster better client relationships, drive client satisfaction and improve internal productivity over the planning period.

Strategic Workforce Planning

For three years, BDC has relied on its workforce planning process to effectively guide projections and analyses of operational needs. Going forward, BDC plans to elevate this valuable tool to a more strategic level, by analyzing its current workforce by area, identifying the capabilities and skills that are required and prioritizing the gaps to be filled to ensure that it is able to support its business strategies.

BDC Knowledge Centre

A Knowledge Centre is a collection of knowledge based on collective experience. It involves collecting, sharing, and consolidating fragmented information throughout an organization, thus leveraging internal knowledge with that of external sources. An accompanying culture that rewards collaboration and sharing of useful information optimizes a Knowledge Centre. BDC has a wealth of information.

BDC will develop a Knowledge Centre over the planning period. It will aim to provide field employees with in-depth sector information from both internal and external resources. A Knowledge Centre will also leverage information by connecting people-to-content or people-to-people to promote efficiency, effectiveness and innovation.

Executive Dashboard

To improve its insight into the operational information that it collects, BDC is developing an executive dashboard. The aim of this tool is to identify and report on the key operational metrics of interest to the Senior Management Committee. This will facilitate more timely, informed and strategic decision-making.

Protect core portfolio

CONTEXT

Over the past few years, BDC has focused on several key strategies to better fulfill its mandate and meet market needs. Good examples are the expansion of Entrepreneurship Centres to increase the number of smaller loans and to support start-up companies, and increasing the rate of repeat business through a structured value-added needs analysis approach.

One of BDC's key strategies, however, was the development and offering of specialized solutions. As a development bank created to meet financing gaps, BDC saw early on a structural need in the market to provide quasi-equity and financing for intangible assets. The tremendous market appetite for these solutions has validated the evaluation of the market need. If anything, BDC underestimated it.

Increased liquidity in the market and a competitive pricing environment has also meant that BDC has seen less demand for term financing at rates above others and has chosen to do less in this market segment.

The following summarizes the main changes that have occurred vis-à-vis the composition of loan authorizations as a result of the current environment and successful implementation of strategies:

- ▶ The number of specialized solutions (Co-Vision and Innovation) has increased, especially to new clients, such that more than one-third of all new authorizations are in this category. The distribution of these specialized solutions shows that the proportion to the manufacturing sector has decreased significantly while the proportion of loans to the retail and tourism sectors has more than doubled.
- ▶ BDC continues to assume more risk. It continues to increase its pricing but these increases lag slightly behind the higher risk it is assuming. The Forecast Loss Rate (FLR) is much higher for new clients in every segment and is increasing. This may impact BDC's ability to sustain the current levels of repeat business.

BDC RESPONSE

Given the current market dynamics, the composition of authorizations and its impact on the portfolio, BDC will ensure that it is able to continue to accompany its 27,000 clients on their growth path by providing the appropriate type and level of support.

To this end BDC will:

- ▶ ensure the appropriate re-balancing of the solution mix to ensure that BDC's limited resources are targeting sectors that are at risk due to market forces such as globalization
- ▶ price commensurate with risk and in recognition of the unique BDC value proposition
- ▶ continue to pursue co-financing arrangements in order to leverage BDC's limited resources while providing an appealing arrangement for other financial institutions which appreciate BDC's ability to complement their offering by taking on more risk



2.1.4 Management Excellence

Remain focused on governance, transparency & accountability

CONTEXT

Both the federal public sector and the private sector in Canada have responded to high profile failures with many initiatives in the last few years.

The *Sarbanes-Oxley Act* in the US and *Bill 198* in Canada have been designed to restore investor confidence, improve corporate governance as well as enhance the quality and reliability of financial reporting. In an effort to be proactive, pragmatic and to abide by industry best practices in relation to corporate governance, BDC has launched its own Internal Control Certification project (ICC).

Management excellence at BDC is also guided by the standards defined by the Institute of Internal Auditors (IIA) for quality assurance and improvement programs.

In 2005, the Treasury Board conducted a review of the governance framework of Canada's Crown Corporations and proposed 31 corporate governance measures for Crown Corporations.

BDC RESPONSE

Internal Control Certification (ICC)

BDC has defined the ICC project objectives as follows:

- ▶ enhance financial controls in order to improve the quality of financial information reported in the financial statements and related disclosures
- ▶ enhance anti-fraud controls
- ▶ ensure readiness to meet the anticipated requirements related to an Internal Control Certification regime.

BDC has already reinforced the control environment by:

- ▶ updating the Bank's Code of Conduct and communicating its values and ethics to all employees
- ▶ identifying and reporting the top risks to the Board of Directors
- ▶ improving data management and integrity in system applications.

BDC supports the use of a certification regime and will pursue strategies to enhance its governance practices and internal controls.

The ICC project officially started during the last fiscal year and the following activities have been completed:

- ▶ definition of the ICC project objectives
- ▶ the scoping and planning phase
- ▶ definition of the certification timeline for the two project streams:
 1. disclosure controls and procedures – March 2007

STRATEGIC ACTIONS

Management Excellence

Remain focused on governance, transparency and accountability

Continuously improve risk management bank-wide

Benchmark to adopt suitable best practices for BDC's size

The disclosure controls and procedures stream has been defined as follows: establish a disclosure policy, implement a disclosure committee, review the existing certification process, complete an inventory of disclosure items and document key disclosure processes and controls.

2. internal control over financial reporting – March 2009

The internal control over financial reporting has been divided into three main sections: the entity-level controls, the process level controls and the information technology general computer controls.

Over the next three years, a dedicated ICC team will complete the documentation, remediation and testing phases for the above two streams and present findings to the Audit Committee of the Board of Directors.

Internal Audit

BDC has an experienced Internal Audit group. Currently it comprises 10 employees and it outsources support for system and technology audits. In its risk-based audit plan presented annually to the BDC Audit Committee, it expects to audit approximately 46 operational units and 8 functional units as well as perform other mandates. The external auditors place important reliance on the work done particularly for operational units.

The role of Internal Audit at BDC is to assist Senior Management and the Board of Directors in the effective accomplishment of their responsibilities, while respecting the requirements of the *BDC Act*, the *Financial Administration Act*, and the Institute of Internal Auditors Professional Practices Framework.

Reporting to the Audit Committee of the BDC Board, the overarching objective of an internal audit function is to provide reasonable assurance that the systems of internal control put in place by management are both adequate and effective.

BDC is subject to the *Financial Administration Act* which requires a Special Examination to be performed every 5 years. The last Examination, which had an unqualified opinion, was reported to the BDC Board in July 2004. Implementation of responses for this Examination will be completed next fiscal year. BDC is expecting the next Special Examination to commence in late fiscal 2008 with a report in early fiscal 2010.

Board of Directors

In 2005, BDC adopted a new Employee Code of Conduct, Ethics and Values, and a Board Code of Conduct both of which are reviewed yearly. It has set up a compliance system for its Codes which includes reporting to the Board of Directors. BDC incorporated in its Employee Code, a whistleblowing policy providing for the protection of any employee who discloses a wrongdoing. The Ombudsman was designated to handle such disclosures and reports to the Audit Committee for these matters. The Board Code incorporates the principles contained in the Public Office Holders-Conflict of Interest and Post Employment Code. BDC has also reviewed its Referral Policy whereby referrals and enquiries about clients by government and elected officials to BDC employees are reported to the Board of Directors.

The Directors on BDC's Board make a yearly declaration of Conflict of Interest. The Board has also adopted a formal mandate confirming its responsibility for the overall stewardship of the Bank. This involves:

- ▶ approving BDC's strategic direction and Corporate Plan
- ▶ identifying financial risks and ensuring that they are monitored
- ▶ approving succession planning and assessment of the CEO and Senior Management
- ▶ ensuring that BDC's information system and management practices meet its needs.

Through the Corporate Plan, the Board operationalizes BDC's public policy objectives as set out in the Ministerial Priorities Letter.

The Board approves and reviews on a regular basis the Terms of Reference for each Committee with clear responsibilities. The annual working agendas for the Board and Committees, including the Corporate Governance agenda, are adopted at the beginning of the fiscal year.

The Board ensures that it functions independently. Specifically:

- ▶ the roles of Chair and CEO are separate
- ▶ in camera meetings take place after Board meetings
- ▶ the Board has the opportunity to access Senior Management in order to be able to assess the team
- ▶ a policy on Orientation and ongoing education, together with presentations focused on governance and Bank activities, allow directors to remain effective
- ▶ assessments of Committees, Board, Chair and of individual directors are conducted annually
- ▶ the Board has approved the Chairperson and CEO position descriptions and sets annual corporate objectives for the CEO.

A new Chair will be joining the Board of Directors in 2007. The following best practices were employed to identify the candidates:

- ▶ a Chair profile was developed and approved by the Board of Directors
- ▶ an executive search firm was hired to identify the best candidates
- ▶ the names of the select few who fit the established criteria were provided to the Minister of Industry for his consideration.

The BDC Board of Directors will continue to exercise sound governance practices. In this regard, the Board will continue to harmonize its practices with best practices of the private sector.

BDC will be implementing the last two measures of the 31 corporate governance measures for Crown Corporations proposed by Treasury Board in 2005:

1. *Stakeholder Meeting*: BDC is considering the modalities of this requirement
2. *Certification Process*: the scope of the Project as described above, has been determined and an analysis of the Certification Process requirements is underway.

Continuously improve risk management bank-wide

CONTEXT

With few business lines and the evolution towards becoming a quasi-equity bank, BDC is particularly vulnerable to economic cycles. These factors have led the Bank to adopt a sophisticated enterprise risk management (ERM) system that is considered world-class by other financial institutions. This system will enable BDC to weather the storm of an economic downturn and continue to serve its clients during times when BDC services are most needed.

BDC RESPONSE

Evolution of BDC's ERM Framework

BDC's ERM framework ensures all business risks are considered when making key operating decisions. ERM is integrated into strategic and corporate planning through a well-defined structure and clear accountability. This increases the probability of success of Bank-wide strategies. ERM also allows BDC to balance its higher-risk mandate with the need to sustain capital adequacy for growth.

BDC maintains sufficient capital to meet an AA credit rating solvency standard. While BDC is not required to meet the requirements of the Basel II Capital Accord, it has started to implement an enhanced economic capital model and a supporting risk rating system in compliance with Basel requirements. The new capital model addresses the need to look beyond market, credit and operational risk to business risks and maturity risks. Operational risks are now more accurately assessed in the BDC model, as they are based upon internally observed measures and not external industry benchmarks. BDC's decision to maintain an AA solvency standard is based on capital conservatism.

The internal Enterprise Risk Management Committee ensures an integrated vision of all key strategic, operational, financial and hazardous risks facing BDC. It provides a forum for open discussion regarding risks that cross over functional boundaries and the development of co-ordinated action plans

Risk management is everyone's business

At BDC, risk management is everyone's business. Enhanced individual risk scans are done at each business unit level as part of the annual business planning process. The results of these scans are collected and analyzed to identify corporate risk issues. To assist in the development of action plans to mitigate risk, the ERM team acts as an advisory resource.

Monitoring the portfolio

BDC has developed a highly sophisticated system that allows it to monitor the existing loan portfolio on a continual basis. Based upon established thresholds, the system provides early warning of trends so corrective action can be taken quickly. This system puts information directly into the hands of the unit managers responsible for monitoring risk. It also allows management to remain in an oversight capacity which promotes increased flexibility and accountability at the local business unit level.

BDC also uses an early warning system that is based on external data collected from credit reporting agencies to forecast the cash flow and liquidity of its clients into the future. This predictive tool allows BDC to be proactive in assessing and managing credit risks at both the individual loan and the portfolio level. It also recognizes an emerging trend before it becomes



evident in changes to a borrower's traditional loan performance. A predictive tool on client prepayments is also being developed.

BDC will transfer its knowledge of Portfolio Risk management in the lending portfolio to its venture capital portfolio. During the last year, BDC started testing different methods (as none currently exist in the market) and will refine and develop its own methods over the next 2-3 years. The difficulty lies in the fact that the majority of the companies within the investment portfolio are at the seed investment or early-stage of development. As such, the evaluations of the companies are based less upon quantitative financial performance and more upon qualitative assessments of the company's product or technology, ability to achieve milestones, future prospects and other market factors. However, BDC has successfully developed several key variables to track and is researching the venture capital community for other useful metrics.

Over the planning period, BDC will maintain the above-noted systems and take steps to continually refine the framework. In addition, efforts will be made to increase the accessibility and transparency of the risks to which the Bank may be vulnerable and to create a culture which continues to be highly sensitive to ERM.

BDC's Pandemic Recovery Management Program

BDC is committed to being prepared to deal quickly and effectively with a potential pandemic event that could negatively impact the health and welfare of its employees and the overall confidence in the institution. The Pandemic Recovery Management Program has been created and structured to guide the flow of decisions and communications and is applicable to head office as well as branches. It is compliant with federal government guidelines. The Program is a living initiative that will be periodically updated and tested, while ensuring consistency is maintained across the country.

Business Continuity Plan

To ensure BDC can continue to operate in the event its headquarters becomes inaccessible for reasons including the contagion associated with a pandemic, BDC's business continuity plan requires that it have an off-site centre which it continues to update and test.

Benchmark to adopt suitable best practices for BDC's size

CONTEXT

The question of how BDC can properly play its development role in a marketplace crowded with financial players is one that BDC continually asks itself. In order to achieve the outcomes it seeks to achieve, BDC must look beyond its corporate walls to discover best practices that can be promulgated throughout the organization.

BDC RESPONSE

Benchmark internationally

Strategies and services adopted by other development banks are a source of inspiration to BDC, particularly as globalization becomes more and more of an issue in the public policy domain. Benchmarking with others represents an opportunity to exchange best practices and solidify BDC as a leading development bank in the world.

BDC has identified development banks to benchmark with and will visit the most relevant institutions. BDC already visited Finnvera (Finnish bank with long-term focus on improving industrial innovative capacity), KfW Mittelstandsbank (full service bank in Germany, good focus on SME export and foreign direct investment, strong industrial base) and Vaeksfonden (Denmark, commercialization expert) to identify best practices and possible future collaboration. Others will be visited during fiscal 2008.

BDC will also participate in international research to better understand how other countries are addressing financing (debt and equity) and consulting gaps for SMEs.

Each year, BDC receives 5-10 delegations from other development banks and international financial institutions around the world because it is widely recognized that BDC is unique in terms of the way it manages risk, its knowledge of SMEs and its commercial mandate. This practice will continue as it provides BDC an opportunity to learn about the successes of its counterparts in areas of importance such as: their experiences working with other national and multilateral banks (Asian, South American, European) as well as their response to global trends such as the emergence of China and India. This information will provide BDC with a broad perspective to assist in the analysis that will have to be undertaken in the lead-up to and during the course of the next Legislative review.

Other questions to be explored include:

- ▶ What is the role of a development bank? How does it work with its shareholder(s)?
- ▶ How broadly can its mandate be exercised?
- ▶ How can a development bank draw support from private sector financial institutions as opposed to competing against them?
- ▶ What are the best means to address financial market deficiencies towards SMEs on debt and equity?
- ▶ How can the market be influenced or shaped by a development bank's role?
- ▶ What kind of financial or consulting instruments are the best for the most economic impact?
- ▶ What are the trends in the market? (For example, as discussed in a previous section, how others will be financing intangible assets is an issue that needs to be discussed and prioritized).

STRATEGIC ACTIONS

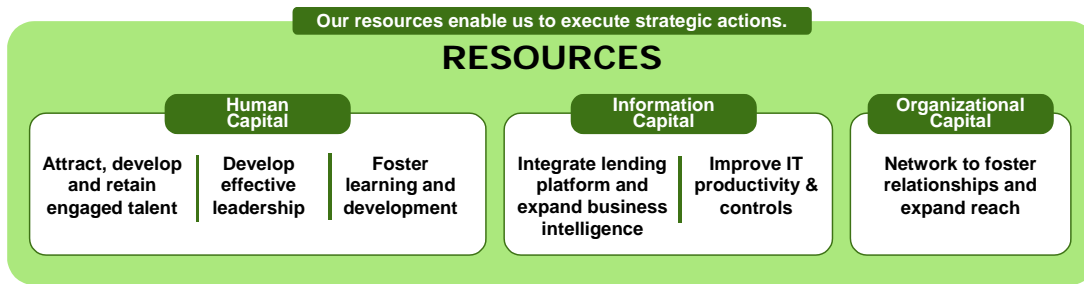
Management Excellence

Remain focused on governance, transparency and accountability

Continuously improve risk management bank-wide

▶ Benchmark to adopt suitable best practices for BDC's size

2.2 Resourcing and Delivering Results (What resources will we require to achieve our strategy?)



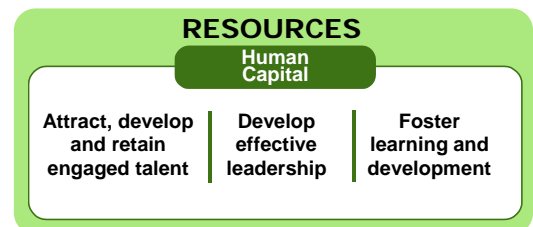
2.2.1 Human Capital

Attract, engage, develop and retain talent
Foster learning and development
Develop effective leadership

CONTEXT

In a labour market that is highly competitive and multi-generational, it is critical to ensure that HR practices and programs address the diverse needs, values, and motivations of BDC's people.

As with many institutions, BDC is facing an important challenge in attracting and retaining employees: the talent war. Already, the economic growth in Western Canada puts a considerable amount of stress and strain on the organization. BDC must attract and keep quality people.

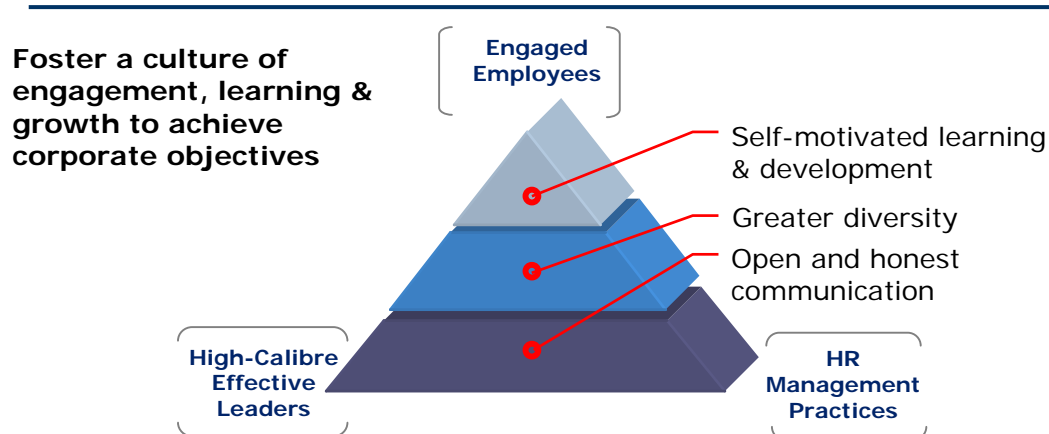


BDC RESPONSE

Why engagement makes a difference

BDC recognizes the strong correlation between engagement, client satisfaction and business performance. The more engaged employees are about what they do at BDC, the more likely they are to delight their clients with their ability to find innovative and flexible solutions to their business needs. Inevitably, for BDC, this translates to high client satisfaction and organizational success.

HR Vision



BDC believes that the best way to serve its clients is to foster the right culture to create the best possible environment for employees. The HR vision of "fostering a culture of engagement²², learning and growth" remains the cornerstone of its strategy.

In 2006, BDC's overall engagement score increased from 74% to 78%, with marked improvement in several of the important drivers of engagement such as leadership, career opportunities and recognition. This is a direct result of the continued efforts of leaders throughout the organization to put the valuable feedback of employees to good use. Across the country, engagement action planning continues to be one of the most effective ways to create and sustain a dialogue that creates a collaborative work environment for all. Ultimately, the focus is on creating a culture of engagement.

Talent Management

A key driver of engagement is the growth and development of people. The talent management strategy aims at building the capabilities of a diverse and engaged workforce. The recruitment and selection of the right people who will represent BDC is critical to its future. Over the years, BDC has expanded the diversity of its workforce both culturally and professionally. It has acquired a broader skill set, experience, and culture that have enhanced its organizational capabilities and BDC hopes to fully optimize the talents of this diverse workforce. Through focused recruitment strategies, BDC will continue to expand its reach into new and growing cultural communities of Canada for the talent that is necessary to meet the changing needs of clients.

Another value proposition that has enabled BDC to compete for talent in a highly dynamic and competitive labour market is its Total Rewards strategy. First introduced in 2004, it was designed to provide greater alignment of compensation and benefit practices with the financial sector. Over the three years it has taken to complete its implementation, the strategy has brought enhancements to BDC's performance-based compensation model and greater flexibility and choices in benefits.

In the planning period, the focus will shift to enhancing the quality of BDC's communications about its offerings. BDC will introduce a Total Rewards Statement that will serve as an important communication tool, capturing the total value of all the various components of its compensation and benefit practices. Another initiative will be to effectively communicate all the programs under Wellness²³.

Continued Focus on Leadership Development

BDC recognizes the value that effective leaders bring to an organization. Good leaders hire, train and coach their employees, and thereby, foster an inspiring work environment for employees to grow. This translates to engaged employees. BDC's focus on leadership development began in 2005 with the launch of the Transitional Leadership Program for first time leaders. To date, over 120 new leaders are participating in this Program.



²² Employee engagement is defined as a heightened emotional and intellectual connection that an employee has for his or her job, organization, manager, or co-workers that, in turn, influences him or her to apply discretionary effort to his or her work

²³ The benefits offered by BDC to keep its employees healthy

Based on BDC's leadership model, the program consists of professional competency assessments, a series of learning modules and activities, and coaching to address development needs at all levels.

As an organization that is known for its commitment to learning, BDC's key talent management objective is to ensure the on-going development of all leaders. Every leader at BDC has an active development plan which aims to leverage their key strengths and addresses areas for development. BDC strives to integrate talent reviews as part of its normal course of business. By doing so, it is building proficiency for current roles and developing talent for future succession. In the coming year, BDC will introduce a six-module program for senior leaders throughout the organization.

Technical Programs and Learning Paths

Significant hiring took place and will continue, resulting in more people who are new to their positions, unfamiliar with BDC processes and its client value proposition. While BDC provides all of its new recruits full orientation, it must continue to focus on their integration to reach full productivity faster, to preserve its client knowledge, to ensure processes are properly carried out, and to strengthen succession planning for management positions.

A number of important initiatives are underway to improve these capabilities. Specific training initiatives include:

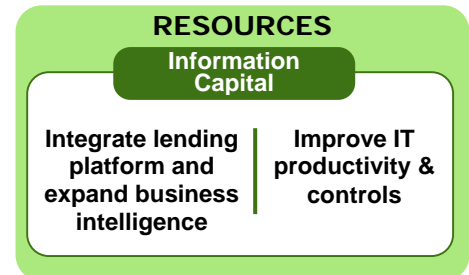
Redefining and Communicating BDC's Value Proposition	During fiscal 2007, a special Task Force was created to recommend initiatives, which would further develop BDC's Value Proposition to SMEs and clients. Central to the process was a large-scale review of client and employee feedback and suggestions to enhance BDC's value in the marketplace. These will be fed into the training of new BDC employees.
Coaching Initiatives	Regionally focused training and support initiatives will focus on building both credit and relationship management competencies. Of particular focus will be training sessions to Add Value to the Client Relationship, as well as Becoming more Resourceful in Finding Solutions to client needs. This will be achieved by the creation of a Relationship manual in partnership with the Training Department.
Responding to Market Dynamics	In order for the corporate strategies around such market trends as globalization, intangible assets and BOT to be successful, BDC will build employee capacity in cash flow lending to enable them to address client needs in these areas.
Equipping Account Managers with Sector and Business Knowledge	To bring Value to discussions with clients and SMEs, a selected number of BDC Account Managers were equipped with the latest information and statistics on industry trends. This was partly accomplished via a web-based tool called First Research. During 2008, BDC will continue to support this strategy by making the tool accessible to more Account Managers and ensuring that this important knowledge is transmitted effectively to clients at each contact, whether in person or by phone. This will be supplemented by the Knowledge Centre discussed in section 2.1.3.
Environmental Risk Management	Through dedicated training to front-line employees, BDC will continue to reinforce understanding of environmental risks and new procedures included in new regulations of the <i>Canadian Environmental Assessment Act</i> . BDC will continue to ensure that all transactions comply with the new regulations and that all environmental risks are well assessed.

2.2.2 Information Capital

Integrate lending platform and expand Business Intelligence (BI) Improve IT productivity and controls

CONTEXT

A recent survey of European banks looked at how they manage technology to identify the IT-management practices of the top performers. The survey found that the best performers were distinguished by two factors: the quality of a bank's IT management and the ways the bank uses IT to support the needs of the business. There was no correlation between the performance of a bank and either its size (as measured by revenues or head counts) or its mix of retail and wholesale business. These results strongly suggest that the way banks use and manage IT will continue to be a crucial factor in their performance.²⁴



Over the planning period, Gartner predicts that IT organizations will increase their contribution to business growth by increasing the business impact of new applications. To do so, they will make IT contribution earlier in enterprise decisions and will focus on redesigning business processes and closely align the technology. They will create a business intelligence and performance management competency as the cornerstone for information discovery and analysis in support of business vision and strategies. They will implement a scale-free enterprise architecture strategy integrating IT, business and compliance strategies. They will also migrate the application platform to the service-oriented architecture for greater delivery agility and flexibility.

BDC RESPONSE

The next five years will bring important changes to BDC's IT portfolio to migrate its applications from a solution-based point of view to a client-centric view. This transition started with the introduction of CREM (Customer Relationship Evolving Manager) to which new functionality for risk management has been added. Investments will be required to transform and integrate legacy applications coming to the end of their life, and to continue to drive further gains in efficiency and enterprise risk management. These IT objectives are, of course, also in support of BDC's corporate objective to seek efficiency gains that are expected to be realized by 2010.

Key strategic objectives include:

Evolution of the core lending and business intelligence applications

Business efficiency gains will be sought by rethinking the due diligence and loan administration processes. Supporting application systems will be redesigned and integrated to the core lending platform CREM, with a view to improve client service and to maximize workforce efficiency and market reach.

In the business intelligence strategy, additional analytical and reporting capabilities will be developed to improve the support of lending operations and executive decision-making.

²⁴ Smart IT Spending – Insights from European Banks, Kanika Bahadur, Driek Desmet, Edwin van Bommel, McKinsey Quarterly November 2006

IT productivity and controls

BDC will continue to evolve its IT capabilities with the objective of reaching a more agile and adaptable state (focused on core business) able to quickly and effectively fulfill the evolving needs of BDC's application and technology portfolio. Focus will be maintained on improving internal IT productivity by carefully balancing the goal of simplifying solution delivery mechanisms with the implementation of processes and controls aligned to industry best-practices.

IT security will be the object of continued attention in order to maintain a prudent risk posture.

Over the planning period, BDC will explore opportunities that new technologies, such as enterprise content management and collaboration tools can offer. In addition to increased business efficiency, the use of these technologies will facilitate BDC compliance with Treasury Board Secretariat's controls and guidelines²⁵.

²⁵ Operational Security Standard: Management of Information Technology Security (MITS); Policy on the Management of Government Information

2.2.3 Organizational Capital

Network to foster relationships and expand reach

CONTEXT

Even with 92 branches across Canada and frequent direct contact with 27,000 SME clients, BDC knows that it must work with others to leverage impact in the market.

BDC RESPONSE

Beyond its client base, BDC has established a number of partnerships. For instance, over 200 partnership agreements²⁶ have been signed with Community Futures Development Corporations (CFDCs) across Canada. These agreements help BDC to reach SMEs in rural communities. As well, a recently signed alliance with the Federation des Caisses populaires acadiennes will increase BDC's reach in New Brunswick. BDC will pursue its efforts to exchange information with other financial institutions on respective business practices with a view to increasing collaboration to better serve SMEs.

BDC works in partnership with CFIB on strategic issues such as Business Ownership Transition and will continue to do so during the planning period.

BDC is a member of ALIDE (Latin American Association of Development Financing Institutions) and ADFIAP (Association of Development Financing Institutions in Asia). Membership in these organizations allows BDC to access the network of international development banks in support of two objectives: benchmark to identify best practices; and share BDC experience with less developed countries in the process of establishing developing banks.

A refreshed branding strategy, along with more information-driven advertising, is designed to improve the understanding of BDC and increase its reach in the marketplace, particularly with SMEs and business professionals who support them.

In support of the corporate objective to develop entrepreneurial markets, BDC will co-finance a business plan competition at the university level across Canada (over 100 participants to date) – BDC Enterprize 2007. As well, BDC will continue to celebrate the excellence of small businesses in Canada through Small Business Week and Young Entrepreneurs Awards. These events bring thousands of people together across Canada to mark the importance of and inspire entrepreneurship.

Support of academic research will be enhanced through participation in the Canadian Council of Small Business and Entrepreneurship's (CCSBE) sponsorship of academic conferences.

BDC will collaborate with NRC and NSERC to maximize publicly funded research by linking the roles played by the three organizations, thus creating a continuum of activity to commercialize research. BDC began this integration by establishing a program where NRC employees are trained in its offices with some working out of BDC offices as well. BDC has also initiated discussions with Export Development Canada (EDC) and Farm Credit Canada (FCC) on how to collaborate to bring additional support to Canadian entrepreneurs.

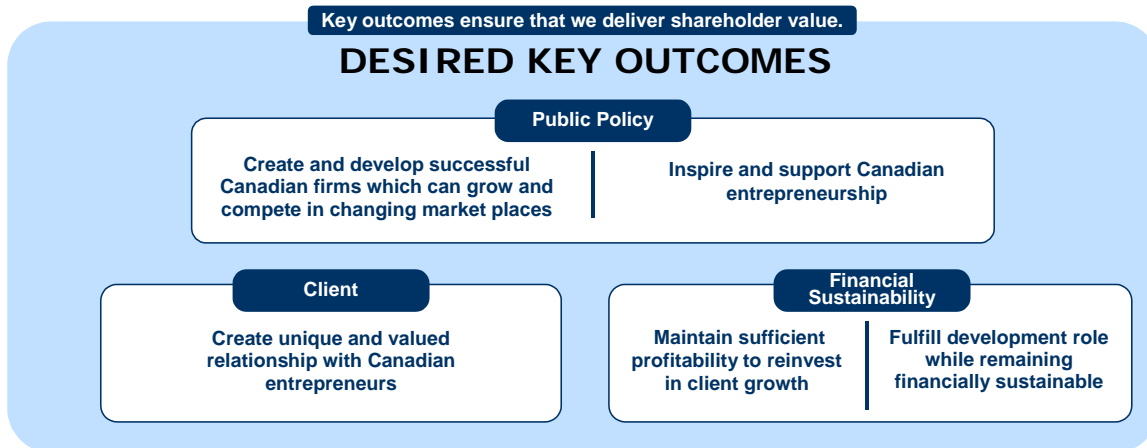
RESOURCES

Organizational Capital

Network to foster relationships and expand reach

²⁶ This represents 75% of the total Community Futures' network

2.3 Outcomes Sought (What are our desired key outcomes?)



2.3.1 Public Policy

CONTEXT

BDC is Canada’s development bank and thus an important instrument of public policy. Two desired **public policy outcomes** are sought over the planning period. These are:



BDC is developing a performance framework that measures the long-term impact of its intervention in the market in the following areas:

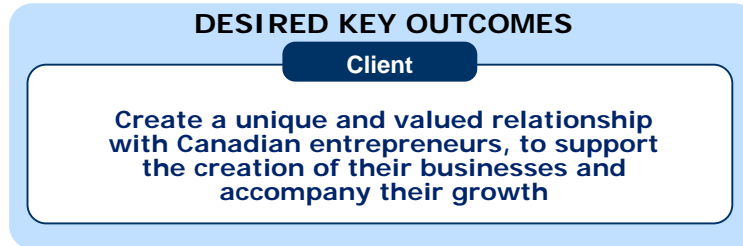
- ▶ BDC market leverage
- ▶ BDC business creation
- ▶ survival rates of BDC start-up clients compared to industry benchmark(s)
- ▶ growth of BDC clients compared to industry benchmark(s)

As mentioned previously, in the context of a Research Agenda, BDC will work independently and with others (such as the Financing Data Initiative Partners) to better understand the factors that lead to SME prosperity.

Several factors (R&D levels, innovation capacity, competitiveness, management skills and other intangible assets, exporting, growth intentions, operational attributes) have been identified as key future priority areas of analysis in the FDI data collection. This will support BDC's efforts in measuring gaps in the market and will provide the context and industry benchmarks required to measure its market intervention.

2.3.2 Client

There is a shared objective, common to all BDC employees and their client approach: create value in all aspects of BDC client relationships. Two desired **client outcomes** are sought over the 2008-2012 planning period. These are:



Measuring Success and Value

- ▶ The annual Client Satisfaction Survey, which is done by an external third party, is the most important tool to measure BDC's client-centric approach. In fiscal 2006, BDC continued to maintain a high level of client satisfaction with 92% of respondents reporting that they were satisfied with BDC's service.

In 2006, new clients were asked specific impacts of BDC's value-added support:

Do you perceive that BDC will have a positive impact on your profits?	
- Manufacturers	93%
- Exporters	92%
Do you perceive that BDC will have a positive impact on your productivity?	
- Manufacturers	83%
- Exporters	82%
Do you perceive BDC's Productivity Plus Loan will have a positive impact on your profits?	96%
Do you perceive BDC's Productivity Plus Loan will have a positive impact on your productivity?	91%

- ▶ In fiscal 2007, it is projected that client satisfaction will remain at about the same level as in fiscal 2006. BDC anticipates a slight decrease in client satisfaction in fiscal 2008.

Client satisfaction

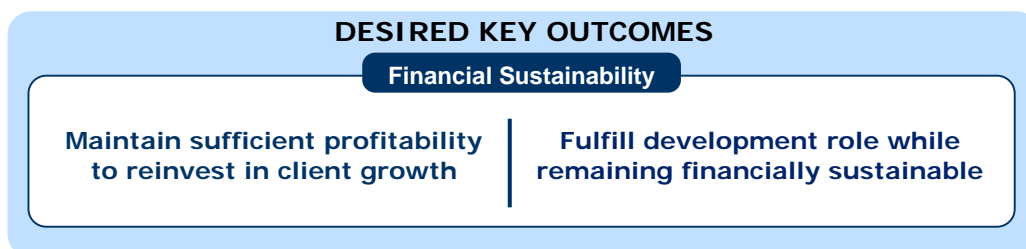
(%)	Actual 2006	Estimate 2007	Projected 2008
% satisfied	92%	92%	90%

Outstanding loan portfolio

BDC will also measure the growth of its outstanding loan portfolio.

2.3.3 Financial Sustainability

Two desired **financial outcomes** are sought over the planning period to ensure BDC's financial sustainability. These are:



Measuring Financial Sustainability

- ▶ Several metrics are used to measure BDC's financial outcomes, as presented below. Complete details are discussed in the Financial Plan of this document.

RETURN ON COMMON EQUITY (ROE)

Generate an ROE at least equal to the government's average long-term cost of funds.

(%)	Actual 2006	Estimate 2007	Projected 2008
ROE	9.2%	7.1%	7.1%

INTERNAL RATE OF RETURN – 10 Year Venture Capital IRR

BDC is removing the IRR measure from its performance framework because it is becoming increasingly difficult to report on. BDC has ongoing investments with a great percentage of young companies that will not show returns for 5-10 years. Therefore, the IRR was being applied to companies that are just too young to generate returns.

BDC will develop a new indicator that will be based on cash-on-cash returns and on companies that have been financed and exited the portfolio.

2.4 Consolidated Key Performance Indicator Table

	Actual 2006	Estimate 2007	Projected 2008
Client Satisfaction	92%	92%	90%
Employee Engagement	78%	78%	78%
Efficiency Ratio – Expense-to-revenue* (the lower the ratio, the higher the efficiency achieved)	48.9%	50.2%	51.0%
Dollar value of o/s loan portfolio (\$ millions) **	\$8,627	\$9,185	\$9,667
Consulting Revenue (\$ Millions)	\$21.6	\$23	\$26
Return on Common Equity (ROE) (including unrealized appreciation of investments)	9.2%	7.1%	7.1%

* Includes financing (loans) and subordinate financing

** Excludes subordinate financing

VC Internal Rate of Return: This indicator has been removed because it is becoming increasingly difficult to report on. BDC has ongoing investments with a great percentage of young companies that will not show returns for 5-10 years. Therefore, the IRR was being applied to companies that are just too young to generate returns.

3.0 VENTURE CAPITAL

This section describes BDC's Venture Capital Strategy for the current planning period. As depicted, BDC Venture Capital strategies are an integral part of the five planned strategic actions.

3.1 External Assessment of the Canadian Venture Capital (VC) Industry

Sections 3.1 and 3.2 present highlights of an assessment prepared by an external third party, Dr. Gilles Duruflé²⁷, which is complemented by several other data for completeness.

3.1.1 Context of the Canadian VC Industry

The Canadian VC industry remains less than stable since 2001 in terms of investment activities and delays in showing good returns due to its specific structure. The industry has not yet bounced back after the burst of the “bubble” in 2001. At that time, the amount of investments disbursed to private companies plummeted especially in the Internet sector, and was followed by a period of low-valuation and poor returns. The exuberance of the bubble was weaker in Canada than in the US. However, the Canadian industry appears to be much slower to recover than its US counterpart, generating a long trough in financings, especially in seed and early-stage investments which are at the core of BDC’s activity. The main characteristics of this environment are the following:

- ▶ Overall investment activity is still flat or declining (Exhibit 1).
- ▶ Investments at the seed and start-up stages are declining, from high levels (Exhibit 2).
- ▶ Returns are poor and slow to bounce back: as at December 31, 2005, one year horizon returns are 2.6% in Canada vs. 15.6% in the US and 3-year horizon returns are -1.8% and 7.5% respectively.

3.1.2 Structural Issues Facing the Canadian VC Industry

The performance of the Canadian VC industry has been poor since inception. The poor performance can be attributed to:

- ▶ bad timing as the industry is too young to have benefited from the good vintages of the nineties and grew strongly during vintages which have been severely affected by the bubble
- ▶ poor allocation of capital as the Canadian industry is not as mature as in the US and because it is not concentrated in the best performing funds

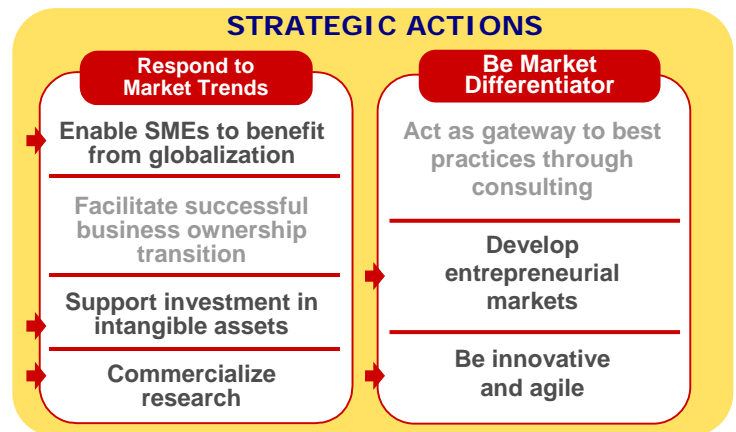


Exhibit 1: Canadian VC investment – All sectors

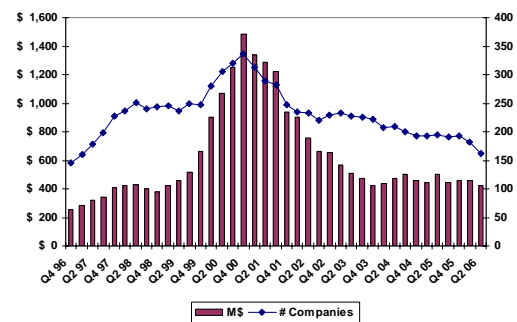
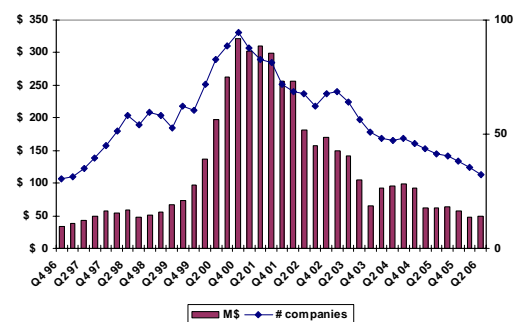


Exhibit 2: Canadian seed and start-up investment – All sectors



Source: Thomson Financial
Note: 4 quarters moving average

²⁷ In this assessment, Dr. Duruflé refers to a report which he prepared for the CVCA: http://www.cvca.ca/files/Duruflé_Presentation_June_2006.pdf

- ▶ the fact that fund managers have not yet adopted the best practices of the industry (see table below)²⁸.

<i>Description of Canadian VCs:</i>	<i>Recommendations to the industry:</i>
<ul style="list-style-type: none"> ▶ Regarding investment activities, Canadian VCs: <ul style="list-style-type: none"> – are slow to enter new emerging sectors – tend to concentrate on early stages and invest less frequently at later stages with much smaller amounts of money than their US counterparts – are influenced by foreign funds that play a very important role in Canada in terms of financing larger rounds, exiting companies and obtaining higher values at exit – tend to be less demanding on management teams than their US counterparts – do not match managers' profiles of top performing US funds – still have too small Private Independent (PI) funds under management ▶ Regarding exiting strategies and performance, Canadian VCs: <ul style="list-style-type: none"> – have smaller exits in number and values – obtain higher values when exits are executed on American markets versus Canadian markets – have only a small number of big winners (return for 10 times the investment) – are slower to exit non-performing investments 	<ul style="list-style-type: none"> ▶ Build strong General Partners (GPs) managed by experienced managers with operating experience ▶ Improve the allocation of money to GPs by directing the money to performing managers in: <ul style="list-style-type: none"> – both new funds and successive generation – both Private Independent (PI) and Evergreen (never ending) funds – funding larger funds ▶ Build strong investee companies by: <ul style="list-style-type: none"> – investing larger amounts and taking more risk – bringing in best North American Resources – attracting performing management teams ▶ Focus on winners – large exit size in short period of time by: <ul style="list-style-type: none"> – cutting off non-performing companies quickly – funding with larger rounds (comparable to US investee companies) – raising the bar at all levels in adopting best practices in all areas

3.2 External Assessment of BDC's VC Activities

While BDC was able to address the market needs of VC financing, it has also met the objectives set by its Shareholder, the Government of Canada, in terms of:

- developing a presence across Canada while paying special attention to regional development
- focusing its investment flow on knowledge-based industries and leading-edge technologies
- commercializing research initiatives in financing innovative early-stage and start-up investments through direct investments and fund investments
- attracting foreign investments to support its investment strategy
- establishing partnerships with both the public and private sectors.

3.2.1 BDC Presence within Canada and Regional Impacts

- ▶ BDC is a large VC player in Canada and its importance has been growing in recent years as it has played a positive contra cyclical role by increasing its share when VC industry activity contracted in 2002.
 - During the fiscal 1998-2006 period, BDC's share of Canadian VC investments represented 3.1% of \$ invested – note, it represented 5.7% in fiscal year 2006.
 - BDC invested in 3.6% of companies during the fiscal 1998-2006 period and 5.6% in fiscal year 2006.
 - More importantly, BDC was present in 7.9% of all financing rounds in Canada during the fiscal 1998-2006 period - its presence increased to 11.1% in fiscal year 2006.

²⁸ The Drivers of Canadian VC Performance, CVCA, June 2006, p 9-10

As of November 30, 2006, BDC’s portfolio included 205 active companies and funds of which the majority are located in Quebec (66), Ontario (80) and British Columbia (35) (Exhibit 3).

It is important to note that BDC’s market share may be rather high in provinces where it has fewer investment portfolio companies. As an example, compared to the industry data provided by Thomson Financial, BDC’s market share was above the industry average in Nova Scotia, New Brunswick, Prince Edward Island and Manitoba in terms of dollars invested and is above average in New Brunswick, Ontario and Prince Edward Island in terms of number of portfolio companies for the one-year period ended June 30, 2006 (Exhibits 4 and 5).

Exhibit 3: Breakdown by Province of Active Portfolio Companies and Funds as of November 30, 2006 (in M \$)

	# of companies	\$ committed
Nova Scotia	8	\$11.5
New Brunswick	4	\$14.0
Newfoundland	1	\$3.7
Prince Edward Island	1	\$0.3
Quebec	66	\$207.2
Ontario	80	\$287.7
Manitoba	1	\$4.0
Saskatchewan	2	\$3.5
Alberta	7	\$18.1
British Columbia	35	\$136.2
	205	\$686.2

Exhibit 4: BDC Market share by Province - \$ (exclusive of investments made in funds) authorized from July 1, 2005 to June 30, 2006 (12 months)

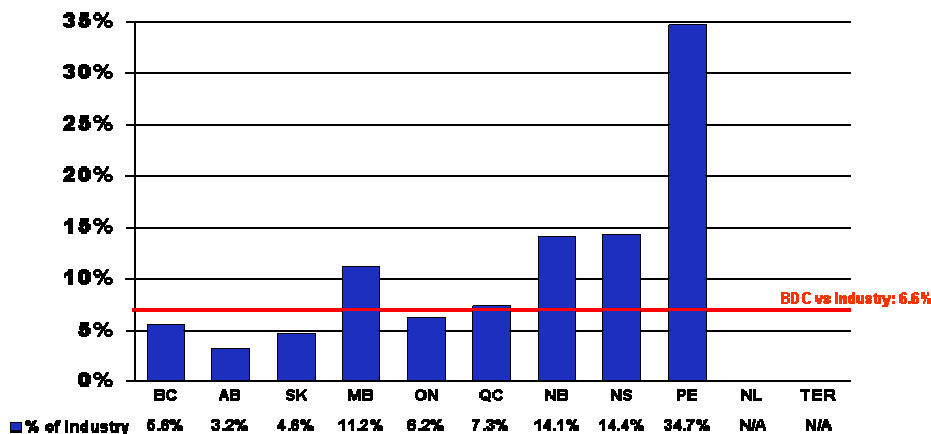
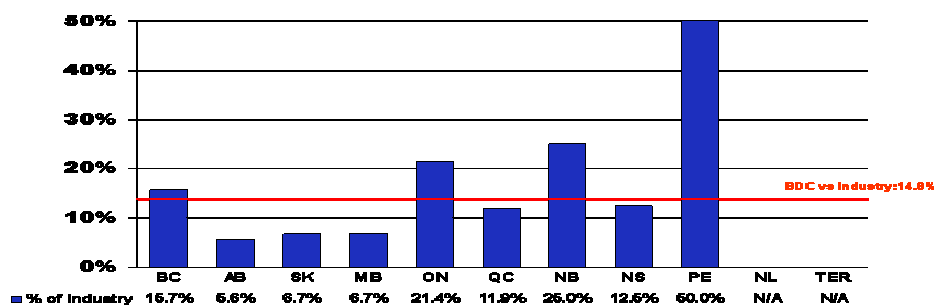
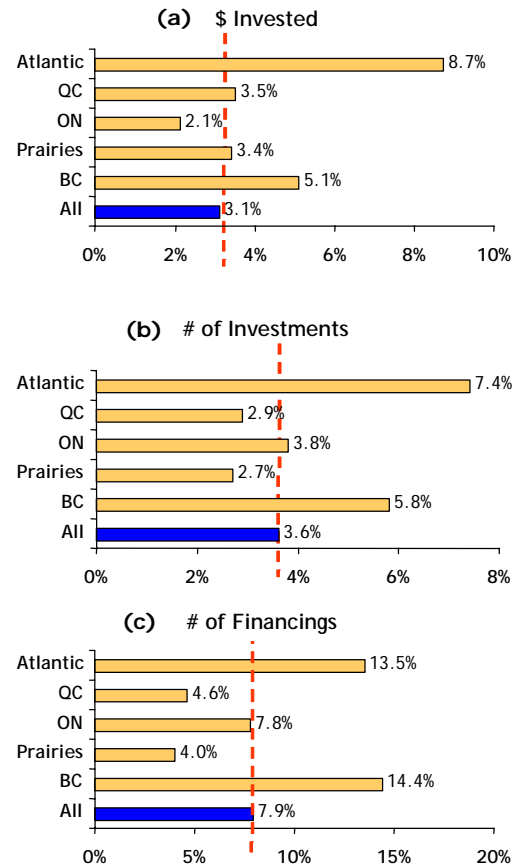


Exhibit 5: BDC Market share by Province - # (exclusive of investments made in funds) authorized from July 1, 2005 to June 30, 2006 (12 months)



- ▶ BDC has impacted regional development (Exhibit 6).
 - Compared to the Canadian VC industry, BDC is over-weighted in Atlantic Canada and in British Columbia (BC), where the pool of available capital is smaller. On average during the 2000-2005 period, BDC’s investment in BC has represented 18% of BDC’s total investment in Canada whereas, on average, the capital available in BC has been 11% of the Canadian total. Atlantic Canada has, for its part, received 5% of BDC’s total investment whereas their capital available represented 3% of the Canadian total (Exhibit 7).
 - Conversely, BDC is under-weighted in Ontario in terms of \$, but not in number of investments or financings, because of the smaller size of investments. It is at par in Quebec in terms \$, but under-weighted in terms of number of investments or financings because of the larger size of investments.
 - In the Prairies, BDC respects its Canadian average market share in \$ invested by investing more capital in fewer deals, as shown in smaller number of financings and investments.

Exhibit 6: Share of BDC in the Canadian VC industry – By region



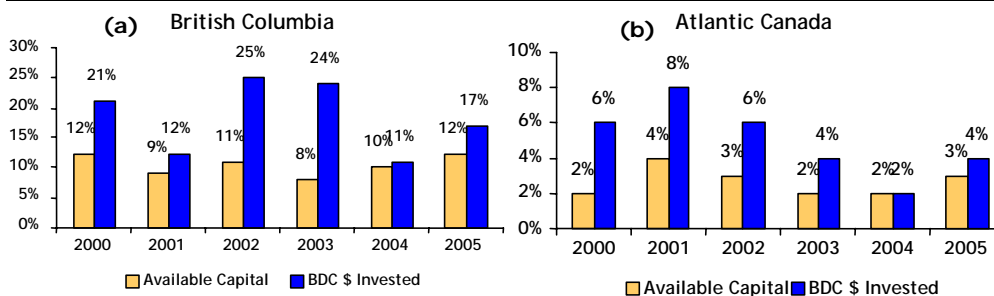
! All region average

Source: BDC and Thomson Financial. Analysis is for the Fiscal Year 1998-2006 period. A financing (or a round) is usually composed of several investments made in syndication by individual investors.

3.2.2 BDC Achievements

A new strategy in VC for BDC was created in 2001 which entailed a focus on knowledge-based industries (KBI) and on commercialization of research through direct investments in seed & early-stage companies and through VC private funds (indirect investments). This implied focusing on more defined investment sectors and setting up specialized investment teams. This reorientation has been intensified since that time and was underscored by capital injections by the Shareholder.

Exhibit 7: Share of BDC in the Canadian VC industry compared to available capital – By location



Source for BDC’s share of \$ invested: BDC. All % are calculated by year and by location. Source for Available Capital: Thomson Financial.

Indeed, BDC has concentrated its investment flow on KBI defined in four distinct sectors, namely life sciences, advanced technologies, telecom and information technology. It is noted that BDC is under-weighted²⁹ in the traditional sectors and over-weighted in life sciences in terms of \$ invested compared to the Canadian VC industry.³⁰ (Exhibit 8)

- ▶ BDC has also positioned itself as a strong seed and early-stage player with a dedicated Technology Seed Investment (TSI) team which has taken a very active role in the commercialization of research.
 - During the 1998-2006 period, BDC represented 17.9% of seed investment in Canada. In fiscal 2006, however, this number spiked to over 50% (Exhibit 9).
 - 85% of these seed investments were lead by BDC.
 - 61% are linked to 14 universities and research centres spread all across Canada.
 - 34 new companies were created by the end of fiscal year 2006 with \$74 million capital injection by the BDC and \$150 million from other investors in successive financing rounds. Employment has increased from 90 employees when these companies were established, to more than 500 today.
 - This initiative became an important contra-cyclical strategy given the shift of the industry away from these stages.
- ▶ BDC is strongly over-weighted in early stages but not very present in late stages compared to the Canadian VC industry and the size of its early-stage investments has been growing in the last several years:
 - During the fiscal 1998-2006 period, BDC represented 5.3% of all \$ invested in early-stage compared to 1.1% in late-stage. Moreover, during the same period, BDC represented 5.2% in the number of early-stage investments compared to 1.7% in late-stage and was present in 10.2% of all early-stage financing rounds compared to 2.9% in late-stage.

Exhibit 8: Share of BDC in the Canadian VC Industry (by sector)

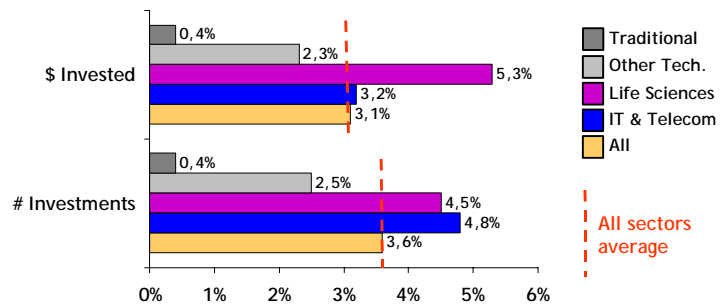
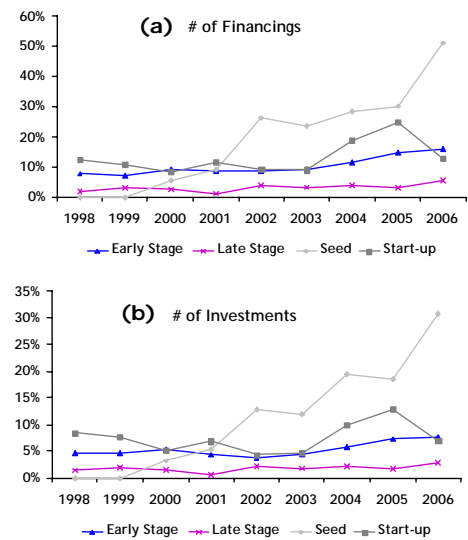


Exhibit 9: Share of BDC in Canadian VC industry – By stage and fiscal year



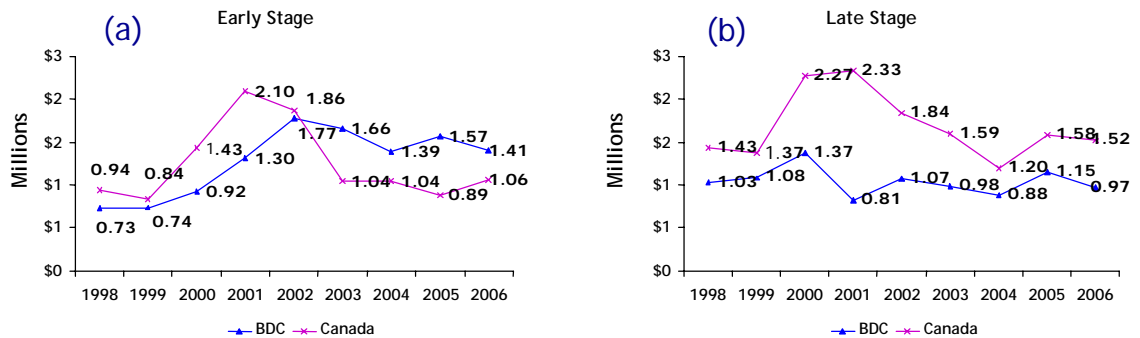
Source for BDC's share of \$ invested: BDC and % is calculated by year and by location. Source for Available Capital: Thomson Financial.

²⁹ In this analysis by sector or by location, over (under) weighted compared to the industry means that BDC's share of the industry in this sector or location is higher (lower) than BDC's share for all sectors and all locations

³⁰ In this report, Canadian VC industry means all VC investments in Canada by Canadian based funds as well as foreign based funds. It does not include investments outside of Canada by Canadian based funds

- For early-stage investments, the average size of BDC’s investments has been growing during recent years from below average to above average compared to the Canadian VC industry trend (Exhibit 10). However, BDC’s level of late-stage investments was below the Canadian VC industry average for the past few years.

Exhibit 10: BDC and Canadian average investment size (\$M) – By stage



Source: BDC and Thomson Financial. Analysis is for the Fiscal Year 1998-2006 period. Since 2002, BDC has an impact on the size of investments. The trend of average investment size clearly re-emphasizes BDC’s position as an early-stage player. The size of its investments at late-stage is smaller than at early-stage.

- ▶ In 2006, BDC established a partnership with both public and private sectors in the creation of the GO Capital Fund. The \$50 million fund will support the creation of companies in all sectors of science and technology in Quebec, including natural sciences, life sciences and information technology. It will invest in emerging companies which have undertaken R&D in universities, public-sector laboratories and private-sector initiatives.

BDC recently signed an alliance with Flintbox, an online service supported by the University of British Columbia (UBC) that enables Canadian and American universities to offer or to post research projects and intellectual property on the Web (www.flintbox.com). The objective is to ‘match’ companies and universities in order to improve the companies’ positioning in regards to technological innovations and their intellectual property. It is also to enhance the visibility of the universities’ portfolios of innovations in the business community.

- The fund is a partnership between five organizations: FIER Partners (\$25 million), BDC (\$10 million), the Caisse de dépôt et placement du Québec (\$10 million), the Solidarity Fund QFL (\$3 million) and Fondation CSN (\$2 million).
- The GO Capital Fund will match one dollar for each dollar that BDC invests in companies, bringing to \$100 million (\$50 million from BDC and \$50 million from GO Capital s.e.c.) the total funding given to businesses at the seed stage.
- BDC is the General Partner and is responsible for managing GO Capital’s investments.
- BDC is currently pursuing the possibility of doing similar funds in other provinces.

BDC's investment in private funds has taken a more regular pace as total and average commitments are growing. BDC took a stronger leadership role in the formation of new funds since 2004 (Exhibit 11):

Exhibit 11: Review of Active Fund Investments from April 1, 2000 to November 30, 2006 (in M \$)

	Fiscal	Head Office	BDC Commitment	Total Fund Size
SpringBank Tech Ventures	2001	Alberta	\$3.4	\$22
VenGrowth V Limited Partnership	2001	Ontario	\$14.5	\$52
Venture Coaches Limited Partnership	2001	Ontario	\$3.8	\$37
Waterloo Tech Capital Ltd Partnership	2001	Ontario	\$4.6	\$30
Skypoint Telecom Fund II	2002	Ontario	\$7.4	\$160
Ventures West 8 Limited Partnership	2004	BC	\$15.0	\$250
VenGrowth Mezzanine I Limited Partnership	2004	Ontario	\$7.4	\$42
PRIVEQ III Limited Partnership	2005	Ontario	\$10.0	\$57
Tech Capital II LP	2005	Ontario	\$15.0	\$60
J.L. Albright IV Venture Fund, L.P.	2006	Ontario	\$15.0	\$200
Go Capital	2007	Quebec	\$10.0	\$50
			\$106.1	\$960
Note - These deals are not included as they are still in fund raising:				
MSBi Capital Partners II	2006	Quebec	\$20.0	\$100
Genesys	2007	Ontario	\$20.0	\$150

3.2.3 BDC's Performance Compared to Other Key Drivers

- ▶ BDC shows a very positive and growing impact on the size of financing rounds.
 - Its “leverage,” notably the size of the financing divided by the size of its own investment, is three times above the Canadian industry average (6 vs. 2).
 - The size of financings in which BDC is present is around 2.8 for early-stage as well as for late-stage.
- ▶ BDC also demonstrates a very positive impact on the presence of foreign investors.
 - During the fiscal 2003-2006 period, between 30-40% of all financings in which BDC was present had foreign investors versus 10-15% for the industry (Exhibit 12a).
 - In fiscal 2006, 89% of all \$ invested by BDC was contributed in rounds where foreign investors were present. Note that the Canadian share of \$ invested with foreign investors is not available (Exhibit 12b).
 - BDC's financings with foreign investors are 2 to 3 times larger than average industry financings with foreign investors.
 - BDC's share of financings in \$ and in number with foreign investors has grown significantly since 2001 and is significantly above the Canadian average.

Exhibit 12a: BDC and Canadian share of financings with foreign investors (#)

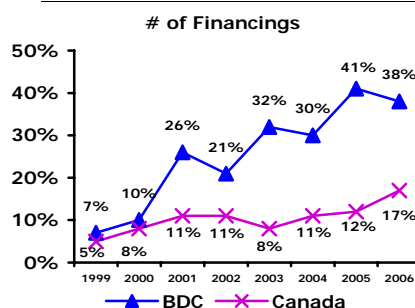
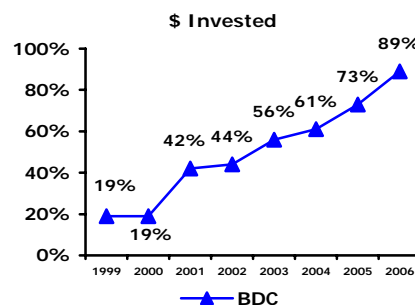


Exhibit 12b: % of financings with foreign investors (by \$ invested)



Source: Thomson Financial. Analysis is for the 1999-1Q2006 period (calendar years).

A financing is equivalent to a round and is composed of investments made by individual investors.

The chart depicts that BDC has a positive impact on the presence of foreign investors.

3.3 Going Forward VC Strategy 2008-2012

As a venture capitalist, BDC invests in 270 Canadian companies (205 directly). BDC will continue to pursue the objectives set by the Shareholder and building on its achievements and experience, for the planning

period, BDC will:

- ▶ favor investments in earlier stage technology, and in the process, fill market gaps created by the higher risk level of these transactions
- ▶ continue to attract capital to the very early-stage asset class through a fund strategy
- ▶ identify technologies and sub-sectors that are promising and focus investments and activities on these areas
- ▶ regularly review the status of the portfolio to concentrate effort on potential winners in order to add value to such investee companies and attract additional investments from other investors to support their growth
- ▶ when appropriate, manage third party money (such as in the GO Capital fund³¹) to leverage BDC's impact in the market, a clear recognition of BDC's expertise in the market
- ▶ become a catalyst for commercialization by working more collaboratively with Natural Sciences and Engineering Research Council and the National Research Council to create a commercialization continuum that helps Canadian innovations reach the world stage.

The next sections describe the specific strategic directions for seed activity (direct and indirect), the four specialty investment sectors and the fund investment group.

3.3.1 Direct Seed Investment Strategy

There are very few investors in Canada willing to invest in very early-stage companies because of the high financial risk inherent in creating a technology company due either to market, technology, intellectual property and management risks, or a combination of all of these factors. Recognizing a gap in seed investments, the Shareholder invested \$100 million in BDC for seed activity through the Federal Budget 2004. At the time of writing, BDC forecasts that it will largely surpass that amount during the planning period.

- ▶ The Technology Seed Investment Group (TSI) group is the driving force behind BDC's success in commercializing research. Over the planning period, it intends to:
 - continue to identify the best technological innovations across Canada that can lead to formation of promising technology companies
 - invest time and money to assist the founders in making the proof-of-concept, feasibility studies, and evaluating the business opportunities for these innovations (referred to as seed stage)
 - also invest in the development of working and demonstration prototype, the elaboration of business strategies/business plan and market validation phase (referred to as start-up stage)
 - support portfolio companies in achieving significant milestones to permit them to raise their first round of venture capital (referred to as 'Round A') from other VC firms and/or BDC Venture Capital investment sectors.
- ▶ Moreover, BDC will play a role to create capacity amongst government agencies. In this regard, BDC will collaborate with the National Research Council (NRC) and the Natural Sciences and Engineering Research Council of Canada (NSERC) to maximize the returns on publicly-funded research by linking the roles played by each of the three organizations, thus creating a continuum of activity to commercialize research. BDC already began this integration by establishing a program where NRC employees are trained in BDC offices, with some, currently accomplishing their activities from within BDC offices.

³¹ GO Capital Fund is a \$50 million fund to support the creation of companies in all sectors of science and technology, including natural sciences, life sciences and information technology. The GO Capital Fund is a partnership with both public and private sectors. BDC is the General Partner and is responsible for managing GO Capital's investments for the other limited partners/institutional investors.

3.3.2 Seed and Commercialization Fund Strategy

BDC will also support the commercialization of research and technology through its seed fund strategy. This initiative enables BDC to play a key role in the commercialization of Canadian research and technology in order to attract institutional dollars for investment in seed and start-up opportunities while encouraging talented fund managers to raise capital focused on seed stage deals.

- ▶ BDC played a leadership role in financing two private independent Canadian seed funds that are in final negotiation at the time of writing. Genesys Ventures II Lp was authorized in December 2006 and MSBi Capital Partners II was authorized in March 2006. MSBi Capital has a strong network with key universities and their technology transfer offices. These two funds are projected to raise up to \$250 million including total authorized investments of \$40 million for BDC. Their General Partners have strong networks with key universities and their technology transfer offices.
- ▶ BDC will build on the success of its experience as General Partner in the subordinate financing alliance with AlterInvest I and AlterInvest II (Caisse de dépôt et placement du Québec). When appropriate, it will increasingly migrate to the important role of managing third party venture capital funds to facilitate the creation of Canadian technology firms. The previously mentioned GO Capital Fund is the first instalment in this effort. Preliminary discussions are already taking place to create similar structures in other provinces.

3.3.3 Direct VC Sector Specialty Strategy

BDC's direct VC sector specialties are comprised of four sectors: life sciences, telecom, information technologies and advanced technology.

In general, BDC's direct VC sectoral strategy consists of focusing on the following elements:

- ▶ Address the deficiencies in the venture capital industry by providing capital where it is most needed i.e., the early-stage technology and biotechnology sectors in all parts of Canada, in order to provide a stable supply of growth capital for promising companies. This will be accomplished by maintaining a steady rate of investment.
- ▶ Support the commercialization of research in order for Canada to benefit from the large sums of money it invests in Research & Development. BDC's direct VC sectoral strategy will continue to fund early-stage opportunities and in particular those companies that "graduate" from the TSI portfolio to an "A" round financing.
- ▶ Build world-class companies with concomitant positive spin-offs for Canada in terms of job creation and exports by providing increased financial support, conditional on available capital, in later stage rounds for the most promising companies in the portfolio. Larger commitments at these later stages also provides a counterweight to capital-rich foreign investors whose investment strategy and development model may not always coincide with BDC's or its Shareholder.
- ▶ Identify industry sectors offering the best potential for growth, particularly where Canada has existing strength, and invest in those sectors in order to enhance portfolio returns. This will be done in part through the guidance of its Strategic Advisory Councils (SAC), three of which are already in operation, and through targeted market research.
- ▶ Be proactive in assisting its companies in order to help them progress, thereby improving their chances of success and enhancing shareholder returns. BDC will accomplish this by introducing portfolio companies to its numerous Canadian and 40+ international co-investors, by providing input on strategic, financial and other matters and by setting up and/or accompanying them on visits to potential strategic partners and potential investors/acquirers.

3.3.4 Specialized Fund Investments Strategy

By investing in Canadian VC funds, BDC will substantially increase the supply of private equity in Canada, thus supporting the creation and development of Canadian SMEs.

- ▶ BDC will provide capital to strong fund managers, who, in turn, make investment decisions and deploy the capital to viable Canadian SMEs.
- ▶ BDC will continue to frequently act as lead investor in new venture capital funds that are complementary to BDC's investing activities.
- ▶ BDC will address gaps in the private equity market, and in so doing will increase the amount of capital available to currently underserved SMEs.

3.4 Summary

- ▶ Over the 2008-2012 planning period, BDC will continue to:
 - address the deficiencies in the venture capital industry
 - support the commercialization of research
 - support the development of world-class companies.
- ▶ BDC will use several initiatives to achieve these objectives:
 - being selective in choosing emerging sub-sectors in part by fully establishing functional Strategic Advisory Councils for all four speciality sectors
 - providing increased financial support in assisting its best companies in order to enable them to progress thereby improving their prospects of success and shareholder returns
 - being proactive by bringing its contacts and expertise to bear to assist its portfolio companies
 - striving to improve the quality of its investments by refining portfolio analysis tools to examine industry sectors, potential enterprise value, lessons learned from past experience, portfolio analysis, etc.
- ▶ The net result of these initiatives is expected to be the emergence of some world-class companies that contribute to Canada's growth and enhanced returns for company shareholders, including BDC.
- ▶ BDC will act as a catalyst in the VC funds industry by:
 - continuing its role as Limited Partner and attracting interest in seed funds
 - encouraging the development of specialized funds in Canada
 - increasingly managing third party funds acting as a General Partner, when appropriate.

4.0 FINANCIAL PLAN

Overview

This section presents the projected financial performance of BDC for fiscal years 2008 through 2012.

4.1 Economic Assumptions

The economic environment underlying the Corporate Plan will remain generally sound over the next five years. The Canadian economy, although slowing down in central and eastern Canada, is expected to continue to be buoyed by strong consumer spending, further development in the energy sector, and sustainable global economic growth.

It is presumed that the strength of the Canadian dollar will hamper exports in the near term and continue to negatively affect the manufacturing sector. However, inflation is anticipated to remain under control, in spite of rising pressures from tightening labour markets across the country which are being offset by the recent easing of energy prices. Recent indications from the Bank of Canada point to stability of interest rates in the short-term.

4.2 Critical Accounting Principles and Estimates

BDC's financial planning, management and reporting are governed by Part X of the *Financial Administration Act* and by Canadian generally accepted accounting principles (GAAP). Together, these standards establish the requirements to *fairly present*, in all material respects, the financial position and operating results of BDC.

These requirements are reflected in this Plan and represent BDC's objective to comply with current best practices in financial reporting and in Crown Corporation governance.

Significant estimates, hypotheses and assumptions have been included in the preparation of these financial forecasts. Actual results could differ significantly, due to market dynamics, fluctuations in interest rates, quality of the portfolio, financial markets, economic conditions, opportunities for divestitures of investments and other uncertainties associated with forward-looking information.

Investment Companies – Fair Value Measurement

The Canadian Institute of Chartered Accountants (CICA) recently issued an accounting guideline (AcG-18) pertaining to "Investment Companies", which is of high relevance for BDC's investing activities. In years prior to fiscal 2006, BDC reported essentially all Venture Capital (VC) direct investments at cost, less any permanent impairment in value. In fiscal 2006, BDC adopted the AcG-18 guideline to use fair value measurement to report its investments.

Fair value, for GAAP purposes, is defined as "the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act". Fair value estimates should not be interpreted as realizable values in an immediate settlement of the investments.

Fair value measurement is widely used by Canadian and US VC enterprises as it produces more relevant and timely information for investment activities, and brings to the forefront of the statements, any unrealized gains and losses in the underlying investments. Also, as mandatory per Canadian GAAP (under AcG-18), BDC has legally segregated all investment activities from its other operations through the creation of a subsidiary, BDC Capital Inc.

Fair value accounting has been adopted for venture capital and subordinate financing investments in this Financial Plan. Moving to fair value implies adjusting the carrying value of investments, as well as results, for unrealized gains or losses. It also results in a limited

capacity to accurately project the Venture Capital financial results. For example, a 5% swing in fair value on a \$500 million portfolio means a \$25 million swing in financial results.

Financial Instruments

Starting on April 1, 2007, BDC will be required under Canadian GAAP to implement new accounting standards for financial instruments. The new standards comprise the following:

- ▶ Financial Instruments – Recognition and Measurement (S.3855)
- ▶ Hedges (S.3865)
- ▶ Comprehensive Income (S.1530)
- ▶ Financial Instruments - Disclosure and Presentation (S.3861)

The new standards create rules by which all financial instruments are measured and recognized. The CICA definition of financial instruments includes all derivative instruments. Under the new standards, BDC will be required to fair value (commonly referred to as “mark-to-market”) all its derivative instruments and certain non-derivative financial instruments. The fair value measurement will be reflected in either Other Comprehensive Income as a separate statement preceding retained earnings or as unrealized gains and losses in the income statement, depending on the classification of the financial instruments. BDC is currently assessing the impact of these standards on its accounting systems and reporting requirements and is working to find options to mitigate these impacts.

International Financial Reporting Standards

The Canadian Accounting Standards Board (AcSB) has recently adopted the strategy of replacing Canadian GAAP with International Financial Reporting Standards (IFRS) by BDC’s fiscal year 2012. The intention is to bring more transparency and a higher degree of comparability in the global capital markets. The AcSB’s Implementation Plan outlines that certain IFRS will be adopted prior to the changeover date. BDC is monitoring the AcSB’s developments in order to be adequately prepared to manage the conversion.

4.3 Planned Performance

In the past, Loans results were grouped with Subordinate Financing results under the Financing heading. Starting in fiscal 2007, all future reporting on BDC Subordinate Financing activities will be handled separately. This change is warranted by the move to the fair value measurement for Subordinate Financing and by the increasing size of the portfolio.

4.3.1 Planned Financing, Subordinate Financing, and Consulting Performance

*BDC Financing*³²

Over the planning period, BDC will remain a complementary player and will continue to address market deficiencies. In light of its strategy to finance investment in intangibles, facilitate business ownership transition and allow SMEs to benefit from globalization, BDC has realigned its activities with market demand for more specialized solutions³³.

Specialized solution authorizations increased vigorously in fiscal 2006 (by 57%), leading total dollar authorizations up by 10% over the prior year. Specialized solutions will foster total authorization growth of 5% in fiscal 2007. This 5% growth is based on 45% growth in specialized solutions and a negative 3.5% growth in regular loans. In light of current market dynamics and BDC’s strategy, this Corporate Plan forecasts a growth rate of 3% for next year. Next year’s total authorization growth of 3% is based on a 16% growth in specialized solutions and a negative 1% growth in regular loans.

³² BDC Financing includes regular loans and specialized solutions but excludes subordinate financing

³³ Includes Co-Vision, Innovation, Productivity Plus and Business Ownership Transition loans

Total authorizations for regular loans and specialized solutions are expected to increase from \$2.6 billion in fiscal 2007 to \$2.7 billion in fiscal 2008.

FINANCING - ACTIVITY FORECASTS
(*\$ Millions*)

	ACTUAL 2006	ESTIMATE 2007	PROJECTED 2008
Loans			
Regular	2,037	1,966	1,946
Growth (%)	4%	(3.5%)	(1%)
Specialized Solutions	425	616	716
Growth (%)	57%	45%	16%
Total authorizations	2,462	2,582	2,662
Growth (%)	10%	5%	3%

Planned authorizations are expected to generate an increase in the financing portfolio from \$9.2 billion at the end of fiscal 2007 to \$9.7 billion by March 2008.

Subordinate Financing

In fiscal 2004, the Caisse de dépôt et placement (CDP) and BDC established a partnership agreement where both organizations were to invest \$50 million per year for three years in a joint partnership fund called AlterInvest L.P. This fund has now been fully committed and CDP and BDC have set up AlterInvest II L.P. to invest an additional \$300 million. BDC's subordinate financing transactions are made via these funds. BDC acts as the general partner for them in exchange for a management fee. For planning purposes, BDC assumes that the partnership will be renewed on an ongoing basis. In 2006, BDC started reporting the Subordinate Financing investments at fair value.

Subordinate financing is mezzanine financing, which combines elements of both debt and equity financing. The Canadian subordinate financing market is a niche market where BDC is an active participant. BDC's share of authorizations is equal to 50% of the total amounts authorized.

The following table presents BDC Subordinate Financing's activity forecasts.

SUBORDINATE FINANCING – ACTIVITY FORECASTS
(*\$ Millions*)

	ACTUAL 2006	ESTIMATE 2007	PROJECTED 2008
Authorizations (#)	104	112	117
BDC Share	47	52.5	52.5
CDP Share	46	52.5	52.5
Authorizations (\$)	93	105	105

Consulting

In fiscal 2007, BDC Consulting revenues are expected to reach \$23 million, higher than the previous year and in line with internal targets. As the client base expands, BDC's integrated approach facilitates a proportionate growth in consulting services. BDC Consulting is expected to generate a net loss of \$4 million in fiscal 2008. The following table presents the financial projections of BDC Consulting in the current Corporate Plan.

CONSULTING - FINANCIAL FORECASTS (\$ Millions)

	ACTUAL 2006	ESTIMATE 2007	PROJECTED 2008
Revenue from Activities	21	23	26
Operating and Admin. Exp.	25	29	30
Net Loss	(4)	(6)	(4)

4.3.2 Planned Venture Capital Performance

Recognizing the challenges of the venture capital industry as described in Section 3, BDC is stabilizing its investment activity and will be concentrating more in nurturing its current investments.

VENTURE CAPITAL - ACTIVITY FORECASTS (\$ Millions)

	ACTUAL 2006	ESTIMATE 2007	PROJECTED 2008
Life Sciences	30	29	23
Telecommunications	15	20	20
Information Technology	28	27	18
Advanced Technology	10	16	24
Total regular investments	83	92	85
Technology Seed Investment	23	18	19
Total direct investments	\$ 106	\$ 110	\$ 104
Specialized funds	14	20	20
Seed & Commercialization funds	20	30*	20
Total	\$ 140	\$ 160	\$ 144

*This includes the side car fund – GO Capital – a \$10 million BDC Investment

4.3.3 Capital Budget: Planned Expenditures Summary

BDC intends to invest in new information technology to further develop its client-centric approach, improve efficiencies and comply with increased internal controls requirements. As well, in light of its ongoing strategy to increase reach, BDC will open new branches and relocate existing ones over the planning period.

CAPITAL BUDGET: PLANNED EXPENDITURES SUMMARY
(\$ Millions)

	ACTUAL	ESTIMATE	PROJECTED CP 2008-2012				
	2006	2007	2008	2009	2010	2011	2012
Facilities	7	10	11	12	12	12	12
Information technologies	4	6	10	11	12	13	14
Contingency	0	0	4	3	3	3	3
Total	11	16	25	26	27	28	29

4.3.4 Projected Return on Common Equity (ROE)

BDC is required to achieve a ROE that is at least equal to the Government's three-year cost of capital (at the time of writing at 3.90%). In fiscal 2008, planned ROE is 7.1%.

4.4 Summary of Financial Plan

The following tables present BDC's financial highlights from the 2008-2012 Corporate Plan.

FINANCIAL HIGHLIGHTS
(\$ Millions)

	ACTUAL	ESTIMATE	PROJECTED
	2006	2007	2008
Total Revenues	522	531	580
Operating Expenses	270	296	315
Net Income	138	116	123
Dividends	16	21	19
Capital Budget	11	16	25
Employees (#)	1,598	1,749	1,835

TOTAL REVENUES BY BUSINESS LINE
(\$ Millions)

	ACTUAL	ESTIMATE	PROJECTED
	2006	2007	2008
Loans	449	477	503
Consulting	21	23	26
Subordinate Financing	23	25	26
Venture Capital	29	6	25
Total Revenues	522	531	580

OPERATING BUDGET (EXPENSES)
(\$ Millions)

	ACTUAL	ESTIMATE	PROJECTED
	2006	2007	2008
Loans	220	240	257
Consulting	25	29	30
Subordinate Financing	11	12	13
Venture Capital	14	15	15
Total Operating Budget	270	296	315

PROJECTED BALANCE SHEET
(\$ Millions)

	ACTUAL	ESTIMATE	PROJECTED CP 2008-2012				
	2006	2007	2008	2009	2010	2011	2012
ASSETS							
Cash, short term inv. & securities	930	990	1,042	1,092	1,143	1,191	1,240
Loan Portfolio	8,627	9,185	9,667	10,132	10,601	11,055	11,507
Allowance for credit losses	(497)	(531)	(573)	(611)	(650)	(689)	(721)
Loan Portfolio (net)	8,130	8,654	9,094	9,521	9,951	10,366	10,786
Loans & investments in sub. financing	144	155	157	163	164	170	174
Venture capital investments	431	493	559	604	660	725	801
Net fixed assets & Other assets	676	970	1,021	1,070	1,119	1,168	1,215
TOTAL ASSETS	10,311	11,262	11,873	12,450	13,037	13,620	14,216
LIABILITIES AND EQUITY							
LIABILITIES							
Accruals	99	105	111	116	121	127	132
Debt	7,876	8,713	9,013	9,206	9,587	9,965	10,372
Other liabilities	645	658	859	1,108	1,163	1,215	1,239
TOTAL LIABILITIES	8,620	9,476	9,983	10,430	10,871	11,307	11,743
EQUITY							
Share Capital	1,038	1,038	1,038	1,038	1,038	1,038	1,038
Contributed surplus	28	28	28	28	28	28	28
Retained earnings, beginning of year	503	625	720	824	954	1,100	1,247
Net income	138	116	123	150	168	171	184
Acc. Other Comprehensive Income	0	0	0	0	0	0	0
Dividends declared	(16)	(21)	(19)	(20)	(22)	(24)	(24)
Retained earnings, end of year	625	720	824	954	1,100	1,247	1,407
TOTAL EQUITY	1,691	1,786	1,890	2,020	2,166	2,313	2,473
TOTAL LIAB. & EQUITY	10,311	11,262	11,873	12,450	13,037	13,620	14,216
Debt/Equity ratio	4.7	4.9	4.8	4.6	4.4	4.3	4.2
Total liabilities/Equity ratio	5.1	5.3	5.3	5.2	5.0	4.9	4.7

PROJECTED STATEMENT OF INCOME AND COMPREHENSIVE INCOME
(\$ Millions)

	ACTUAL	ESTIMATE	PROJECTED CP 2008-2012				
	2006	2007	2008	2009	2010	2011	2012
Net Income from Loans	141	146	122	146	157	160	168
Net Loss from Consulting	(4)	(6)	(4)	(4)	(3)	(3)	(3)
Net Income from Subordinate Financing	14	6	5	3	4	4	4
Net Income from Venture Capital	(13)	(30)	0	5	10	10	15
Net Income – BDC	138	116	123	150	168	171	184
Other Comprehensive Income							
Net Income	138	116	123	150	168	171	184
Unrealized gains (losses) on available for sale assets	0	0	0	0	0	0	0
Revaluation of available for sale assets	0	0	0	0	0	0	0
Total Other Comprehensive Income	138	116	123	150	168	171	184

PROJECTED STATEMENT OF CASH FLOWS
(\$ Millions)

	ACTUAL	ESTIMATE	PROJECTED
	2006	2007	2008
Net cash flows provided by operating activities	286	(14)	434
Net cash flows used in investing activities	(882)	(752)	(673)
Net cash flows provided by financing activities	593	814	281
Net increase in cash & cash equivalents	(3)	48	42
Cash and cash equivalents at beginning of year	756	753	801
Cash and cash equivalents at end of year	753	801	843

5.0 APPENDIX A: GLOSSARY OF ABBREVIATIONS AND DEFINED TERMS

AcSB	Canadian Accounting Standards Board
ADFIAP	Association of Development Financing Institutions in Asia
ALIDE	Latin American Association of Development Financing Institutions
BDC	Business Development Bank of Canada
BDC Consulting	A client-facing unit which provides customized consulting solutions through a national network of private consultants
BDC Corporate Finance	BDC Corporate Finance provides financing to clients with multiple transactions and total commitment in excess of \$5 million
BI	Business intelligence
Board	BDC's Board of Directors, made up of 15 directors representing Canada from coast to coast
BOT	Business ownership transition. With the aging population, this will be a major issue in the coming years for Canada's economy
CCA	Council of Canadian Academies
CCSBE	Canadian Council of Small Business and Entrepreneurship
CDP	Caisse de dépôt et de placement du Québec, a financial institution that manages pension funds, insurance plans, and public sector funds. BDC has an alliance with CDP for subordinate financing transactions
CFDC	Community Futures Development Corporation, one of BDC's partners that supports community economic development across Canada, mainly in rural locations. This partnership allows BDC to increase its client reach beyond that of its branch network
CFIB	Canadian Federation of Independent Business
CICA	Canadian Institute of Chartered Accountants
CME	Canadian Manufacturers Exporters Association
CP	Corporate Plan
CREM	Customer Relationship Evolving Manager – a client relationship manager. CREM provides client support tools, consolidated and accurate information on existing clients and prospects, and reporting and analysis tools
CVCA	Canadian Venture Capital Association
DAP	Diversity Action Plan. The plan was developed under the BDC Corporate Diversity Program and includes objectives to better reach immigrant and visible minority entrepreneurs
EDC	Export Development Canada
ERM	Enterprise Risk Management
E-Spirit	BDC's annual Internet-based Aboriginal youth business plan competition
FCC	Farm Credit Canada
FDI	SME Financing Data Initiative, a comprehensive knowledge base of small and medium-sized enterprise financing in Canada, taken from both supply and demand surveys. The data is used extensively by BDC to help define market gaps
FI	Financial institutions
FLR	Forecast Loss Rate
GAAP	Canadian Generally Accepted Accounting Principles
GDP	Growth Domestic Product: The total of goods and services produced by a nation over a given period, typically one year
GP	General Partner
HACCP	Hazard Analysis and Critical Control Points
IIA	Institute of Internal Auditors
ICC	Internal Control Certification project
IFRS	International Financial Reporting Standards

IRR	Internal rate of return on venture capital investments
ISO	International Standards Organization
IT	Information technology
LP	Limited Partner
KBI	Knowledge-based industry
NRC	National Research Council
NSERC	Natural Sciences and Engineering Research Council of Canada
OECD	Organization for Economic Co-operation and Development
PI	Private independent
PPL	BDC's Productivity Plus Loan is a financing solution specifically designed to finance equipment and machinery purchases that improve the productive capacity of SMEs. Also covers the costs of training for and installation of the new machinery and equipment
R&D	Research and Development
RFP	Request for proposal
ROE	Return on equity. BDC's mandate requires that its ROE be at least equal to the Government's average long-term cost of capital
S&T	Science and technology
SAC	Strategic Advisory Council
SME	Small and medium-sized businesses, defined by Industry Canada as 500 employees or less. With but a few exceptions, all of BDC's clients are SMEs
TSI Group	Technology seed investment group, one of BDC's investment teams that provides financing and management support for the creation and development of seed-stage technology businesses
VC	Venture Capital