

The Board Reports on Corporate Governance

Our responsibility is stewardship. We ensure that BDC's activities are aligned with its statutory role, that it fulfills its public policy mandate in an ethical, efficient and effective way, and that it achieves its results within the boundaries of its mandate.

Except the president and CEO, we are all independent of management. None, except the president, are BDC employees. None are public servants. Many have first-hand knowledge of business and entrepreneurship. Together, we have a balanced mix of skills and experience needed for our stewardship role.

For us Board members, the central challenge is to manage the constant tension between BDC's mandate to support SMEs – an inherently high-risk endeavour – and its obligation to be commercially viable.

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

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

Crown corporations are the most audited organizations in the public sector. The Auditor General, jointly with an external audit firm, audits BDC every year. At five-year intervals, the Auditor General does a special examination of BDC. This examination, also done jointly with a private sector audit firm, is a performance audit. It goes beyond issues that are strictly financial to examine systems and practices related to economy, efficiency and effectiveness. BDC's next special examination will start in 2008.

Every year, Parliament receives a summary of BDC's corporate plan and its annual report.

We also look to Treasury Board of Canada, Secretariat, for guidance and expertise on public sector governance practices. In 2005, the President of the Treasury Board released the *Review of the Governance Framework for Canada's Crown Corporations: Meeting the Expectations of Canadians*. The review is part of the government's stated desire to reassert the role of Crown corporations as instruments of public policy and to improve the effectiveness of their governance frameworks. It lists 31 measures to do the following:

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

BDC meets or exceeds virtually all of these measures. In fiscal 2007, we worked on the two outstanding measures for which we have the authority to act.

We have made progress on BDC's internal control certification initiative, the goal of which is to enhance controls to improve the quality of information reported in BDC's financial statements and related disclosures. The initiative is proceeding on schedule.

We have begun planning BDC's first annual public meeting. We plan to hold this meeting in the coming year.

The final outstanding measure, related to directors' compensation, will first require a regulatory change by government.

We continuously monitor and upgrade our governance practices, and this year we approved a mandate that codifies the Board's role and responsibilities. This mandate is in line with the best private sector governance practices.

Within the parameters set by Parliament and Treasury Board of Canada, Secretariat, our key tasks are:

-] approve BDC's strategic direction, corporate plan and priorities;
-] ensure the highest standards of corporate governance policy and practice;
-] ensure BDC has identified its principal risks and adopted the right systems to manage these risks;
-] review and approve management's succession plan (a task that includes appointing and evaluating the performance of senior management);
-] set objectives for, and assess performance of, the CEO;
-] examine the effectiveness of BDC's internal control processes and management information systems to ensure the integrity of these processes and systems;
-] oversee communications and public disclosure; and
-] monitor BDC's pension plans, and establish its fund policies and practices.

The Board has a Code of Conduct that incorporates the same basic principles as the Employee Code of Conduct, Ethics and Values. Every year, directors affirm that they have complied with the code. The segregated roles and responsibilities of the chairman and the president, already docu-

mented, are the subject of ongoing review to ensure they reflect current best practices. Possible conflicts of interest, if any, are disclosed through the Declaration of Conflict of Interest, which we accepted and implemented last year.

Much of the work that comes before us is initially examined by one of our five committees, all of which have defined mandates. We regularly review and revise the membership of these committees to ensure they reflect members' strengths and to create the most productive synergies.

All committees are independent of management, with one exception: the president, Mr. Halde, is a member of the Credit/Investment and Risk Committee. Members have appropriate levels of financial literacy. In fiscal 2007, the members of the Board, following the enhanced policy on orientation and continuous training, received detailed briefings on many of BDC's specialized activities.

If a member of Parliament, senator or director were to exert undue pressure in making a referral to a BDC employee, the BDC Referral Policy requires that this be reported to the Board of Directors. The person who made the referral is immediately informed in writing that client confidentiality supersedes all third-party involvement and that BDC retains sole authority for its decisions, based on objective criteria and its policies and practices.

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

BDC keeps current on best practices and reviews its code annually to improve its internal governance. The code includes the following elements:

-] compliance acknowledgement;
 -] the oath or solemn affirmation of office;
 -] the policy on personal trading for employees;
 -] the policy on disclosure of wrongdoing in the workplace; and
 -] the policy to promote a harassment-free workplace.
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Overview of BDC Board Committees

Membership, meetings and a sample of important issues in fiscal 2007

Committee	Number of meetings	Members	Sample of Issues
Audit Committee	6	Chair: Stan Bracken-Horrocks Trevor Adey Christiane Bergevin Léandre Cormier Terry B. Grieve John Hyshka	reviewed quarterly audited financial statements and annual report, including management's discussion and analysis oversaw external auditors' independence, annual plan and report reviewed BDC Code of Conduct, Ethics and Values and issue reports oversaw internal audit team's annual plan and reports reviewed progress of Internal Controls Certification reviewed BDC's investment valuation policy
Credit/Investment and Risk Committee	29	Acting Chair: Terry B. Grieve Christiane Bergevin Stan Bracken-Horrocks Léandre Cormier Jean-René Halde Leo Ledohowski	reviewed limits in delegation of authorities revised signing authority resolutions for commercial transactions reviewed and recommended to the Board BDC's commitment to two investment funds: 1) AlterInvest II Fund L.P. (\$165 million) and; 2) GO Capital SEC (\$10 million) reviewed and approved 33 financing and venture capital investments reviewed performance and trends in the portfolios and discussed action plans quarterly, which included establishing principal risks and monitoring

Committee	Number of meetings	Members	Sample of Issues
Governance/ Nominating Committee	6	Chair: Vacant Cynthia Bertolin Stan Bracken-Horrocks Andrina Lever Jean Martel Kelvin Ng Valerie Payn	recommended Board mandate and reviewed the Terms of Reference of Board Committees reviewed selection criteria and job description for the role of Chairperson and President & CEO revised policy regarding the handling of referrals by members of Parliament, senators, ministerial staff and BDC directors
Human Resources Committee	5	Chair: Terry B. Grieve Trevor Adey Cindy Chan Léandre Cormier Leo Ledohowski Andrina Lever Kelvin Ng Valerie Payn	reviewed Human Resources Strategic Plan and oversaw significant changes in the composition of the senior management team reviewed compensation programs and payments reviewed appointment of Edmée Métivier as Executive Vice President responsible for BDC Financing and Consulting reviewed appointment of Paul Buron as Executive Vice President and Chief Financial Officer approved new post-retirement benefits structure to share costs with retirees
Pension Funds Investment Committee	4	Chair: Christiane Bergevin Cynthia Bertolin Cindy Chan John Hyshka Jean Martel Observer: Yves Millette	revised new investment policies for the supplementary retirement plans recommended pension description and trust agreement to reflect committee's new governance structure.

An ad hoc committee comprised of the chairs of these five committees has been formed to conduct a search for candidates for the position of Chairperson of the Board.

Board and Board Committee Meetings and Attendance

Director	Board Meetings	Audit	Credit/ Investment and Risk	Governance and Nominating	Human Resources	Pension Fund	Total Attendance	Percentage Attendance
Trevor Adey	5/9	2/6			2/5		9/20	45.00%
Christiane Bergevin	7/9	6/6	22/29			1/1	36/45	80.00%
Cynthia Bertolin	8/9			5/6		3/4	16/19	84.21%
Stan Bracken-Horrocks	8/9	5/6	26/29	5/6			44/50	88.00%
Cindy Chan	9/9				5/5	4/4	18/18	100.00%
Léandre Cormier	6/9	3/6	20/29		4/5		33/49	67.35%
Terry B. Grieve	9/9	6/6	28/29		5/5		48/49	97.96%
John Hyshka	7/9	4/6				2/4	13/19	68.42%
Leo Ledohowski	5/9	1/4	17/29			1/4	24/46	52.17%
Andrina Lever	9/9			6/6	4/5		19/20	95.00%
Jean Martel	5/5			1/2		1/1	7/8	87.50%
Kelvin Ng	9/9			4/6	5/5		18/20	90.00%
Valerie Payn	6/9			5/6	4/5		15/20	75.00%
Jean-René Halde	9/9		22/29				31/38	81.58%