BDC Corporate Plan Summary

2014-15 to 2018-19

OPERATING BUDGET | CAPITAL BUDGET

BDC
Entrepreneurs first

I am an entrepreneur

Canada

The Corporate Plan Summary is based on the 2014-2015 to 2018-2019 Corporate Plan, as approved by the Governor in Council on the recommendation of the Minister of Industry.

contents

“Quotes appearing in this document are taken from the *Survey on BDC's image, role and impact* conducted in October 2013 with 998 current and former clients of BDC Financing and BDC Consulting.”

executive summary

Opportunity awaits, but Canadian businesses must prepare themselves to seize the moment.

Under the lingering shadow of the global financial crisis, Canada's economic performance has been solid. Now, as the U.S. economy finds its footing and emerging markets present fresh opportunities, Canada is poised for improved growth. However, for that growth to be realized, Canadian businesses, including small and medium-size enterprises (SMEs), must address the factors preventing them from becoming truly competitive on the world stage.

The country's 14th place ranking in the World Economic Forum's *Global Competitiveness Index* emphasizes Canada's need to focus on innovation, productivity and growth. Canada fell four places in factors related to innovation and business sophistication, in large part because businesses are slow to adopt new technologies, do not spend enough on R&D, and face insufficient access to financing. The result is that Canadian businesses have a limited capacity to produce, market and sell new and improved products and services.

These issues may impact Canada's future economic growth, despite the stable fundamentals and relatively healthy corporate balance sheets that have served the country well.

To be part of the solution, Canadian SMEs must take advantage of current credit conditions to innovate, improve their productivity, grow and become competitive with the best in the world.

> **"Through 2008 and 2009, our business, as well as many others, went through some very difficult times. BDC was an instrumental part of our survival and growth after the markets rebounded."**
>
> *— a manufacturer in British Columbia*

> **“As a small business, our financing from BDC has allowed us to hire new staff when we needed to expand; purchase new equipment to improve productivity; and maintain control of our business through economic slowdowns.”**
> *— a finance and insurance company in Ontario*

The Business Development Bank of Canada (BDC) plays an important role in creating and supporting this environment. It inspires and celebrates entrepreneurs. It provides free practical resources and guidance to SMEs and makes them easily available online. It assists start-ups and small businesses, including those that have difficulty accessing financing due to location, sector or demographic. It is continuing to focus on small loans, while also supporting the growth of medium-size firms and participating in larger financial transactions through syndication. Over the planning period, BDC will continue to address the needs of SMEs for tailored financing and advisory services and to offer those services in a streamlined and efficient manner, putting the focus on clients first. In keeping with its counter-cyclical role, BDC stands ready to increase its support if needed.

With Canada’s improved economic conditions, BDC is turning its attention to the pressing need for Canadian SMEs to become more competitive. It is leveraging its expertise and resources to help SMEs innovate, increase their efficiency, and explore new markets, at home and abroad. It is developing and offering specialized financing tools and is refining its advisory services to address the key competitive challenges faced by entrepreneurs. It plays a pivotal role in markets such as venture capital and is exploring new ways to ensure availability of financing for SMEs. It is identifying and assisting SMEs with the potential to make significant contributions to the economy, such as high-growth firms and SMEs in specific sectors, including manufacturing and aerospace. Plus it is helping to ensure that Canada’s most promising firms remain in Canadian hands, contributing to local communities and to the domestic economy. To accomplish this multi-faceted mandate, BDC works with a wide variety of public- and private-sector partners to increase its reach and effectiveness.

BDC is pleased to support the government by implementing the Venture Capital Action Plan, the Venture Capital Strategic Investment Plan, a new awards program celebrating entrepreneurship and initiatives to support the adoption of technology and strengthen the ICT sector. BDC continues to work with the government on the ongoing ten-year legislative review of the *BDC Act*, and supports the government’s desire to return to a balanced budget.

By helping Canadian SMEs become more competitive and contribute to their fullest, BDC is supporting the government’s goals of economic growth and prosperity, so that Canada may seize the opportunities ahead of it.

Financial Performance

Following a strong rebound in the wake of the financial crisis, Canada's economic growth in recent years has been modest, waiting for the performance of its main trading partners to improve. According to the Bank of Canada, growth in Canada's real gross domestic product (GDP) is forecast to pick up in 2014, particularly as the U.S. economy finds its footing.

With chartered banks active in the market but gaps remaining for financing and advisory services tailored to SMEs, BDC is working to catalyze the entrepreneurial ecosystem and support the competitiveness of Canadian entrepreneurs, while continuing to focus on its complementary role.

BDC Financing is actively identifying and addressing market gaps, including providing support to medium-size firms and participating in larger transactions through syndication. It expects to again surpass corporate performance targets for small loans and has increased its forecast over the planning period for the number of small loan acceptances. The forecast growth rate of about 3% in the dollar amount of acceptances for BDC Financing balances the need to improve the competitiveness of Canadian SMEs with current expectations for the Canadian economy and improving liquidity in the market. BDC stands ready to increase its support to Canada's SMEs if required.

BDC's Financing portfolio is expected to grow by 8.1% in fiscal 2014, reflecting lower payments and prepayments. Even with this growth, BDC Financing's operating expenses as a percentage of the average portfolio outstanding will decrease from 2.0% in fiscal 2014 to 1.9% in fiscal 2015.

Net income for BDC Financing in fiscal 2014 is forecast at $395 million, $53 million more than last year's Corporate Plan due primarily to lower impairment losses and operating expenses.

BDC Subordinate Financing is playing an increasingly important role in supporting the growth plans of SMEs through a diverse product offering. The volume of acceptances is expected to reach $220 million by fiscal 2015, bringing the portfolio at fair value to $622 million.

BDC Consulting plans to increase its investment in value-added, affordable advisory services to ensure maximum impact on clients. As a result of the transition to a new approach, which involves revisiting solutions for which a market gap may no longer exist, revenue for BDC Consulting is expected to decrease before increasing through the planning period. BDC Consulting

> **"BDC has rescued my business in this ongoing economy stagnation where the industry is very unsteady and cash flow is in turmoil."**
>
> *— a wholesaler in Alberta*

> **“BDC allowed us to see the future with confidence by giving us the room to manoeuvre.”**
> *— a retailer in Quebec*

expects that efficiencies created by standardization of processes and reductions in administrative support will result in operating expenses remaining stable as revenues increase.

In fiscal 2014 and fiscal 2015, BDC Venture Capital expects to authorize $122 million and $160 million respectively in its direct and indirect investments and in its work to support the VC ecosystem. Disbursements for BDC VC should be $122 million in fiscal 2014 and $124 million in fiscal 2015, with proceeds of $84 million and $30 million respectively.

BDC will continue its role in the securitization market to help SMEs access financing for the vehicles and equipment needed to realize productivity gains. In this portfolio, net revenue is forecast to remain stable at $8 million from fiscal 2014 to fiscal 2015 as the portfolio grows from $368 million to $498 million. Operating and administrative expenses will remain stable.

BDC was asked to carry out certain duties and functions to serve as the agent of government under the Venture Capital Action Plan (VCAP). In fiscal 2015, BDC forecasts that VCAP will incur a loss of $20 million, as a result of the incentivized nature of the program. In the latter years of the program, BDC expects VCAP to generate a net profit.

BDC has made substantial progress over the years in its efforts to contain costs, which is reflected in a continuous improvement in efficiency. By fiscal 2015, BDC is forecasting a reported efficiency ratio of 39.7%, meaning that BDC will spend 39.7 cents to generate a dollar of revenue. In fiscal 2007, BDC spent 50.6 cents to generate a dollar of revenue.

BDC consolidated net income is forecast to reach $372 million in fiscal 2014, with a consolidated comprehensive income of $464 million. BDC expects to make dividend payments of $60 million in fiscal 2014.

BDC’s capital is expected to reach $4.381 billion by the end of fiscal 2014. After deducting the capital required for BDC’s activities per Treasury Board guidelines, capital will stand at $1.773 billion. In addition to the Treasury Board guidelines on capital, BDC maintains an economic capital model to ensure adequate capital to support its current and future business and to safeguard its financial sustainability.

BDC profile: For 69 years, a steadfast supporter of Canadian entrepreneurs

MISSION
Help create and develop Canadian business through financing, venture capital and consulting services, with a focus on SMEs

1,990 employees

$18.2B assets

$303M dividends paid since 1997

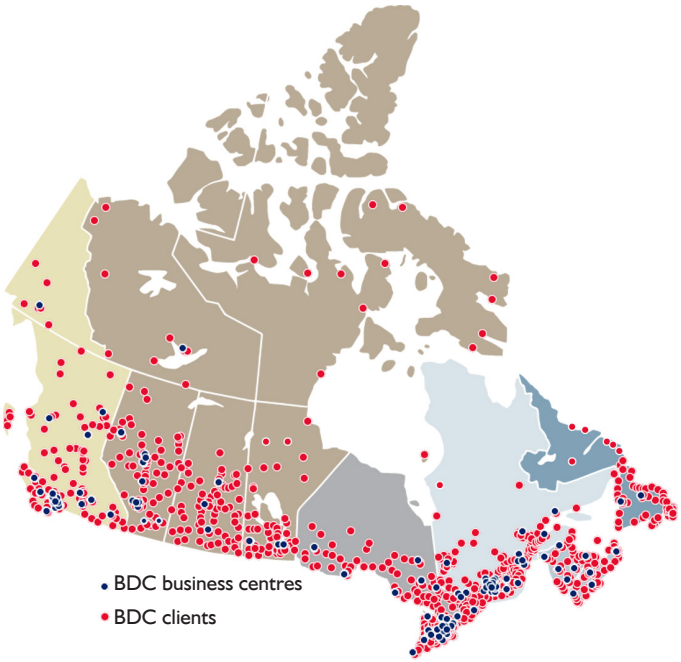
	BC & Yukon	Prairies	Ontario	Quebec	Atlantic	Total
Business centres and offices	15	17	31	25	13	101
Clients[1]	3,259	4,364	7,269	10,051	3,664	28,605
Loans/investments[2]	$2.2B	$3.5B	$5.5B	$6.7B	$1.8B	$19.7B

Economic impact of BDC	2011	2012	2013
Annual revenues generated by BDC clients	$179B	$176B	$192B
Annual export revenues generated by BDC clients	$22B	$23B	$22B
Small businesses served as % of BDC's portfolio	96%	96%	96%
First-time clients (Financing and Subordinate Financing)	3,485	3,378	4,548

81% of clients believe that BDC contributes to the economic development of Canada[3]

75% of clients have fewer than 20 employees

100 of Profit Magazine's 500 fastest growing companies of 2013 benefited from BDC support



BDC Business Lines

Financing	Subordinate Financing	Venture Capital	Consulting	Securitization
Term loans with flexible repayment schedules **$18.3B** committed	Hybrid instrument combining debt and equity financing without ownership dilution **$558M** committed	Direct and indirect equity investments in multiple technology sectors **$822M** committed ($406M direct, $416M indirect)[4]	Customized and affordable business consulting, planning and management solutions **2,180** mandates in 2013	Debt financing that relies on the pooling of illiquid assets **$438M** ABS outstanding under CSCF and F-PIL[5] **$705M** outstanding net authorizations under F-PIL[5]

DATA ARE AS AT MARCH 31, 2013, UNLESS OTHERWISE NOTED

[1] # of Financing, Subordinate Financing and VC clients and funds

[2] $ committed for Financing, Subordinate Financing and VC clients and funds, excluding inactive companies

[3] Based on the *Survey on BDC's image, role and impact*, October 2013

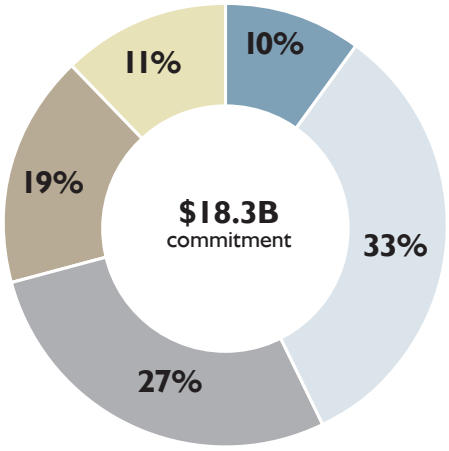
[4] Includes inactive companies

[5] CSCF = Canadian Secured Credit Facility; F-PIL = Funding Platform for Independent Lenders

Financing

Realty	Working Capital	Machinery & Equipment/ICT	Other
> Purchase > Construction > Expansion	> Growth > Innovation > Market expansion	> New or used long-term assets > Equipment > ICT	> Business transition > Restructuring > Infrastructure (support for SMEs) > Lending in partnership with other financial institutions

Commitment by industry sector	
Manufacturing	23%
Wholesale & Retail	20%
Tourism	12%
Commercial properties	12%
Construction	8%
Transport & storage	6%
Business services	4%
Other	15%



Atlantic · Quebec · Ontario · Prairies & North · BC & Yukon

Key Metrics

$48.8B
contribution to GDP[6]

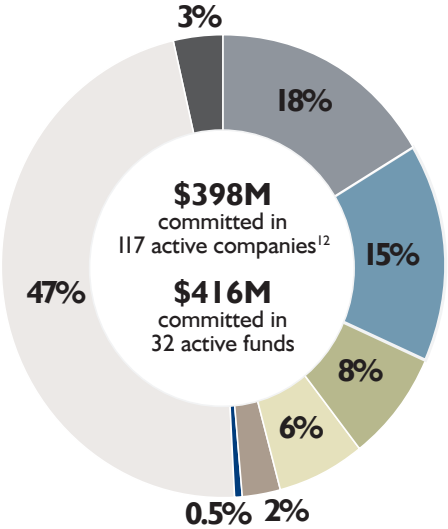
53%
of BDC Subordinate Financing clients said that BDC had a considerable impact on their business[7]

BDC Financing clients had **14%** higher sales growth than non-clients
BDC clients of both Financing and Consulting had up to **25%** higher sales growth than non-clients[8]

11%
are start-ups (< 2 years)
of which **61%**
survive more than 5 years
(vs. 51% of all start-ups in Canada)[9]

Venture Capital

Commitment	$
Direct Investments	
Diversified (including FedDev)	$135.8M
Health	$126.5M
Information technology	$62.9M
Energy/Cleantech	$53.3M
GO Capital Funds[10]	$21.4M
BDC Strategic Initiatives	$5.4M
Indirect Investments	
BDC Fund Investments[11]	$387.2M
BDC Strategic Initiatives	$29.2M



Key Metrics

BDC was active in
13%
of reported
VC transactions (#)
in Canada[13]

79%
of BDC VC's
investments were
in early stage firms
(seed, start-up and
development phases)

[6] Based on Statistics Canada input/output model results of direct and indirect economic activity generated by clients who were financed by BDC in fiscal 2013
[7] Based on the *Survey on BDC's image, role and impact*, October 2013
[8] *Measuring BDC's Impact on its Clients*, July 2013, from 2001-2010
[9] Industry Canada, *The State of Entrepreneurship*, February 2010
[10] Includes GO Capital 100% consolidation in BDC
[11] Excludes BDC investment in GO Capital due to consolidation
[12] BDC portfolio also includes 47 inactive companies with $8 million committed
[13] Based on BDC authorizations in 2012 (direct investments only) versus total industry authorizations taken from Thomson Reuters

strategy map

The strategy map is the foundation of BDC's Corporate Plan and flows from BDC's mission and vision. The map is built around two key objectives:

1. **Catalyze the entrepreneurial ecosystem:** With an aging demographic, it is important that a new generation of Canadians pursue entrepreneurship and that the ecosystem has the resources it requires to support economic growth and prosperity. BDC plays an important role in ensuring the health of the ecosystem.

2. **Support competitiveness of Canadian SMEs:** For Canadian SMEs to be competitive and contribute to economic prosperity, they must improve their productivity, incorporate innovation into their business, grow and achieve scale, and be sensitive to global opportunities and threats. BDC is increasing its efforts to improve the competitiveness of SMEs.

To achieve the two key objectives, BDC has identified five strategic actions:

- **Entrepreneurship**: Increase entrepreneurial intensity in Canada
- **Innovation**: Support the creation and adoption of innovation
- **Productivity**: Facilitate firm-level efficiency improvements
- **Growth**: Enable clients to achieve full potential
- **Partnerships**: Work with partners to increase collective impact

The Corporate Plan describes a number of business initiatives that BDC is undertaking or planning to undertake in support of the strategic actions.

BDC's Organizational Foundation plays a critical role in supporting the key objectives and strategic actions. It represents BDC's internal resources, including its values and culture, that are needed to achieve business objectives. The Organizational Foundation also includes important aspects of BDC's operations and mandate, namely risk management, complementarity, and financial sustainability. BDC supports the Organizational Foundation with enabling initiatives, such as its Agility & Efficiency program, the goal of which is to transform BDC into a more efficient, flexible and resourceful development bank.

The ultimate outcome of the strategic actions and key objectives is to create shared value for Entrepreneurs, Stakeholders, and Canadians.

The performance measures on page 12 allow BDC to assess progress towards achieving its strategic actions and key objectives.

CREATE SHARED VALUE FOR

Entrepreneurs **Stakeholders** **Canadians**

KEY OBJECTIVES

Catalyze the entrepreneurial ecosystem

Support the competitiveness of Canadian SMEs

STRATEGIC ACTIONS

BUSINESS INITIATIVES

ENTREPRENEURSHIP
Increase entrepreneurial intensity in Canada
> page 19

INNOVATION
Support the creation and adoption of innovation
> page 27

PRODUCTIVITY
Facilitate firm-level efficiency improvements
> page 35

GROWTH
Enable clients to achieve their full potential
> page 40

PARTNERSHIPS
Work with partners to increase collective impact

BDC'S ORGANIZATIONAL FOUNDATION

ENABLING INITIATIVES

RESOURCES

- Engaged employees
- Capital
- Brand
- Systems & processes

VALUES & CULTURE

- Client-focused
- Relationship-oriented
- Impact-driven

RISK MANAGEMENT **COMPLEMENTARITY** **FINANCIAL SUSTAINABILITY**

VISION
Accelerate the success of entrepreneurs

MISSION
Help create and develop Canadian business through financing, venture capital, and consulting services, with a focus on SMEs

performance measures

Entrepreneurship Increase entrepreneurial intensity in Canada	Target F2014	F2014 YTD[1]	Target F2015
> # of loans ≤$500,000 for Financing and Subordinate Financing based on commitment size of ≤$750,000	6,500	6,246	8,000
> # of authorizations to new businesses (≤2 years) (Financing and Subordinate Financing)	1,400	1,479	1,500
> % of BDC-financed start-ups that survive five years	65%	61%[2]	65%
> Client Value Index (Financing and Consulting)	100	114 [3]	118

Innovation Support the creation and adoption of innovation	Target F2014	F2014 YTD[1]	Target F2015
> # of ICT interventions (online web and ICT assessments, Consulting mandates, Financing and Subordinate Financing authorizations, downloads of e-Books and other informational materials from BDC.ca and attendance at BDC-hosted ICT events)	35,000	47,800	55,000
> Venture Capital return of capital (ROC)	1.00	1.00	1.00

Productivity Facilitate firm-level efficiency improvements	Target F2014	F2014 YTD[1]	Target F2015
> # of loans authorized for equipment purchase (Equipment Line and loans with "equipment purchase" as purpose)	2,000	1,274	2,000

Growth Enable clients to achieve full potential	Target F2014	F2014 YTD[1]	Target F2015
> % of high-growth firms in BDC Subordinate Financing portfolio (high-growth firm defined as having annualized sales growth greater than 20% per year over a three-year period)	30%	27%	30%

Partnerships Work with partners to increase collective impact	Target F2014	F2014 YTD[1]	Target F2015
> # of transactions authorized with and from partners (syndications, pari passu, loan referrals and alliances)	2,000	1,755	2,400

BDC Efficiency	Target F2014	F2014 Forecast	Target F2015
> BDC Financing reported efficiency ratio	42.5%	41.1%	39.7%

BDC strives to measure its impact on Canadian entrepreneurs. As a result, its performance measures continue to evolve to properly capture public policy impacts.

[1]Unless otherwise noted, 2014 YTD numbers are as at December 31, 2013

[2]Fiscal 2013 - data available on an annual basis only

[3]As at September 30, 2013 - data available on a quarterly basis only

operating environment

Following a strong rebound in the wake of the financial crisis, Canada's growth in recent years has been modest, however better than the majority of its OECD counterparts. According to the Bank of Canada, growth in Canada's real gross domestic product (GDP) is forecast to pick up in 2014.

While Canada retains the strong economic fundamentals that served it well during the crisis, resolving its trade deficit continues to be its focus. The country's14th place ranking in the World Economic Forum's Global Competitiveness Index emphasizes Canada's need to focus on innovation, productivity and growth. Canada fell four places in factors related to innovation and business sophistication, in large part because businesses are slow to adopt new technologies, do not spend enough on R&D, and face insufficient access to financing. The result is that Canadian businesses have a limited capacity to produce, market and sell new and improved products and services. Economists agree that, for Canada to take advantage of improving economic conditions and its own solid fundamentals, the public and private sectors must address the barriers to competitiveness.

Global outlook: U.S. recovery expected to strengthen, Europe on the upswing

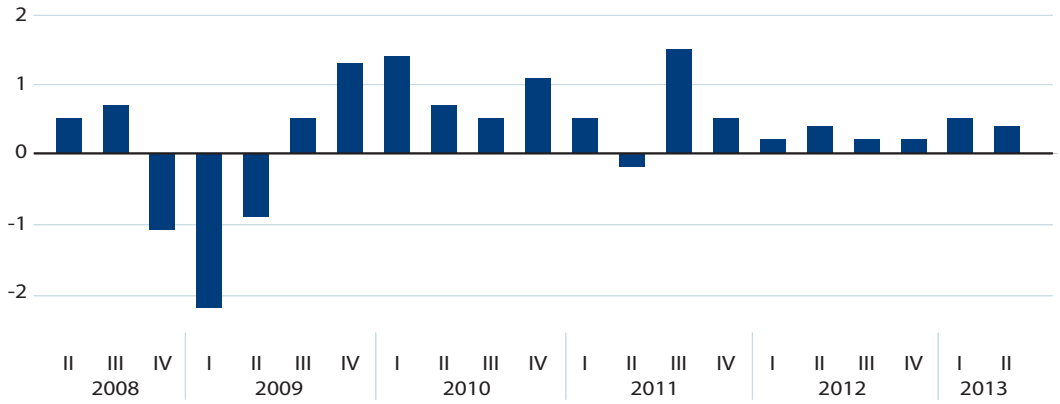
With economic activity varying across major economies, growth is expected to be modest in the near term. Overall, the global economy is projected by the Bank of Canada to grow by 2.8% in 2013 and accelerate to 3.4% in 2014 and 3.6% in 2015.

Figure I: Global and selected regional growth forecasts

	Share of global GDP (%)	Real GDP growth (%)			
		2011	2012	2013f	2014f
World	100	3.9	3.1	2.8	3.4
United States	20	1.7	2.8	1.5	2.5
Eurozone	14	1.5	-0.6	-0.4	1.0
China	15	9.3	7.7	7.7	7.4
Canada	2	2.5	1.7	1.6	2.3

Source: International Monetary Fund and Bank of Canada, October 2013

Figure 2: Real GDP trend in Canada
(Quarterly % change, 2007 dollars)



Source: Statistics Canada

Eurozone

Economic growth has resumed in the Eurozone, ending 18 months of recession. Data from the Bank of Canada suggest that a recovery will proceed slowly, reflecting the need to rebuild private-sector balance sheets, ongoing fiscal consolidation, tight credit conditions and depressed labour markets. Sustained recovery will require progress in structural, fiscal and banking reforms.

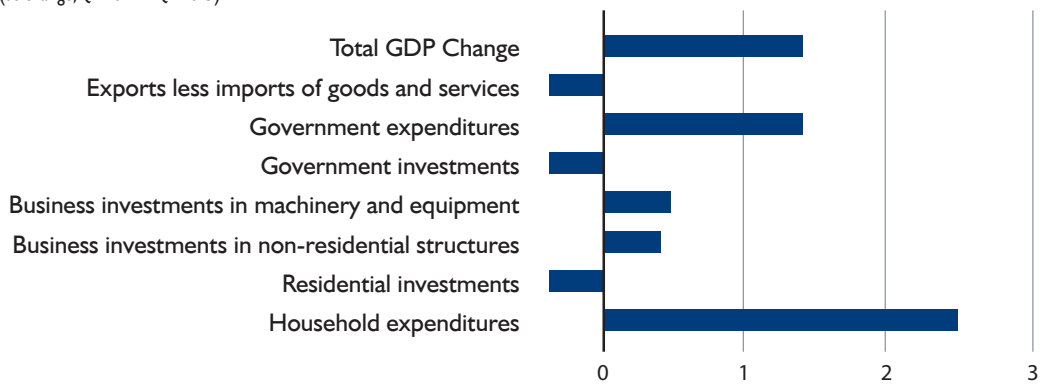
United States

Recovery in the U.S. will be slower than expected in the second half of 2013 but pick up going forward. The near-term softness is the result of dampened consumer spending, a slowdown in housing activity, and the partial government shutdown brought about by the failure to reach a timely agreement on how to fund government operations. Business investment has increased, but by less than expected, despite strong corporate balance sheets. Government spending continues to contract. Overall, U.S. economic activity is expected to strengthen; the Bank of Canada projects that the U.S. economy will grow by 1.5% in 2013, 2.5% in 2014 and 3.3% in 2015.

China

Real GDP growth in China increased in the third quarter of 2013, but a continued reliance on investment activity, rapid growth of credit, and increases in housing prices may affect the sustainability of economic growth. Real GDP growth through 2015 is projected to remain close to 7.5%. Economic activity in other emerging markets has slowed and in the near term will be held back by tighter financial conditions and heightened uncertainty. Economic growth for these economies is expected to pick up modestly over 2014–15.

Figure 3: Real GDP variation by major component
(% change, Q2 2012 – Q2 2013)



Source: Statistics Canada

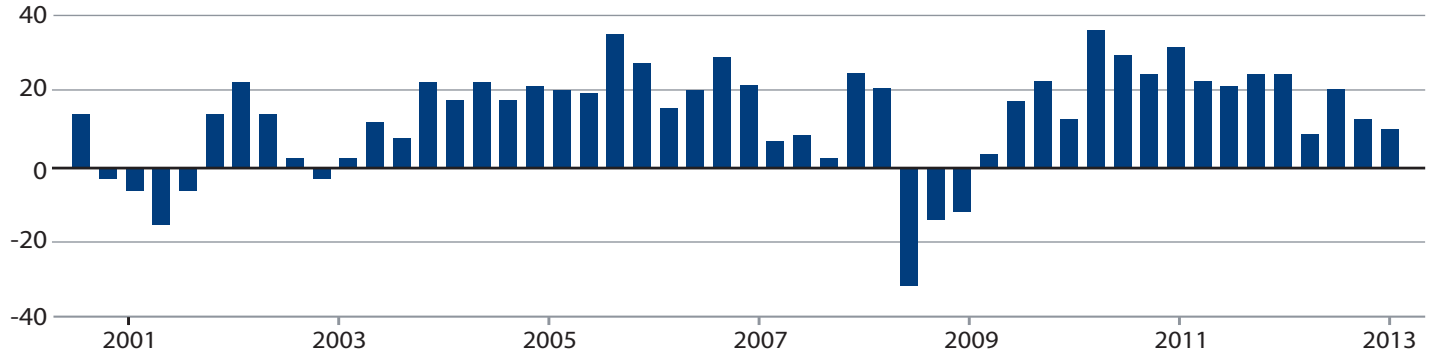
Canada: exports and business investment must improve for growth to take hold

Economic growth in Canada is projected to be slower than expected in the latter half of 2013 due to weakness in exports and business fixed investment. The projected expansion of U.S. business and residential investment in 2014 should help, but with Canadian firms waiting to see a sustained increase in demand, investment intentions remain subdued. At the same time, corporate balance sheets are healthy, with low aggregate leverage and strong levels of working capital.

The Bank of Canada *Summer 2013 Business Outlook Survey* suggests a modest increase in investments in machinery and equipment by Canadian businesses over the next 12 months. Many firms indicated that economic uncertainty has caused them to delay projects, to manage risks by targeting new or different segments of demand, or to choose investments with smaller capital outlays.

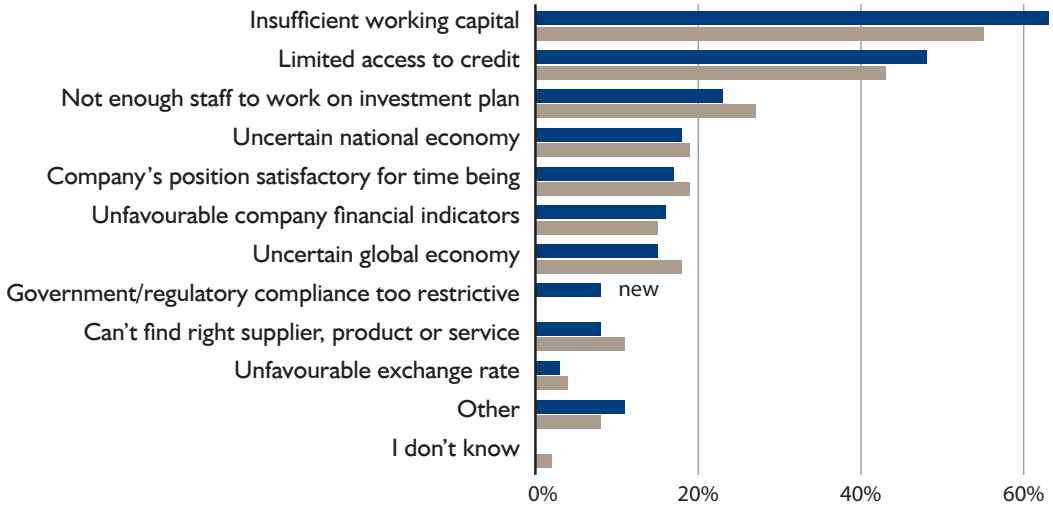
Figure 4: Investing in machinery and equipment – Balance of opinion
(% of firms expecting higher investment minus the % expecting lower investment)

Higher: 35% **Same: 39%** **Lower: 26%**



Source: Bank of Canada

Figure 5: Main reasons for not investing a greater amount, undertaking more investments, or investing earlier
% response, ■ 2013 (n=364) ■ 2012 (n=247)



Source: BDC Viewpoints Panel survey

A BDC survey of 735 entrepreneurs in November 2013 showed that almost 60% plan to invest in the next 12 months, with 50% saying they are in a better position to invest this year than they were last year. About 60% of those planning to invest would have liked to invest more, but insufficient working capital and limited access to credit were obstacles to doing so.

Overall, the Bank of Canada forecasts improved economic growth through 2014 as external demand strengthens and business confidence rises. Real GDP growth in Canada is projected to increase from 1.6% in 2013 to 2.3% in 2014 and 2.6% in 2015. The pickup will be driven by a rebound in exports, which in turn is expected to stimulate business fixed investment. The economy will be supported by moderate growth in consumer spending, while residential investment will remain relatively flat. Government spending is expected to contribute marginally to real GDP growth, in line with the plans of federal, provincial and local governments to achieve fiscal balance.

In a September 2013 outlook, the Conference Board of Canada presented a similar forecast, suggesting that the domestic economy would grow by 1.7% in 2013, but that improvements in the U.S. would boost economic growth in Canada to 2.4% in 2014.

Credit conditions: favourable, but uncertainty lingers

Credit conditions for Canadian firms remain favourable and balance sheets are healthy. Figure 6 compares business credit granted by chartered banks to the growth in BDC's outstanding Financing portfolio. The increase in BDC's activity is below that of the chartered banks as a result of BDC's continued focus on complementarity and its counter-cyclical role.

Figure 6: Evolution of business credit

	$B	12-month % change
Short-term business credit from chartered banks	316	9.8
Long-term business credit from chartered banks	47	11.2
BDC outstanding (Financing)	17	8.9

Source: Bank of Canada, October 2013

The *Survey on Financing and Growth of Small and Medium Enterprises,* released in February 2013 by Industry Canada in conjunction with Statistics Canada, shows that, overall, SMEs have good access to financing characterized by strong approval rates. However, 37% of respondents had trouble maintaining sufficient cash flow, 18% faced debt management issues, and 17% said difficulty in obtaining financing was hindering their business growth.

The survey also indicated that some market segments continued to face difficulties in obtaining financing, for example, start-ups, youth-led companies and firms in knowledge-based industries faced lower loan approval rates.

Conclusion: now is the time for SMEs to invest

Overall, Canada's SMEs are doing well, but are uncertain about the timing and magnitude of future economic growth. Some continue to face barriers to financing and many still feel the impact of the recession. Increased local and international competition is exacerbated by a stronger currency.

At the same time, credit conditions are generally favourable and corporate balance sheets show reduced debt and strong liquidity. For SMEs to become truly competitive and take advantage of future growth opportunities, they must innovate, invest in technology and equipment, ensure productive and efficient operations, and explore new market opportunities.

BDC's role: reducing barriers to SME competitiveness

Over the past two years, BDC has introduced a number of initiatives to help entrepreneurs improve their competitiveness by investing in technology, equipment and growth. Over the planning period, BDC intends to increase its support to SMEs in an effort to further reduce the barriers to competitiveness, while remaining responsive to the overall needs of the entrepreneurial ecosystem. These concepts form the basis of BDC's strategy map.

> **"BDC helped us in a time that market financing was otherwise not available to private Canadian companies."**
>
> *— a technology company in Ontario*

catalyze the entrepreneurial ecosystem

Canada owes much to its entrepreneurs and will continue to rely on hardworking Canadians with the spirit and ability to forge their own path. To ensure that Canadian entrepreneurs can contribute to their fullest, BDC plays an important role in catalyzing the entrepreneurial ecosystem.

It does so by supporting today's entrepreneurs with the advice and resources they need to grow and succeed, paying particular attention to SMEs that traditionally have difficulty accessing financing due to location, sector or demographic. BDC is maintaining its focus on small loans, while also supporting the growth of medium-size firms and participating in larger financial transactions through syndication. BDC will continue to identify and address markets gaps and emerging needs to ensure that all Canadian SMEs have the opportunity to succeed.

BDC also strives to maintain a healthy ecosystem by inspiring and enabling the next generation of Canadian business owners to start their entrepreneurial journey. BDC shares success stories, celebrates entrepreneurial achievements, reaches out to young Canadians and provides the practical guidance needed before choosing an entrepreneurial path.

To accomplish this mandate and play a truly effective role in the entrepreneurial ecosystem, BDC takes a "clients first" approach. It is optimizing its organizational resources and exploring ways to more effectively measure its success in meeting entrepreneurs' needs and contributing to the economy. It will continue to apply innovation to its own processes and procedures to reduce "red tape" and better reach out to clients through new channels with a range of flexible products and services.

To fully play its role, BDC looks to the expertise and cooperation of a variety of partners. From the public to private sectors, partners add to BDC's understanding and appreciation of entrepreneurs and provide a gateway to supporting SME needs. BDC will continue to maximize its reach and impact through these partnerships, which allow it to offer the most effective suite of solutions to Canadian entrepreneurs.

In these ways, BDC is able to catalyze the entrepreneurial ecosystem and respond to a variety of government priorities, for the benefit of all Canadians.

BDC's Future Focus

- Provide more pre-approved and online solutions.
- Maximize indirect channels, including partnerships.
- Explore the potential of loan guarantees.
- Pursue asymmetric lending.
- Refine value-added advisory services.
- Implement a new awards program recognizing Canadian entrepreneurs.

entrepreneurship

Canada has much to offer its entrepreneurs. According to *The EY G20 Entrepreneurship Barometer 2013*, the cost of starting a business in Canada is among the lowest in the G20. Canadian entrepreneurs spend fewer hours on taxes and enjoy lower labour costs and better access to funding than their global peers. As a result, levels of new business activity and start-ups in Canada are above the G20 average.

That said, almost three-quarters of Canadian entrepreneurs surveyed for the EY report said access to funding is difficult, particularly bank financing. Many suggested that coordinated support, such as incubators and mentors, is lacking. One-third cited fear of business failure as a barrier to future ventures.

The report suggests that, given low levels of self-employment, there is scope for encouraging more entrepreneurs in Canada. At the same time, the perception of entrepreneurship as a career choice is weak in Canada. To address these issues, the report recommends strengthening the relationship between the entrepreneurial community and government, including creating better access to government services.

This is where BDC plays an important role. It supports today's entrepreneurs with the advice and resources they need and it helps a new generation of Canadian business owners to start their entrepreneurial journey.

Keeping the focus on clients

BDC's relationship with its clients is at the heart of its daily business. To ensure this relationship is as effective and efficient as possible, BDC continuously looks for ways to improve the client experience. For example, BDC believes it is important that its processes be clearly explained and easy to navigate and that clients understand how decisions are made. As part of its client experience strategy, over the past year, BDC has:

- surveyed more than 8,000 clients to gain their feedback and insights;
- created a map of the client journey to identify "pain points" during the loan application process with a view to making improvements;
- tested the impact of mobile applications on client experience; and,
- improved navigation on BDC.ca to provide a better client experience.

The client experience strategy will evolve as BDC gathers feedback and defines new initiatives.

BDC Support for Small Business as at March 31, 2013

# of start-ups[1] served over past 10 years	13,031
$ authorized for small businesses[2] over past 10 years	$25.2B
$ authorized for start-ups over past 10 years	$3.8B
BDC Entrepreneurship Centres serving small businesses	20

[1] Defined as businesses <2 years old
[2] Defined as having 1-99 employees

> **“Without the financing I received, I would not have been able to hire my two employees and I would likely have had to borrow from family to keep my business alive. Banks are too afraid to take a risk on me ... BDC did.”**
>
> *— a management company in Quebec*

Making the most of BDC’s online presence

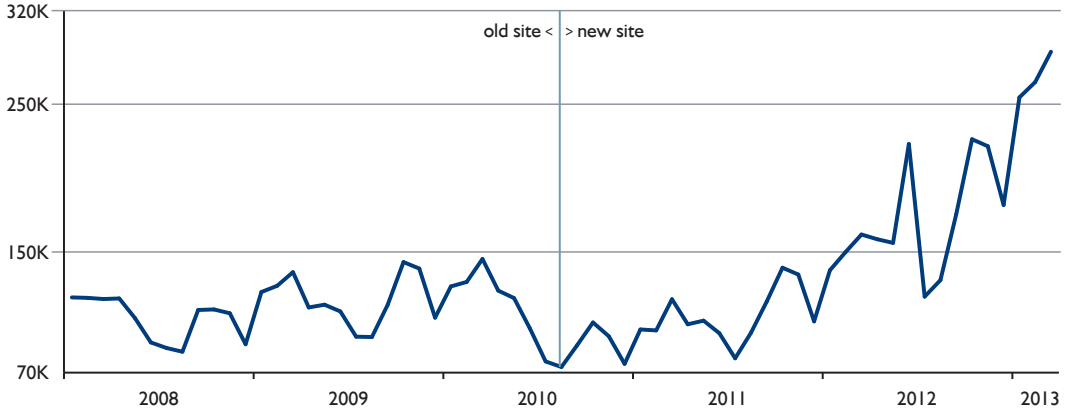
BDC sees the potential of its online presence to raise awareness of entrepreneurship, offer free information and resources, and provide targeted solutions to entrepreneurs. To facilitate this, BDC revamped its main website, BDC.ca, to better address the challenges and opportunities faced by entrepreneurs and present information and support in a more intuitive way.

BDC also recognizes that social media has a massive and growing reach. BDC has had a Twitter account since 2009 and has been on Facebook since 2010, using these media to promote entrepreneurship. On YouTube, BDC posts videos featuring testimonials and tips from entrepreneurs, as well as speeches from BDC executives. BDC also uses LinkedIn to attract talent and encourage networking.

While social media offers benefits, it also requires careful oversight. BDC has developed a social media management program that ensures appropriate internal resources, education for employees on procedures and policies, and monitoring capabilities, including a formal response strategy.

Over the planning period, BDC will continue to improve the ability of its online presence to provide pertinent information and resources and specific solutions to Canadian entrepreneurs.

Figure 7: Visits to bdc.ca
Monthly, January 2008-March 2013



Ensuring BDC can respond

The Agility and Efficiency (A&E) program is transforming BDC into a more efficient, flexible and resourceful development bank able to have a greater impact on entrepreneurs. The program started with exploring how BDC staff could be more task-efficient and devote more time to clients and less time to process. A&E will allow BDC to:

- provide a more consistent client experience;
- build business development capabilities and deliver more value for clients;
- have the flexibility to respond to market needs;
- prepare for a web-based channel;
- spend more time at a client's place of business;
- simplify business processes; and,
- increase speed of execution.

Responding to the needs of a variety of entrepreneurs

An important role for BDC within the entrepreneurial ecosystem is to ensure that Canadian SMEs – regardless of location, sector, size or demographic – have access to financial and advisory services. This is why BDC pays special attention to start-ups and smaller businesses and loans; rural and remote SMEs; sectors facing slow market growth and those that are cyclical or seasonal; and to specific demographics such as youth and Aboriginal entrepreneurs. BDC works with the private sector to ensure these SMEs have the opportunity to grow and succeed.

Inspiring young entrepreneurs

The health of Canada's entrepreneurial ecosystem depends on young people with an interest in business ownership. BDC provides support to young entrepreneurs, recognizing that many cannot access traditional financing due to a lack of experience and collateral. BDC is involved in several programs to support young entrepreneurs:

- Junior Achievement (JA) – BDC supports JA financially to develop and launch the "Be Entrepreneurial" program, which promotes entrepreneurship to Canadian youth. BDC employees help deliver the program to high school students.
- Vanier College BDC Business Case Challenge – a national business case competition for pre-university students.
- Enactus, formerly ACE (Advancing Canadian Entrepreneurship) – BDC pledged $150,000 over three years to support Students in Free Enterprise (SIFE). The BDC SIFE Entrepreneurs First! Project fund

partnerships

BDC works with the Canadian Youth Business Foundation (CYBF), a national organization dedicated to tomorrow's entrepreneurs. In this alliance, BDC offers financing up to $30,000, or twice that provided by CYBF. As at March 31, 2013, BDC's commitment under CYBF was for $15 million to 710 young entrepreneurs.

BDC has seen a significant increase in the number of entrepreneurs it is helping through this partnership. At the halfway point in fiscal 2014, BDC has already authorized 200 loans, the same number it authorized in all of fiscal 2013. A new measure of success for CYBF is how many of its entrepreneurs "graduate" to become mainstream clients of BDC.

BDC also has helped to develop and promote mentoring-focused "crash courses" on CYBF's online business resource centre. These interactive modules provide in-depth, self-guided learning for both the mentor and the young entrepreneur.

BDC is exploring new ways in which it can support CYBF and assist young entrepreneurs.

will award grants of $2,500 each to eight SIFE teams to develop and implement projects in their communities that accelerate the success of Canadian entrepreneurs. Since 2011, 147 students have been involved.

Supporting Aboriginal entrepreneurs

Canada has more than 27,000 Aboriginal entrepreneurs who make a significant contribution to the economy. However, they can have difficulty accessing capital and management support, partly because they often require tailored solutions. BDC supports Aboriginal entrepreneurs with:

- Growth Capital for Aboriginal Business – flexible term loans of up to $100,000 for existing businesses and $25,000 for start-ups, which BDC further supports with customized management assistance. BDC refunds a portion of the interest paid on a loan to the community organization or charity chosen by the borrower.
- Aboriginal Business Development Fund (ABDF) – combines financing with management training and ongoing mentorship. Funds up to $20,000 are directed to local Aboriginal organizations, allowing them to allocate the money to local entrepreneurs. BDC has agreements with four ABDFs across Canada and has committed $1 million to them.
- Peer lending – based on the principle of group borrowing, peer lending encourages community initiatives and shared responsibility.
- Advisory services – Aboriginal entrepreneurs identify mentoring and improved management skills as priorities. BDC draws on experienced Aboriginal consultants across Canada to deliver this support.
- Financing – to purchase real estate or expand facilities, buy new or used equipment, and long-term working capital for growth.
- E-Spirit – an online national Aboriginal youth business plan competition for students in grades 10-12, designed to help them learn about entrepreneurship, e-commerce and business planning. Since 1999, more than 5,900 students have participated.

To ensure that Aboriginal entrepreneurs receive tailored support, BDC's Aboriginal Banking Unit has expanded to include more specialized account managers across Canada, concentrated in the West and Ontario. The unit is changing its business model to enable these account managers to take full ownership of the client file, instead of sourcing it and then referring it to the closest BDC business centre. Whether for financing or advisory services, Aboriginal entrepreneurs will continue to deal with a specialist from the unit.

Over the planning period, the unit will continue to work with Aboriginal financial institutions to increase cooperation. As at October 31, 2013, BDC's commitment to Aboriginal businesses was $176.8 million to 280 clients.

partnerships

To support entrepreneurs in Canada's North, BDC works with federal and provincial government partners, including Aboriginal Affairs and Northern Development Canada (AANDC, formerly INAC). These partnerships help BDC extend its reach into remote regions of Canada and support BDC's Aboriginal entrepreneur strategy by, for example, encouraging Aboriginal youth to participate in BDC's E-Spirit Business Plan Competition.

On March 30, 2012, BDC renewed its partnership with AANDC to continue providing debt financing to First Nations businesses across Canada with assets on a reserve. This helps reduce the impact of one of the main impediments to First Nation business development: Section 89 of the Indian Act that prohibits use of personal or real property on reserve land as collateral.

BDC hosts seminar for global development banks

In September 2013, BDC hosted a Training and Information Sharing Program for development banks, attended by 20 delegates from 10 foreign development banks. The objective of the seminar was to share expertise and experience with other development bankers. The program covered a range of topics, including: risk management, governance practices, products and services for SMEs, and best practices in promoting entrepreneurship.

Tailored solutions to ensure credit availability for SMEs

Entrepreneurs seeking small loans often have trouble accessing financing. This is because processing and servicing small loans can be challenging for the private sector, particularly if clients are outside of urban centres.

To address this need, BDC is using tailored financing products to increase authorizations of small loans. It is developing stronger ties to small and rural communities and, in areas like the Greater Toronto Area, is reaching out to a growing immigrant community, which tends to be highly entrepreneurial. With loans under $250,000 now being processed at BDC business centres, disbursement times have been reduced from 10 days to as few as three. BDC's commitment to small loans is paying off, with 6,390 small loans authorized in fiscal 2013, above the target of 5,400.

BDC is exploring other financial products to increase its reach to entrepreneurs. For example, BDC has launched a pilot program for "asymmetric lending", where BDC partners with financial institutions to offer credit to SMEs. Whereas in pari passu transactions the terms and conditions for each lender are equal, with asymmetric lending BDC will tailor its terms and conditions to take into account those required by other financial institutions to ensure the best solution for the entrepreneur.

Loan guarantees are another way in which BDC could increase its reach and improve credit availability for entrepreneurs. In broad terms, a loan guarantee is when a third party, in this case BDC, offers to repay a debt obligation to the lender if the borrower defaults. BDC believes that loan guarantees could ease financing for SMEs by encouraging private-sector financial institutions to work more with smaller and younger companies and pursue other SME services and solutions. During the planning period, BDC will explore the possibility of offering loan guarantees, while avoiding overlap with the Canada Small Business Financing Program.

Finally, with the success of its online application process for information and communication technology (ICT) loans less than $50,000, BDC is considering expanding this capability to include other types of loans and for larger amounts.

Helping entrepreneurs through difficult times

BDC's Business Restructuring Unit supports entrepreneurs through challenging times and helps return their business to commercial viability. The unit focuses on diagnosing the root of the problems threatening the business; provides expertise and advice to help the entrepreneur develop a turnaround plan and assesses the plan; provides support and monitoring during the execution phase; and proposes, when appropriate, new financing options.

partnerships

BDC enjoys strong working relationships with a variety of private-sector financial institutions. To strengthen these relationships, BDC senior executives participate in the Lending Practitioners Forum, an initiative spearheaded by the Canadian Bankers Association that involves the major chartered banks and Export Development Canada (EDC). The forum meets three times a year and focuses on the credit needs of Canadian businesses. It also allows private-sector officials to discuss concerns at a high level.

BDC participates on the board and committees of the Canadian Venture Capital & Private Equity Association and works closely with Credit Union Central of Canada as a participant in its liaison committee.

partnerships

To increase the number of small loans and focus on rural markets, BDC works with Community Futures Development Corporations (CFDCs). Out of 268 CFDCs across the country, BDC has 229 partnership agreements. From fiscal 2012 to fiscal 2013, there was a 60% increase in deals done in partnership with CFDCs. While BDC has business centres in Whitehorse and Yellowknife, its partnership with CFDCs contributes to its reach in Canada's North, where BDC has agreements with 14 CFDCs servicing Yukon, Nunavut and NWT.

partnerships

In September 2013, BDC and Small Industries Development Bank of India (SIDBI) signed a memorandum of understanding (MoU) that will see the two development banks collaborate to increase their understanding of issues related to micro, small and medium enterprises. The MoU followed a visit in March 2013 to SIDBI by three BDC employees, who offered training on subordinate financing to the SIDBI management team and regional managers to help them improve their offerings. While in India, the BDC team also met with Export Development Canada's chief representative in India.

Since its inception in April 2010, the unit has assisted 183 entrepreneurs with an estimated success rate of 84% as at March 31, 2013.

Advisory services that address the needs of entrepreneurs

Another way in which BDC strengthens the entrepreneurial ecosystem is by providing advisory services. BDC has found that small business owners have unmet needs for a broad range of these services and often have trouble identifying and addressing their own requirements.

As a federal development bank, BDC is well-placed to address the market gap for affordable advisory services tailored to SMEs, particularly small firms. In 2011, BDC undertook a review and determined that it should invest in its advisory services to have a greater impact on SMEs. Based on the review, BDC's model for advisory services is evolving to help SMEs:

- drive growth, for example, through marketing, innovation and developing new markets;
- improve productivity, for example, through process improvements, quality management, lean manufacturing, financial management, equipment selection, and technology development; and,
- build organizational capabilities, for example, through management and financial coaching, strategic planning, financial management, organizational design, HR management, and advisory boards.

BDC is improving its ability to diagnose and offer solutions and will refine its approach over the planning period to help SMEs improve competitiveness.

Celebrating Canada's entrepreneurs

In a healthy entrepreneurial ecosystem, it is important to recognize the contribution of Canadian entrepreneurs to economic growth. In Economic Action Plan 2013, the government asked BDC to create and administer a new awards program recognizing the achievements, mentorship, risk-taking and resilience of Canadian entrepreneurs. In response, BDC is developing four new awards, each celebrating a different element of entrepreneurship.

Achievement Award: For a Canadian entrepreneur who has created and grown many successful businesses. The recipient will be designated the Canadian "Entrepreneurship Champion" of the year and will have commitments such as mentoring and speaking engagements. The award will be decided on

> **"We are not pretty, we are not clean, we turn wrenches on cars and trucks all day. But we have kept 13 people working in a small town ... BDC has been with us from the start."**
> *— a transportation and warehousing company in Ontario*

the basis of a short-list of candidates drawn from various sources by BDC. The winner will be selected by a committee composed of BDC representatives and stakeholders in the business community. The 2014 "champion" will be announced in October 2014 during BDC Small Business Week.

Mentorship Award: For a business mentor credited by his or her peers with providing valuable advice that has led to the creation and growth of Canadian firms. BDC will partner with the Canadian Youth Business Foundation to implement this award. The focus will be on identifying mentors who have contributed to the entrepreneurial success of their mentee. This award was opened for nominations in January and the winner will be announced in May 2014.

Innovation Award: For a start-up company that has reshaped its industry in exciting and unforeseen ways. To support the implementation of this award, BDC will partner with the Canadian Venture Capital & Private Equity Association. Nominations for this award will open in February 2014.

Entrepreneurial Resiliency Award: For a business or entrepreneur that has recovered from failure in a way that is bold and inspiring. Nominations for this award, offered in partnership with the Turnaround Management Association, will open in March 2014.

BDC will create and plan national outreach activities to promote the creation and winners of each of the new awards. Nominees will be considered from every province and territory, and selection committees will be gender-balanced and representative of different demographics and regions. The number of applicants, traffic to awards' websites, and media coverage will be used to measure the success of each award.

partnerships

The Montreal Group, initiated by BDC, is a global forum of state-supported financial development institutions. The goal is to encourage an exchange of ideas and best practices with the aim of assisting micro, small and medium-sized enterprises with their business challenges.

The seven founding members are: BDC (Canada), BNDES (Brazil), China Development Bank, Nafinsa (Mexico), Bpifrance (France), SIDBI (India) and Vnesheconombank (Russia). Micro, small and medium-sized enterprises represent a significant part of the economic activity of each of these nations.

The Montreal Group will encourage other global development institutions to become members.

ENTREPRENEURSHIP

Over the planning period

BDC will ...

- Explore the potential of loan guarantees.
- Pursue asymmetric lending.
- Provide more pre-approved and online solutions.
- Refine its value-added advisory services to SMEs.
- Maximize indirect channels, including partnerships.
- Implement a new awards program recognizing Canadian entrepreneurs.

While continuing to ...

- Address market gaps for financing and advisory services, with a focus on small loans.
- Provide educational tools and resources.
- Celebrate entrepreneurship.
- Improve the client experience and reduce red tape.
- Make the most of online capabilities.
- Implement A&E.

support the competitiveness of Canadian SMEs

In a climate of global economic uncertainty, Canada has fared well. After emerging from recession, the domestic economy has grown modestly, grounded by a sound banking system and relatively healthy corporate balance sheets.

Against the backdrop of a world economy in transition, Canada's competitive position needs to be strengthened. Its record on productivity is not improving. Canadian businesses are relatively slow to invest in innovation and technology and the ability of domestic companies to become global players needs to be improved.

To address these issues, BDC is actively identifying ways in which it can help SMEs become more competitive and tailoring its financing and advisory solutions in response. It invests in innovative concepts and technologies, while encouraging and helping SMEs to apply innovation to their business. It offers financing and advisory services that enable SMEs to improve their competitiveness through productivity gains. And it is identifying and assisting SMEs that make significant contributions to the economy, such as high-growth firms and SMEs in specific sectors, including manufacturing and aerospace.

BDC will continue to develop and offer targeted support to help improve SME competitiveness, including through the evolution of its advisory services, which are increasingly being geared toward helping entrepreneurs apply innovation, improve productivity and pursue growth, including penetrating new markets.

BDC will support its competitiveness strategy by reaching out to a variety of partners, who offer invaluable learning, mentoring and networking opportunities.

In these ways, BDC supports government priorities such as the digital economy and innovation agenda, in addition to enabling Canada's entrepreneurs to contribute fully to economic growth and prosperity.

BDC's Future Focus

- Implement the Venture Capital Action Plan (VCAP) and the Venture Capital Strategic Investment Plan (VCSIP).
- Refine the F-PIL program.
- Tailor working capital loans to SME needs.
- Make BDC solutions more accessible online.
- Build advisory services to improve SME competitiveness.
- Increase support to the manufacturing and aerospace sectors.
- Provide improved support to high-growth firms.
- Increase equity offering.

innovation

Innovation gives a competitive edge, increases productivity and helps a firm to grow. Innovation can be radical, which generally involves the creation of something that did not exist before, often fuelled by R&D and venture capital investments. But it can also be incremental, for example: improvements to existing products, different ways of marketing, or new business processes. Incremental innovation usually requires tools to implement a new approach; this is where information and communication technology (ICT) can come in.

Innovating with the help of ICT

Despite the growing prevalence of ICT, entrepreneurs are not always aware of how to use it to their advantage. A BDC survey of more than 500 entrepreneurs (both clients and non-clients of BDC) in April 2013 showed that, although many planned to invest in ICT, amounts allocated were modest and did not always consider more sophisticated solutions. Almost all respondents had concerns about ICT, including return on investment, performance, reliability and security. And even as more consumers shop online, three out of five businesses said they do not earn any revenue from online sales.

For SMEs with limited money, expertise and time, it can be a challenge to take full advantage of the benefits of ICT. They need financing and specialized consultants, but they also require a basic understanding of ICT and how other entrepreneurs have used it effectively.

BDC's ICT offering recognizes that entrepreneurs need educational resources before they can integrate ICT into their business. BDC addressed this by providing free informational tools on a dedicated website, Smart Tech. Another important aspect of the approach is specialized advisory services to help SMEs evaluate their current use of ICT and plan for next steps. In addition, BDC provides the capital to make these plans happen (see page 37 for more information on ICT financing).

BDC has increased its use of social media, including new blogs, to promote the benefits of ICT. BDC has reached out to provincial governments, chambers of commerce and the private sector to spread the word about ICT.

BDC's ICT approach

❶ ***Awareness*** – BDC's Smart Tech site includes tools such as:

- e-Books – highlight how businesses can benefit from ICT
- Ask a Pro – how-to articles, Q&As
- one-pagers demonstrating how technology does not have to be complicated or costly
- free online website assessments
- free online ICT assessments

❷ ***Consideration*** – BDC offers advisory services that include:

- Website diagnostic – an evaluation of the SME's current site
- ICT diagnostic – an evaluation of the current level of ICT adoption

❸ ***Adoption***

Once entrepreneurs have learned about ICT and considered their options, BDC can help put their plans into action. BDC's Internet strategy service helps businesses set concrete objectives, define online strategies and develop a plan to promote their website and leverage the Internet. It also assists them with system selection, or choosing the best provider for their needs. In October 2011, BDC announced that it would offer financing to help entrepreneurs with ICT purchases, including hardware, software and advisory services.

> **"BDC's impact on my business has been positive, from the ICT diagnostic and follow-up coaching, ICT and management training, to the loan I currently have."**
> *— a telecommunication construction company in P.E.I.*

What are venture capitalists?

Venture capitalists are professional investors who specialize in funding and building young, innovative technology enterprises.

Where do venture capitalists get their money?

Most VC firms raise their funds from institutional investors, such as pension funds, insurance companies, endowments and high net worth individuals. The investors who invest in VC funds are referred to as "limited partners (LPs)." Venture capitalists, who manage the fund, are referred to as "general partners (GPs)."

How are venture capitalists different from other investors?

Venture capitalists are long-term investors who take a very active role in their portfolio companies. When a venture capitalist makes an investment he/she does not expect a return on that investment for seven to 10 years, on average. Venture capitalists often are invaluable in building strong management teams, managing rapid growth and facilitating strategic partnerships.

How do venture capitalists realize a return on their investment?

The companies that venture capitalists invest in are private enterprises. Typically, the venture capitalist realizes a return on their investment when the company goes public (through an initial public offering, or IPO) or is merged or purchased by another company.

How does angel investing differ from venture capital?

Venture capitalists dedicate their time to investing and building companies on behalf of their LPs. The angel investment community is a more informal network of investors who invest their own money in companies.

Since the launch of BDC's ICT products and services in October 2011, BDC has met or exceeded corporate performance expectations in terms of visits to Smart Tech, uptake of free resources, and numbers of loan authorizations and advisory service mandates for ICT.

Over the planning period, BDC will continue to tweak its ICT products and services or develop new ones to help improve SME competitiveness, build on the expertise of internal consultants, and expand its network of qualified external consultants.

Venture capital: investing in the innovation ecosystem

Innovation also means creating the disruptive technologies and business models that lead to new products and services. Much of this work is pursued by smaller firms, many of which struggle to find financing.

Venture capital (VC) investors take the high risks necessary to finance these firms, with the expectation of high returns. However, in recent years, Canadian VC investors have not been able to realize the returns they require for the risk they take.

Recognizing that the market had ceased to function effectively, BDC has taken a more active role. Over the past year, BDC Venture Capital has continued to implement its strategy of direct and indirect investing, complemented by strategic partnerships and investments.

VC market: signs of improvement, but challenges remain

With a general increase in VC investment activity, more Canadian firms are receiving venture funding. Private and institutional venture funds have led the growth in domestic VC activity. Larger deals are now getting done in Canada (for example, D-Wave for $35 million) and exit markets have gained some momentum, driven largely by strategic acquisitions and sales.

Perhaps the most important development was the growth in VC fundraising activity in 2012. Even with this growth, the pool of capital remains limited and fundraising is difficult for first-time and experienced fund managers alike; many funds struggle to raise enough capital to close.

This scarcity of capital has led to the emergence of new funding models across Canada, including "micro VC" or "super angel" funds. These models provide a combination of seed capital and mentorship to entrepreneurs and bridge the gap to traditional venture funding. However, because their structures and activities often depart from the traditional VC investment model, they pose a challenge for most institutional investors.

BDC VC believes that its investing activities, combined with the Venture Capital Action Plan (VCAP) and the Venture Capital Strategic Investment Plan (VCSIP), will have a significant impact in addressing the ongoing challenges of the VC market in Canada.

BDC VC's strategy being deployed as planned

BDC VC's direct investing

BDC VC's direct investments are conducted through three internal general partners (GPs), or funds, addressing the information technology, energy/cleantech, and health-care sectors, in addition to BDC's Diversified Portfolio. In the past year, the three internal funds received capital allocations approved by BDC's Board of Directors.

BDC VC IT Fund

The IT Fund has been active in the market over the past year. As at September 30, 2013, the fund had made, since inception, 18 of 26 anticipated lifetime investments. It also works closely with and leverages the early successes of BDC VC's Strategic Initiatives and Investments (SII) team in supporting some of the country's most interesting and innovative IT businesses emerging from accelerator programs.

This fund continues to perform well, with significant high-profile exits from investments like Q1 Labs, Radian6 and, most recently, Layer 7.

BDC VC Energy/Cleantech Fund

The BDC VC Energy/Cleantech Fund has focused its investment scope to electronics, materials and IT that enable cleantech and energy technology companies. The fund will lead or co-invest with partners, with the intention of investing throughout the lifecycle of companies to maintain a meaningful ownership percentage at exit. The fund will primarily be a syndicate investor, but will be prepared to continue to invest on its own.

partnerships

In fiscal 2014, BDC VC announced a strategic partnership with the Department of Foreign Affairs, Trade and Development (DFATD) to expand the Canadian Technology Accelerator (CTA) program in the U.S. BDC VC's involvement with the CTA program ties in with its role, especially its work with Canadian accelerators. BDC VC will connect top technology SMEs coming out of Canadian accelerators to the most relevant CTAs.

BDC's VC strategy

In 2010, BDC completed a review of the national VC industry and its own VC operations. Based on the results, BDC VC established a new approach to build on its existing role and better align it with the private sector. BDC VC's strategic objectives are to:

- invest in and support BDC's investee companies to help build leading Canadian technology companies in digital technologies and ICT, health care, energy and clean/environmental technologies, and other high-growth sectors;
- maximize the exit value of BDC VC's existing VC portfolio and remain responsive to specific government requests;
- build and sustain world-class Canadian venture capitalists by investing in high-performing fund managers;
- develop strategic initiatives to reinforce key areas in the VC and innovation ecosystem; and,
- demonstrate the viability of the Canadian VC industry to encourage private-sector participation.

partnerships

BDC collaborates with the National Research Council of Canada (NRC) and the Natural Sciences and Engineering Research Council of Canada (NSERC), with the objective of strengthening commercialization. The partnership works on:

- increasing opportunities for joint funding by the partners;
- improving access to complementary federal funding programs;
- improving access to investment capital; and,
- increasing awareness of partnership opportunities and available funding programs.

The fund is actively pursuing new investments while managing a promising legacy portfolio of companies in which BDC was an early investor. These include businesses like quantum computing leader D-Wave; PC over IP semiconductor company Teradici; and innovative fusion energy pioneer General Fusion.

BDC VC Healthcare Fund

The BDC VC Healthcare Fund has a substantial legacy portfolio of 11 investments under management. The recent public launch of the fund has resulted in a significant pipeline of new investment opportunities. The fund's investments include companies that are experiencing positive clinical trials and that have the potential to offer solutions in the field of cancer treatment, among others.

Diversified Portfolio

Created in 2011 as a portfolio of 50 active operating companies, the Diversified Portfolio has a mandate to maximize the value of the remaining legacy portfolio. It includes companies from all sectors and has late-stage, early stage and pre-revenue companies.

Since January 2011, the number of actively managed files has been reduced from 50 to 31. The majority of the better opportunity companies have been reviewed and funded and plans put in place for greater value creation.

BDC VC's indirect investing

Fund of funds

As one of the few limited partners (LPs) in Canada with a national focus, BDC VC's goal in indirect, or fund, investing is to attract more institutional LPs back to the market by helping to increase the number of quality, at-scale GPs producing strong returns. BDC VC believes that VCAP will have a significant positive impact on its ability to attain this goal.

BDC VC will identify and support fund management teams with the ability to produce consistent, substantial, venture-level returns for investors. BDC VC will engage actively with these fund managers, providing a range of resources to help meet mutual investment return goals.

As at November 30, 2013, BDC was invested in 33 active funds and experienced four successful fund closings in 2012 (Rho Canada II, Celtic House IV, Lumira II and TVM Capital VII). The market continues to be difficult, with only three large Canadian LPs remaining active.

In parallel, BDC VC plans to create a global network of institutional LPs, who will be provided with information on the Canadian VC market and the fund managers BDC VC supports. As positive returns appear, BDC VC will

BDC VC commits to Sanderling Ventures

In September 2013, BDC VC and the Fonds de solidarité FTQ announced a US$30-million commitment to Sanderling Ventures, an investment firm with a 35-year track record of building new biomedical companies. BDC VC is contributing US$20 million to the fund as part of this financing round, while the Fonds will put in an additional US$10 million.

As a result of this transaction, Sanderling will create a permanent facility for the development of early stage life science projects in Montréal. This facility will help shepherd very early stage life science projects further along the path to commercialization.

invite these investors to participate in backing successful fund managers. This will expand the supply of VC and enable the continuing expansion of the innovation funding ecosystem.

GO Capital

The GO Capital fund supports the creation of companies in the science and technology sector in Quebec. It is a partnership between five organizations: FIER Partners; BDC; Caisse de dépôt et placement du Québec; Solidarity Fund QFL; and Fondaction CSN. BDC VC is an investor in the fund, but was also chosen by the partnership to manage the fund on its behalf.

With the investment period for the fund now over, BDC is concentrating on supporting the portfolio's active companies.

BDC VC's Strategic Initiatives and Investments

BDC VC's Strategic Initiatives and Investments (SII) team focuses on strategic investments, fosters entrepreneurial development, encourages global connectivity for entrepreneurs, and acts as a VC industry facilitator. SII works closely with BDC VC's direct and indirect investment teams.

Strategic Initiatives

A focus of SII's partnership efforts has been to support international initiatives to accelerate the growth of Canadian start-ups on a global scale. Key partnerships include C100 as well as the Canadian Technology Accelerator (CTA) program.

Strategic Investments

Working with private-sector co-investors, the SII team invests in specialized funds and investment vehicles that fill financing gaps at the early stage, with a particular focus on accelerators, emerging models, emerging teams/GPs and angel capital.

SII Direct Investments

Convertible Notes

- Enable the emergence of new technology firms
- Mentor entrepreneurs and improve their chances of commercialization success
- Help bridge the seed/early stage gap
- Help enable emerging start-up/ innovation clusters

SII Indirect Investments

Emerging Models / GPs & Strategic Funds

- Provide an institutional LP presence in the seed/early stage VC market
- Support high-quality teams capable of bridging financing/mentoring gaps
- Identify, groom and grow emerging GPs
- Support emergence of innovative funding models
- Support funds/projects with compelling national, regional or strategic relevance

SII direct investments

To support graduates of accelerators, SII pioneered a unique convertible note program. Under this program, a $150,000 convertible note investment is offered to select graduates of GrowLab (Vancouver), FounderFuel (Montreal), Hyperdrive (Kitchener/Waterloo), Extreme Startups (Toronto) and Launch36 (St. John) who meet BDC's eligibility requirements; access to this program is also being afforded to Execution Labs (Montreal) on an interim basis. The notes, which start out as debt financing but can be "converted" to equity, help take start-ups to the stage where they can access angel or venture capital.

As at September 30, 2013, SII had issued convertible notes to 56 early stage companies, totalling $8.4 million in financing.

SII indirect investments

SII's indirect approach includes emerging vehicles, models and teams. Examples are investments made through accelerators and seed funds such as SII's $5-million commitment to TandemLaunch Technologies, as well as its $3-million commitment to BrandProject. In both cases, BDC, as the sole institutional investor, enabled the fund GPs to secure private capital from other sources.

Venture Capital Strategic Investment Plan (VCSIP)

Under Economic Action Plan 2013, the government asked BDC to make available an additional $100 million of its own capital for strategic partnerships with business accelerators and co-investments in graduate firms. To fulfill this government priority, BDC created and is implementing the Venture Capital Strategic Investment Plan (VCSIP).

Incremental efforts under VCSIP are planned at $20 million per year, starting in fiscal 2014 and ending in fiscal 2018. Over the planning period, the SII team will use the additional capital to make direct and indirect investments that build on its work in support of the VC ecosystem.

Strategic investments

Strategic investments under VCSIP will focus on expanding and strengthening existing accelerators and supporting emerging models, including funds or other investment vehicles that embody the principles of business acceleration. VCSIP will also result in more capital being available for the SII team to invest in its convertible note program.

VCSIP Direct Investments

- **Enhanced support for graduates of BDC-backed accelerator partners -** BDC is committed to using its partner accelerators as its primary direct investment channel. BDC will support the highest-potential graduates of these accelerators via its innovative convertible note funding program.
- **Expansion of convertible note program to include new accelerator partners -** VCSIP will enable BDC to extend its national reach and evolve the current framework to include regions or sectors not currently covered by BDC's accelerator strategy.

VCSIP Indirect Investments

- **Continued support for BDC-backed accelerators –** VCSIP will enable BDC to provide enhanced financial support to its existing accelerator partners.
- **Emerging models –** BDC will build industry funding and entrepreneur development capacity. BDC believes these vehicles to be the most likely sources of follow-on funding for accelerator graduates and BDC's convertible note investees.

VCSIP has already had an impact on SII's direct investment activities by allowing it to expand its geographical scope and make direct investments in graduate firms from Launch36 in Moncton and Execution Labs in Montreal.

VCSIP investment pacing will be subject to ongoing review by BDC, including from the perspective of changing marketplace conditions and economic viability.

Ecosystem infrastructure

Some VCSIP funding will be directed to the ecosystem models and infrastructure that are the foundation for high-growth, technology-driven entrepreneurs and start-ups in key innovation hubs across Canada. Examples include Montreal-based Notman House and DFATD's CTA program. BDC is also considering potential partnerships in Atlantic Canada, Toronto and Vancouver.

Investments under VCSIP will be complementary to support provided under the Canada Accelerator and Incubator Program (CAIP), to be delivered under the Industrial Research Assistance Program (IRAP) of the National Research Council (NRC).

The Venture Capital Action Plan

In its role as agent for the Venture Capital Action Plan (VCAP), BDC has made progress in deploying the program, designed to help create a vibrant VC system in Canada, led by the private sector.

In January 2013, the Prime Minister announced that, under VCAP, a $400-million contribution from the government would be used to leverage up to $1 billion in private-sector capital to establish and re-capitalize large private-sector funds of funds. VCAP also includes resources for high-performing VC funds interested in securing investments from the government.

BDC has been asked to carry out certain duties and functions to support this initiative. In this role, BDC will:

- Support VCAP in an advisory capacity by leveraging its internal expertise and resources and working alongside the Department of Finance, Industry Canada and the Expert Panel appointed by the Minister of Finance, while also providing advice on specific VCAP elements, such as selecting GPs and funds; and,
- Undertake administrative duties, including placing investments on behalf of the Government and monitoring and reporting on the ongoing success of VCAP.

partnerships

In November 2013, BDC VC and the National Angel Capital Organization (NACO) announced the renewal of their national partnership for the third consecutive year. This partnership focuses on strengthening Canada's angel investing community by identifying, standardizing and sharing industry best practices across the country.

NACO accelerates a thriving, early stage investing ecosystem in Canada by connecting individuals, groups and other partners that support angel-stage investing. NACO provides intelligence, tools and resources for its members; facilitates key connections and networks across borders and industries; and promotes a strong Canadian angel investment asset-class.

partnerships

BDC is an active member of the Conference Board of Canada's Centre for Business Innovation, which conducts research into how Canadian companies incorporate innovation into their operations. BDC also participates in the Conference Board's Global Commerce Centre, which examines issues related to trade and international business.

partnerships

BDC VC is a founding partner of C100, an organization dedicated to supporting Canadian technology entrepreneurship and investment. C100 is comprised of Canadians based primarily in Silicon Valley, including executives of leading technology companies, start-up entrepreneurs and VC investors. C100 members leverage their expertise and relationships to mentor and grow a new generation of Canadian-led technology companies. Members include executives of companies such as Apple, Cisco, EA, eBay, Facebook, Google, Microsoft and Oracle, as well as venture investors, representing more than $8 billion in capital.

In September 2013, the first step in executing VCAP took place with the announcement of the selection of four high-performing funds in the ICT and life sciences sectors that have demonstrated strong investment performance and are aligned with the objectives of VCAP.

The second stage of VCAP, involving the creation of new, large-scale funds of funds led by the private sector, is also well underway. BDC will apply its usual rigour and high standards in its capacity as agent of the government and will continue to work proactively with the private sector to ensure VCAP plays the critical role for which it was designed.

INNOVATION

Over the planning period

BDC will ...

- Implement the Venture Capital Action Plan (VCAP) and the Venture Capital Strategic Investment Plan (VCSIP).

While continuing to ...

- Implement its VC strategy designed to return the ecosystem to health and support innovative Canadian technology companies.
- Refine its ICT products and advisory services to help SMEs apply innovation to their business.

productivity

In a basic sense, productivity means getting the most output from the least input. Poor productivity detracts from competitiveness and can lead to a lower standard of living. Data from the Centre for the Study of Living Standards show that business productivity in Canada has fallen by 15% versus the U.S. over the past 25 years.

In December 2012, BDC surveyed more than 400 entrepreneurs about issues related to productivity. When presented with the statement "Canadian businesses aren't as productive as their American counterparts", 46% of respondents disagreed. In fact, the majority believed their business was at least as productive as their competitors at the regional, national, North American and international levels.

At the same time, a recent study by Deloitte, *The Future of Productivity*, states that "a significant portion of Canadian firms believe they are making competitive levels of investment (in R&D and machinery and equipment, including ICT) when they are not – causing them to slip behind their peers."

In *Paradox Lost: Explaining Canada's Research Strength and Innovation Weakness,* the Council of Canadian Academies argues that Canada cannot sustain its prosperity indefinitely without healthy productivity growth and its necessary prerequisite — an aggressively innovative business sector.

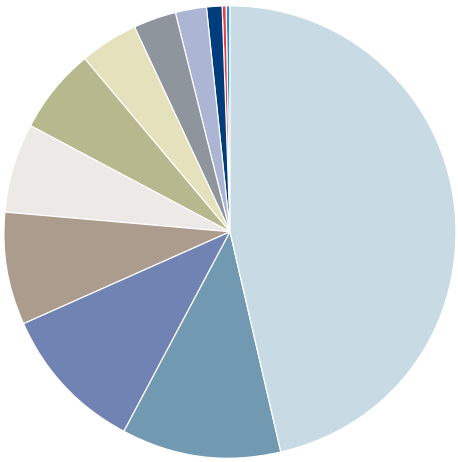
BDC believes it can have an impact by encouraging clients to improve their productivity, so that collectively they can make a difference in the economy.

Providing flexible financing for equipment

Recognizing the need for businesses to invest in machinery and equipment (M&E) to increase productivity, BDC launched a pre-approved Equipment Line in June 2012 that allows entrepreneurs to make equipment purchases over a 12-month period with guaranteed terms and conditions. Financing covers new or used equipment, including: production line M&E; specialized technology such as lab equipment; and commercial vehicles.

> **"BDC helped us expand our facility and buy state-of-the-art equipment, which in turn is opening new doors for our company."**
>
> *— a manufacturer in Saskatchewan*

Figure 8: Equipment line authorizations by industry for fiscal 2013



	Net Authorized ($M)	% of Total
Manufacturing	68.2	46.6
Construction	16.8	11.5
Non-Business Services	15.3	10.4
Resources	11.9	8.1
Wholesale	9.1	6.2
Transportation and Storage	9.1	6.2
Retail	6.3	4.3
Food & Recreation	3.5	2.4
Business Services	4.2	2.9
Other	1.5	1.0
Hotel	0.5	0.3
Supplier of Premises	0.1	0.0
	146.4	**100%**

The flexibility of this financing frees up cash for entrepreneurs, allowing them to grow their business and pursue other projects. The fact that it is pre-approved saves time and reduces red tape and allows clients to act quickly when a good opportunity arises. BDC is willing to finance up to 100% of an SME's equipment purchase, plus training or other related costs, while taking less security.

With the introduction of the Equipment Line in fiscal 2013, BDC was able to more than double the number of loans it authorized to help SMEs purchase machinery and equipment.

Ensuring access to financing for vehicles and equipment

BDC played an important role during the economic crisis at the request of the government by working with the private sector to offer the Canadian Secured Credit Facility (CSCF), which had the broad goal of increasing liquidity in the securitization market and augmenting investor confidence in asset-backed securities. This program is now over, all transactions have been repaid in full.

As a result of its work on CSCF, BDC and the Canadian Finance and Leasing Association identified an ongoing market deficiency for smaller players in the domestic independent financing and leasing market for vehicles and equipment. After consideration of the market situation, the Minister of Finance's advisory committee on financing recommended that this gap be addressed through public-private partnerships.

As a result, a partnership was announced in April 2010 between BDC and TAO Asset Management. The Multi-Seller Platform for Small Originators,

> **"We became fully automated and BDC was there to provide the backing. The new automation improved our product and we were able to penetrate the U.S. market more easily."**
> *— a manufacturer in Ontario*

> **During a recessionary period with reduced revenues and a shortage of working capital, our regular lender would not provide additional assistance. BDC came to the table and brought the North Fraser Community Futures with a further supplement of funds.**
>
> *— a marine transportation company in British Columbia*

now called the Funding Platform for Independent Lenders (F-PIL), was created to ensure that smaller companies could provide financing for the vehicle and equipment needs of businesses and consumers. BDC expects that this will be a longer-term initiative given ongoing constraints in the Canadian market.

As at September 2013, 5,383 SMEs had benefited from this program. Over the planning period, BDC will continue to manage the F-PIL and expects to modify its parameters to provide funding to even smaller companies than are currently accessing the program. By leveraging the private sector, BDC's involvement in the securitization market helps ensure that SMEs have the liquidity they need to purchase vehicles and equipment, thereby helping to boost Canadian productivity.

Financing ICT investments for productivity

As part of its ICT products and services (see page 27), BDC offers affordable financing to help entrepreneurs invest in the ICT needed to increase their productivity.

BDC's ICT financing helps with the purchase of:

- hardware (servers, network, telephony, computers and accessories);
- software (enterprise resource planning, client relationship management, human resources, supply chain, finance and accounting); and,
- advisory services (information technology planning, strategy, security, online sales, Internet marketing and social media).

To make BDC's ICT financing as accessible as possible, loans for less than $50,000 can be applied for online. Existing BDC clients can save time and money with pre-qualified loans that do not require a personal guarantee.

BDC data show that the majority of BDC's ICT financing is going to firms in the business services and manufacturing sectors, with a significant increase in uptake in the retail sector. While SMEs in Ontario and Quebec have shown the quickest uptake of ICT financing, it is also catching on in Atlantic Canada.

Over the first three quarters of fiscal 2014, BDC clients accepted 1,037 ICT loans for $55.2 million, which will help them incorporate ICT into their daily operations, boost productivity and improve their ability to innovate and remain competitive. From the launch of BDC's ICT products and services in November 2011 to September 2013, BDC clients have accepted 2,748 loans for a total of $289.5 million. BDC Financing and Subordinate Financing also support firms in the ICT sector, as does BDC VC through its direct and indirect investments.

Working capital to support productive operations

Without working capital, SMEs cannot take the measures needed for improved productivity: purchasing equipment, training staff, pursuing product or market development, boosting inventory for increased sales, or attaining quality management standards such as ISO.

BDC provides medium-term working capital to complement an SME's existing line of credit with another financial institution. BDC offers amortization periods tailored to the needs of the project, seasonal or progressive repayment schedules, and deferred initial principal payments to help entrepreneurs get their projects off the ground.

BDC is exploring how it can more effectively provide working capital loans to address the needs specific to certain sectors or types of SME. For example, aerospace and other manufacturers typically must wait a long time before realizing any revenues from a project or contract. However, they often must invest upfront in the machinery and equipment needed to participate in the contract. To address such situations, BDC is exploring various products to help ensure that each client has the cash flow needed to effectively run the business.

"I have a small home-based business and needed funds to manufacture enough product for a Canadian mass retailer. I used to make the products off our kitchen table, but even with all our sales there was no way I had enough funds to pay upfront for the manufacturing costs. BDC stepped in and gave me the help I needed."

— a manufacturer in British Columbia

> **“BDC gave my company more breathing room with working capital that is not easily available for a young company such as mine.”**
> *— a professional services company in Quebec*

Advisory services for operational efficiency

Advisory services are equally important in helping SMEs improve their competitiveness through productivity improvements. As one of its main areas of focus, BDC Consulting helps SMEs improve their productivity by:

- isolating the main causes of waste in the business;
- implementing best practices to improve performance;
- training and motivating employees around lean concepts;
- mapping and re-engineering processes;
- reconfiguring plant and office layouts for maximum efficiency;
- identifying strategies to free up cash by reducing inventory; and,
- probing opportunities to reduce purchasing costs.

The result is that businesses can increase profitability by taking advantage of freed-up capacity and can more easily grow and remain competitive.

Through a variety of financing and advisory service solutions, BDC helps SMEs invest in the fixed assets and technology needed for operational efficiency, whether it be state-of-the-art equipment, new facilities to increase production capacity, or employee training. The goal is to help SMEs boost productivity at the firm level. Collectively, these improvements can have a significant impact on the competitiveness of Canadian SMEs and on the domestic economy.

PRODUCTIVITY

Over the planning period

BDC will ...

- Refine the F-PIL program.
- Tailor working capital loans to SME needs.
- Make BDC solutions more accessible online.

While continuing to ...

- Offer targeted solutions such as the Equipment Line and ICT loans to help SMEs improve productivity.
- Work alongside the private sector in the securitization market.
- Offer and build capabilities in advisory services.

growth

To create jobs and prosperity, Canada needs entrepreneurs with the desire and ability to take their business to the next level. This means exploring new markets, including global opportunities such as exporting or becoming part of a global value chain. But for many SMEs, growth brings challenges that require tailored financing and advisory services. A recent Statistics Canada study suggests that larger firms tend to be less profitable than smaller firms, but that their profitability is also less volatile than for smaller firms. BDC is exploring the issue of SME growth, including globalization, and ensuring it has the products and services required. It is focusing on critical sectors of the domestic economy and working to ensure that successful Canadian firms remain in Canadian hands.

Pursuing growth through market expansion

Canadian companies must look to international markets for growth opportunities, particularly as demand for consumer goods increases in various foreign markets and as Canada diversifies its trading relationships with countries around the world. BDC Consulting helps SMEs explore new markets, at home and abroad, and take advantage of global supply chains.

Research shows that SMEs need to understand the culture and business practices of a country and to have a local partner when expanding globally. BDC helps entrepreneurs find opportunities in a variety of markets and has developed a three-phase approach to helping SMEs through advisory services and financing.

Figure 9: BDC products and services for market expansion

BDC Consulting			BDC Financing		
Assessment Phase I	**Strategy** Phase II	**Implementation** Phase III	**Market Xpansion**	**Leveraged Financing**	**Market Xpansion Plus**
> Global Readiness Assessment > Market selection	> Market research: primary and secondary > International market entry strategy > Partner identification	> Partner evaluation and selection > Accompanied country visits > Post-implementation support > Coaching	> Working capital <$250,000 > Flexible loan for market expansion > Can also fund attendance at trade shows, open an office, etc.	> Working capital <$500,000 > Proceeds for market expansion, attendance at trade shows, opening an office, etc.	> Foreign tangible assets <$2 million > Proceeds for acquisition of a plant or company and purchase of building and/or equipment > Up to $500,000 can be added to support operations of foreign projects

Over the planning period, BDC will continue to refine its approach and build corporate knowledge and capacity; expand its network of partners and consultants; and develop and test new solutions relevant to the market expansion needs of SMEs.

BDC will continue to work closely with Export Development Canada (EDC) in supporting Canadian firms that wish to expand abroad.

Figure 10: BDC/EDC products and services
● = offered; ○ = not offered

	Solutions within Canada for non-exporters/investors		Solutions within Canada for exporters/investors here and abroad		Solutions outside Canada for foreign buyers of Canadian goods and services	
	BDC	EDC	BDC	EDC	BDC	EDC
Insurance and bonding						
Contract insurance	○	○	○	●	○	○
Foreign accounts receivable insurance	○	○	○	●	○	○
Performance guarantees and surety bond reinsurance	○	○	○	●	○	○
Political risk insurance	○	○	○	●	○	○
Financing						
Summary of services	●	○	●	●	○	●
Foreign buyer financing	○	○	○	○	○	●
Guarantee bank facilities	●	○	●	●	○	●
Supplier financing	○	○	○	●	○	●
Working capital financing	●	○	●	●	○	●
Commercial real estate financing	●	○	●	○	○	○
Machinery & equipment financing	●	○	●	●	○	●
Other capital assets financing	●	○	●	●	○	●
Subordinate financing	●	○	●	○	○	○
Financing to purchase or upgrade ICT	●	○	●	○	○	○
Equity/venture capital						
Direct investement and via equity funds	●	○	●	●	○	○
Consulting/advisory services						
Consulting (fee for service)	●	○	●	○	○	○
Economic intelligence	●	●	●	●	○	○
ICT diagnostic & consulting	●	○	●	○	○	○
Trade advisory services, supply chain analyses & best practices (non-fee)	○	●	○	●[1]	○	○

[1]For existing EDC customers only

partnerships

BDC's activities in support of Canadian SMEs are enhanced by its relationships with other Crown corporations. BDC and Export Development Canada (EDC) share a particularly important relationship, including a two-way referral system that ensures Canadian companies can access the services of the organization whose competencies best meet their needs. An MOU between BDC and EDC was finalized in late 2011.

Helping Canadian manufacturers grow and compete

Manufacturing is a critical contributor to the Canadian economy. BDC has traditionally had a strong presence in the sector; over the past 15 years, its financial support to manufacturers has nearly quadrupled, its penetration rate has doubled, and it has established a diverse portfolio across sub-sectors.

However, as in other developed countries, the number of Canadian manufacturers has dropped in recent years and the sector's contribution to gross domestic product has decreased. In Canada, this is in part due to the appreciation of the currency and increased competition from emerging economies.

To help Canadian manufacturers remain competitive and contribute to the domestic economy, BDC is developing a strategy to increase its impact on the sector. Preliminary analysis of global manufacturing trends indicates that there are challenges, but also opportunities.

BDC's analysis shows that, despite close to 500 financing and other support programs available from both the public and private sectors, Canadian manufacturers feel that having their financing and advisory needs met is a challenge.

For example, small manufacturers require financing for equipment, while start-ups with few assets to pledge also face credit gaps. Manufacturing firms that do not have adequate ratios for traditional financing require help with acquisitions, commercialization of new products, and process and product improvements. Many manufacturers need working capital to help with tight cash flows.

In the short term, BDC will address these gaps with current financing products or by making slight modifications to existing products to meet the specific needs of manufacturers. For example, BDC Financing will increase amounts available under ICT and Market Xpansion loans and look into more options for pre-qualifying clients. BDC Subordinate Financing will continue offering a "war chest" for acquisitions and explore other ways to help finance the growth plans of manufacturers.

Over the planning period, BDC will conduct further analysis of the sector and develop new products to address unmet needs. It will consider paying particular attention to manufacturers with significant potential to grow and

> **"BDC offered me financing solutions that let me take over an already successful business and expand it into a new revenue stream."**
>
> *— a construction company in British Columbia*

> **Had I not been able to finance the share purchase and subsequent buyout of my previous partner, the company would have been liquidated and ceased operations.**
>
> *— an agriculture, forestry, fishing and hunting company in Ontario*

contribute to the economy by tailoring financing and advisory services to their requirements. Given its traditional strong involvement with the sector, BDC feels it can increase its support to help manufacturers become more competitive through existing and potentially new products and services.

Ensuring SMEs in the aerospace sector are competitive

Aerospace is one sub-sector of the manufacturing industry where BDC believes it can have a significant impact. The domestic aerospace industry has strong foundations, but Canadian firms involved in the industry, including SMEs that supply larger players, need to adjust to survive in a highly competitive global aerospace sector.

While demand for aerospace products is forecast to increase significantly, commercial airlines' profitability has been weak, putting price pressures on aircraft producers. As a consequence, supply chains are transforming, with original equipment manufacturers transferring market risks and development costs to their global suppliers, many of which are SMEs.

To explore how it can best support SMEs that participate in the aerospace industry, BDC conducted research into market dynamics and gaps for financing and advisory services. Many of the financing challenges stem from the fact that, in the aerospace industry, the product lifecycle can last up to 50 years. It is a cash flow issue: firms need a lot of funds to secure their place on an aircraft program and survive throughout the production period. Patient and flexible capital is critical for aerospace manufacturing firms as large upfront investments for long-term cash flows are needed.

BDC found that, while financing options exist, access varies along the product lifecycle. Patient and flexible capital is crucial, but difficult to find, and there appears to be a gap in smaller private equity deals – although this is not specific to the aerospace sector. Not surprisingly, with the challenges facing the industry, aerospace firms require management advisory services tailored to their needs.

In response, BDC has increased its expertise in the sector and is taking a new approach to SMEs that supply the industry. These SMEs include clients already in the BDC portfolio and potential clients that BDC is identifying by working with large Canadian aerospace firms such as Bombardier. BDC is supporting these SMEs with increased patient capital, including project

partnerships

BDC gains a greater understanding of SMEs by working with non-government organizations, including sector-specific associations such as the Canadian Manufacturers and Exporters (CME). BDC and CME are building on a pilot project that took place in Quebec in 2009 called Export Experts, a series of on-site workshops that highlight best practices in international trade. The program currently holds about six workshops annually, targeting BDC clients who are interested in expanding abroad. Based on positive results in Quebec, BDC and CME in British Columbia are collaborating on additional sessions focussing on various target trade markets.

partnerships

Recognizing the value of mentorship, BDC is a founding member of QG100, a private group of chief executive officers from Quebec that supports the development of global leaders; promotes the sustainability of their positions in the context of international competition; and benefits from the global business expansion of its members.

partnerships

BDC works with the Department of Foreign Affairs, Trade and Development (DFATD) to help provide Canadian entrepreneurs with access to foreign networks. In 2011, BDC signed an MOU with DFATD to share business intelligence about global markets and encourage closer collaboration on joint marketing initiatives. The MOU increases cooperation in fields such as training and staff development, as well as co-location opportunities.

financing that is particularly helpful for firms in sectors such as aerospace. BDC is also working with industry associations and is financing the supplier development program study being conducted by the Aerospace Industries Association of Canada, as proposed in the Emerson review.

Recognizing that the sector is a government priority, BDC will continue to build on its new approach over the planning period.

Finding solutions for high-growth firms

Canadian firms with the desire and potential to grow rapidly are also important in today's economy. Recognizing this, BDC is developing various ways to better support high-growth firms (HGFs).

Part of the challenge is to define HGFs. The most common definition is from the OECD: annualized growth greater than 20% per annum (sales or employees) over a three-year period, with 10 or more employees at the beginning of the period.

BDC's analysis has shown that there is a range of financing options available for HGFs, which require solutions suited to their cycle of fast growth followed by relatively slow or no growth. In private equity, there is relatively little activity in transactions less than $10 million, and neither small nor large funds are well suited to assist HGFs. This is especially true for non-high-tech SMEs, which often require multiple rounds of financing over a short timeframe to execute on an unpredictable, fast growth business plan.

BDC Subordinate Financing has identified about 25% of its clients as high growth. BDC believes it can better assist HGFs by focusing its existing products and services on the needs of these firms. It is currently conducting pilot projects, led primarily by BDC Subordinate Financing, which is best placed to help HGFs with their specific needs through its flexible financing complemented by strategic advice. BDC Subordinate Financing has developed specific expertise in supporting HGFs through their various growth cycles and will build on that knowledge going forward.

Providing the fuel for growth

For firms that wish to grow, subordinate financing combines the advantages of a term loan and of equity and appeals to business owners as a financing solution that does not dilute their stake in the company. BDC Subordinate Financing works as a partner to SME owners, including conducting proactive administration to quickly identify red flags.

BDC Subordinate Financing takes a forward-looking investment view, accepts less security and finances intangibles, which is important as the economy becomes more knowledge-based. Since private-sector banks tend

to consider BDC Subordinate Financing as equity, it helps SMEs stay within prescribed covenants, including debt-to-equity ratios.

BDC Subordinate Financing has identified niche opportunities where it can play a complementary role in the market. For example, growth firms, particularly in rural areas, often need the strategic partnerships that accompany subordinate financing. There is also demand for subordinate financing from SMEs that wait long periods between when they incur expenses and when they receive payments related to a contract or project.

As many of Canada's entrepreneurs approach retirement, BDC Subordinate Financing is helping firms transition from one owner to the next through succession financing, which comprises about 40% of the portfolio. BDC is also helping Canadian entrepreneurs acquire companies that might otherwise cease operations or be bought by foreign interests. In these ways, BDC is working to ensure that Canadian firms remain in Canadian hands.

BDC also sees a need in the market for small amounts of private equity among SMEs that wish to grow, improve cash flow or transition to new owners.

By assisting firms to scale up, expand abroad, compete and transition to new domestic owners, BDC helps to ensure significant economic benefits for Canada.

partnerships

BDC partners with groups and associations around the world to gain insight into foreign markets and assist Canadian businesses with their global expansion plans.

BDC is a member of the Board of the Association of Development Financing Institutions in Asia and the Pacific, the focal point for development banks and other financial institutions engaged in financing development in the Asia-Pacific region. BDC is also a member of the Latin American Association of Development Financing Institutions, which represents Latin American and Caribbean development banking.

GROWTH

Over the planning period

BDC will ...

- Increase support to the manufacturing and aerospace sectors.
- Provide improved support to high-growth firms.
- Increase its equity offering.

While continuing to ...

- Offer and build advisory services that help SMEs explore new markets, at home and abroad.
- Offer flexible subordinate financing solutions tailored for companies in growth mode.
- Help ensure that Canadian firms remain in Canadian hands.

Appendix A to the Corporate Plan: Governance

compliance

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 adhere 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.

governance

Within the context of its incorporating and governing legislation, its approved Corporate Plans, and specific instructions that it may be given by the Government of Canada, BDC operates at arm's length from the government with ultimate accountability to Parliament through the Minister of Industry.

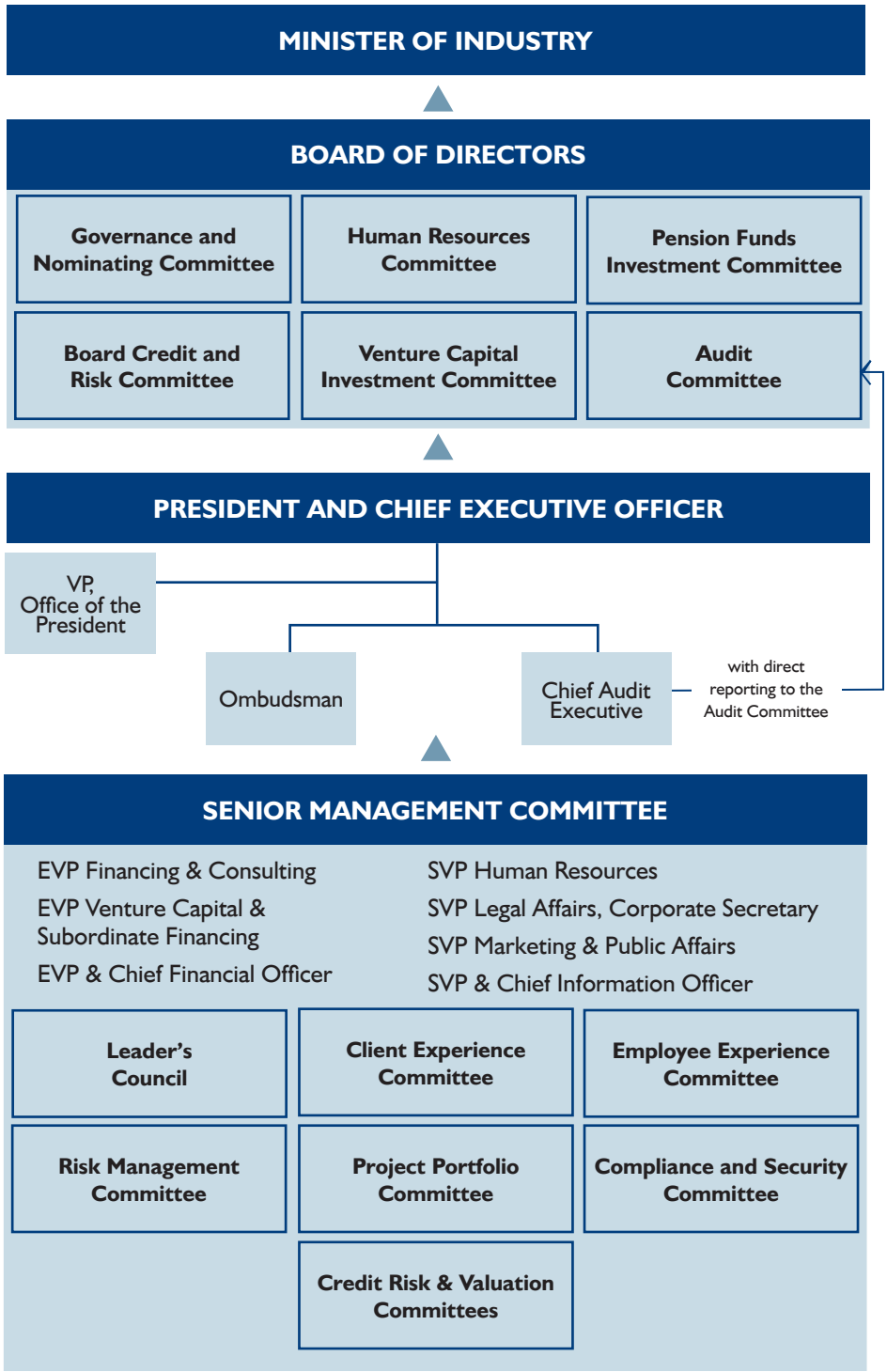
An independent Board of Directors, supported by various committees, ensures a high standard of corporate governance. BDC's president and CEO sits on and reports to the Board. The Board's duties are to:

- approve BDC's strategic direction and Corporate Plan to meet its public policy mandate;
- set performance targets and monitor progress;
- ensure that BDC is identifying and managing its risks;
- ensure the highest standards of corporate governance;
- establish compensation policies;
- review and approve management's succession plan, a task that includes approving appointments to the senior management team and evaluating the performance of the president and CEO;
- review BDC's internal controls and management information systems;
- oversee communications and public disclosure;
- oversee BDC's pension plans and establish its fund policies and practices;
- approve financing and investment activities beyond management's authority; and,
- review the complementarity of BDC's market approach and activities.

BDC's internal structure includes the Senior Management Committee, which comprises the president and CEO, the executive financial and operating officers, and designated senior vice presidents. Its responsibilities include:

- setting and implementing the vision, corporate strategy, objectives, and priorities of BDC;
- establishing and ensuring respect for sound risk management practices;
- overseeing BDC's disclosure obligations and practices;
- allocating enterprise-wide resources; and,
- reporting and making recommendations to the Board.

Figure II: BDC governance structure



board committees

audit

This committee promotes an overall corporate culture of quality financial reporting and ethical behaviour. Its main duties are to:

- review and advise the Board on financial statements before BDC discloses them to the public;
- review financial disclosures;
- review the adequacy and effectiveness of internal control, and, in particular, major accounting and financial reporting systems;
- oversee BDC's standards of integrity and conduct;
- oversee the process for disclosing wrongdoing;
- give advice and recommendations about the appointments and terms of auditors and special examiners;
- review the terms of engagement of auditors and special examiners who report directly to the committee and are accountable to the Board;
- review and advise the Board on the audit of the annual financial statements, the scope of the special examination and the special examination report;
- consider the appointment of the chief audit executive, who reports directly to the committee and administratively to the president and CEO;
- review the annual internal audit plan and the results of internal audit activities carried out by the chief audit executive; and,
- review directors' and officers' expenses.

board credit and risk

This committee's main duties are to:

- identify and manage BDC's principal risks;
- regularly review the enterprise risk management policy and other policies concerning key risks, such as credit, market, strategic, reputational, operational and other principal risks;
- review reports and indicators related to enterprise risk management, portfolio risk management, capital adequacy and treasury operations risks;
- approve new businesses, except those related to venture capital;
- periodically review the business continuity plan;
- approve loans and transactions that exceed the delegated authorities of senior management; and,
- review policies and guidelines related to the delegation of authority for all financial products, except venture capital products.

governance and nominating

This committee helps the Board fulfill its corporate governance oversight responsibilities. Its main duties are to:

- continually review best practices and regulations related to governance and, if necessary, recommend changes to BDC's approach;
- review BDC's corporate governance policies, including the board code of conduct and the employee code of conduct, ethics and values;
- annually assess the Board's compliance with these policies;
- regularly review the mandates, structures and memberships of the Board and its committees;
- develop selection criteria for the president and CEO position;
- recommend candidates for the president and CEO position, as well as directors;
- review and annually approve the list of skills required by directors;
- develop processes to assess the performance of the Board, its committees and its individual members; and,
- ensure that comprehensive director orientation and continuous training programs are in place.

human resources

This committee's main duties are to:

- oversee the human resources strategy to ensure it is aligned with the Corporate Plan;
- review — and, if appropriate, recommend to the Board for approval —the CEO's recommendations for appointments of senior management committee members, the chief audit executive and the ombudsman;
- set and assess the CEO's objectives and performance;
- review compensation for senior executives;
- review and approve the design of compensation programs and material payments;
- approve performance measures and metrics;
- receive and examine actuarial evaluation reports and financial statements related to BDC pension plans, as well as recommend funding contributions; and,
- ensure there is a valid succession plan in place.

pension funds

This committee's main duties are to:

- monitor and advise the Board on all matters related to the investment of the funds' assets;
- recommend asset allocation and investment policies and strategies;
- ensure that investments comply with established policies;
- recommend to the Board the appointment, termination and replacement of external investment managers; and,
- monitor the performance of these managers.

venture capital investment

This committee's duties are to:

- regularly review the venture capital investment policy and other policies and processes for venture capital activities and related risks;
- approve the business plan of the three venture capital internal funds, as well as investment strategies and guardrails;
- review strategic initiatives aimed at improving the venture capital ecosystem;
- review and recommend capital allocations for the internal funds;
- review and recommend delegations of authority;
- monitor portfolio performance; and,
- approve investments that exceed the delegated authorities of senior management.

Appendix B to the Corporate Plan: Risk Management

A strong risk management culture enables BDC to take appropriate risks while offering relevant services to entrepreneurs. BDC manages risk through formal risk review processes, which include developing risk policies and setting delegated authorities and limits.

The Internal Audit Department promotes sound risk management practices. Through its annual audit plan, the department works to ensure that BDC follows these practices. BDC's Legal Affairs department also plays a role in managing risk by ensuring compliance to various legal obligations and by establishing an employee code of ethics and values.

BDC's three risk management functions are enterprise risk management (ERM), credit risk management (CRM) and portfolio risk management (PRM), including treasury risk management. These three functions:

- ensure that BDC applies appropriate risk management principles, policies and corporate directives to manage significant and emerging risks, according to risk thresholds;
- develop tools to measure, monitor and report on these risks; and,
- provide timely and complete reports on these risks to the organization's risk management committees.

Using an ERM framework protects BDC by managing risk exposure, resolving uncertainty and building reputational equity. It ensures that BDC makes risk-related decisions in a methodical, consistent way.

The ERM policy outlines the way BDC manages risk by identifying and assessing significant risks, and managing them on an enterprise-wide basis.

IDENTIFY

Every quarter, risks at the corporate and functional levels are identified, assessed, documented and classified. They are then presented to the Risk Management Committee, the SMC and the Board of Directors for discussion. Risks related to all significant projects, new products or services, and policy changes are also assessed and discussed.

ANALYZE AND MEASURE

The risks posed by BDC's activities are quantified and qualitatively assessed. BDC updates related tools and models, taking into consideration best practices in the financial services industry. Risks across the organization are measured to ensure they reflect BDC's policies, corporate directives, standards and tolerance limits. Board members and senior managers use this information to understand BDC's risk profile and portfolio performance.

MONITOR, DISCLOSE AND REPORT

BDC monitors activities affecting its risk profile, material risk exposures and loss events, and acts to align risk exposures with risk appetites.

Risk process owners monitor, disclose and report risks, with support and oversight from the Risk Management Committee and risk management functions. They prepare monthly or quarterly reports on all significant risks, and they meet through risk management and board committees to report and discuss the risks they manage.

CONTROL AND MITIGATE

Risk tolerance thresholds are set to reflect BDC's objectives and strategies. BDC also uses policies and guidelines to codify its governance and risk management culture.

BDC has the following methods for mitigating risks:

- adequate and clear roles, responsibilities, processes, policies, corporate directives and procedures;
- risk management functions and committees that provide oversight and monitoring;
- risk mitigation activities, such as hedging, insurance risk management, business continuity planning, information technology recovery planning, and anti-fraud and anti-money laundering programs; and,
- audits to ensure that BDC is using appropriate and sound risk management practices (every quarter, the Internal Audit Department presents the results of these audits to the Audit Committee).

financial plan

The Financial Plan is based on the following assumptions regarding economic conditions:

- Canada will continue to benefit from solid economic fundamentals, including a low net level of government debt as a percentage of GDP;
- Canadian economic growth will start to pick up in 2014, particularly as the U.S. economy gains momentum;
- Exports should improve, along with business fixed investment;
- Corporate balance sheets and credit conditions will be conducive to investing;
- SMEs will be increasingly interested in investing, but may still proceed with caution;
- Credit availability will be good, but market gaps for SMEs will remain;
- Lingering uncertainty and structural issues will result in modest global economic growth; and,
- Emerging markets will continue to present growth opportunities for business.

Accounting Policies and Changes

The accounting policies used in the preparation of this Financial Plan are in accordance with International Financial Reporting Standards (IFRS).

The International Accounting Standards Board (IASB) issued an amended version of International Accounting Standard 19, *Employee Benefits*, which became effective April 1, 2013. This Financial Plan presents BDC financial results based on the amended standard. As this amendment requires that comparative financial results be reported, all fiscal 2013 results have been restated based on the amended standard.

Financing

Over the planning period, BDC Financing will continue to play an important role in catalyzing the entrepreneurial ecosystem and in supporting the competitiveness of Canadian SMEs. To achieve this, BDC will proactively identify and address market gaps for financing, including providing support to medium-size firms and participating in larger transactions through syndication. BDC is also maintaining its focus on small loans, often for less than $250,000, which are used by entrepreneurs to buy equipment to increase productivity, apply innovation to their business through ICT, and to grow and explore new markets.

BDC's commitment to small loans is paying off, with 6,390 small loans authorized in fiscal 2013, well above the Corporate Plan target of 5,400. BDC expects to again surpass corporate performance targets for small loans in fiscal 2014. By offering increased numbers of small loans, BDC is expanding its reach and impact among Canadian entrepreneurs; in the first nine months of fiscal 2014, the number of BDC Financing clients grew by 1,479 to reach 29,535.

In light of these results, BDC Financing has increased its forecast over the planning period for the number of small loan acceptances, as compared to last year's Corporate Plan.

In dollars, net acceptances for BDC Financing are expected to reach $4.15 billion in fiscal 2014, in line with last year's Corporate Plan. The forecast growth rate of about 3% in the dollar amount of acceptances for BDC Financing balances the need to improve the competitiveness of Canadian SMEs with current expectations for the Canadian economy and improving liquidity in the market. BDC stands ready to increase its support to Canada's SMEs if required, in keeping with its complementary role.

The BDC Financing portfolio is expected to grow by 8.1% in fiscal 2014, more than the 6.2% presented in last year's Corporate Plan due to faster disbursement periods associated with small loans and lower payments and prepayments. This suggests that entrepreneurs are taking advantage of BDC's flexible terms, including payment postponements, to improve their liquidity and apply the cash to their operations.

The BDC Financing portfolio is forecast to grow from $17.8 billion in fiscal 2014 to $18.9 billion in fiscal 2015.

Net income for BDC Financing in fiscal 2014 is forecast at $395 million, $53 million more than last year's Corporate Plan due primarily to lower impairment losses and operating expenses and reflecting the relatively stable financial health of BDC clients.

As a result of BDC's efforts to reduce costs and find efficiencies, including through its Agility & Efficiency (A&E) program, BDC Financing's operating expenses as a percentage of the average portfolio outstanding are expected to decrease even though small loans tend to be more costly to manage.

BDC is also forecasting higher impairment losses, which are nonetheless in line with estimates in last year's Corporate Plan and with historical levels of close to 1%.

Table 1: Net Planned Acceptances ($M)	Actual 2013	Estimate 2014	Proposed 2015
	4,111	4,150	4,250

Table 2: Net Planned Acceptances (Numbers)	Actual 2013	Estimate 2014	Proposed 2015
	9,195	11,000	11,200

Table 3: Financing Portfolio Outstanding	Actual 2013	Estimate 2014	Proposed 2015
	16,464	17,803	18,922

Table 4: Financing - Financial Forecasts ($M)	Actual 2013	Estimate 2014	Proposed 2015
Net interest income	**784**	**818**	**865**
Fee and other income	13	15	15
Net realized gains (losses) on other financial instruments	1	1	1
Net revenue	**798**	**834**	**881**
Impairment reversals (losses) on loans	(19)	(95)	(156)
Net unrealized gains (losses) on other financial instruments	1	(1)	(1)
Income before operating and administrative expenses	**780**	**738**	**724**
Operating and administrative expenses	347	343	350
Net income	**433**	**395**	**374**
As a % of average outstanding			
Net interest income	4.9	4.7	4.7
Fee and other income	0.1	0.1	0.1
Net realized gains (losses) on other financial instruments	0.0	0.0	0.0
Net revenue	**5.0**	**4.8**	**4.8**
Impairment reversals (losses) on loans	(0.1)	(0.6)	(0.9)
Net unrealized gains (losses) on other financial instruments	0.0	0.0	0.0
Income before operating and administrative expenses	**4.9**	**4.2**	**3.9**
Operating and administrative expenses	2.2	2.0	1.9
Net income	**2.7**	**2.2**	**2.0**
Average portfolio outstanding	**15,892**	**17,226**	**18,288**

Subordinate Financing

BDC Subordinate Financing is playing an increasingly important role in supporting the growth plans of SMEs through flexible financing solutions and a diverse product offering. The forecast for acceptances, both in numbers and dollars, is in line with last year's Corporate Plan and demonstrates that BDC will continue to leverage this product offering to improve the competitiveness of Canadian SMEs, to the benefit of the economy.

The volume of acceptances is expected to reach $220 million in fiscal 2015, bringing the portfolio at fair value to $622 million.

Operating expenses as a percentage of the average portfolio outstanding will increase from 4.3% in fiscal 2014 to 4.5% in fiscal 2015, but are expected to decrease thereafter as BDC continues to find operational efficiencies, resulting in part from A&E.

After two years of exceptionally low losses on investments in fiscal 2012 and fiscal 2013, losses are expected to be at more representative levels for the risk being taken in BDC's Subordinate Financing portfolio during the planning period.

Net interest income as a percentage of the average portfolio outstanding is forecast to decrease, reflecting the fact that, as BDC increases its equity-type offerings, returns will be more long-term.

BDC Subordinate Financing net income is forecast at $18 million in fiscal 2014, $22 million less than anticipated in last year's Corporate Plan, due mainly to an increase in the net fair value loss.

As shown by the declining non-controlling interest, the portfolio owned by BDC's partner, the Caisse de dépôt et placement du Québec, will be fully repaid by the end of the planning period.

Table 5: Subordinate Financing - Activity and Financial Forecasts ($M)	Actual 2013	Estimate 2014	Proposed 2015
Acceptances (#)	113	128	140
Acceptances ($)	190	195	220
Growth (%)	15.9%	2.6%	12.8%
Portfolio at fair value	558	570	622
Net interest income	**47**	**51**	**54**
Net realized gains (losses) on investments and write-offs	(12)	(8)	(17)
Fee and other income	20	19	21
Net revenue	**55**	**62**	**58**
Net fair value change	(3)	(27)	(28)
Fair value adjustment due to realized gains (losses) and write-offs	6	8	20
Income before operating and administrative expenses	**58**	**43**	**50**
Operating and administrative expenses	23	25	28
Net income	**35**	**18**	**22**
Net income attributable to:			
BDC's shareholder	29	10	19
Non-controlling interests*	6	8	3
Net income	**35**	**18**	**22**
As a % of average outstanding			
Net interest income	9.1	8.8	8.6
Net realized gains (losses) on investments and write-offs	(2.3)	(1.4)	(2.7)
Fee and other income	3.9	3.3	3.4
Net revenue	**10.7**	**10.7**	**9.3**
Net fair value change	(0.6)	(4.7)	(4.5)
Fair value adjustments due to realized gains (losses) and write-offs	1.2	1.4	3.2
Income before operating and administrative expenses	**11.3**	**7.4**	**8.0**
Operating and administrative expenses	4.5	4.3	4.5
Net income	**6.8**	**3.1**	**3.5**

*Non-controlling interests are in AlterInvest Inc., AlterInvest L.P. and AlterInvest II L.P.

Consulting

In fiscal 2013, BDC undertook a review of its Consulting group to refine its approach to providing value-added advisory services to entrepreneurs.

As a result, BDC Consulting is organizing its internal resources under three pillars that comprise solutions designed to help SMEs improve competitiveness by:

- accelerating growth;
- improving productivity; and,
- building organizational capabilities.

Experienced internal teams in each of the three pillars will develop new strategies and tools specific to their area of expertise, with ICT offerings being incorporated into each pillar. At the same time, BDC will strengthen its network of external consultants by working in partnership with select firms. It will monitor the impact of its services on clients by developing performance indicators.

BDC believes that entrepreneurs need to take advantage of professional, qualified advisory services to grow, innovate, create efficiencies and ultimately become more competitive. However, from its experience in the market, BDC recognizes that entrepreneurs often cannot find quality, affordable services tailored to their needs. To address this market gap, BDC is investing in advisory services that will maximize the impact on the competitiveness of Canadian entrepreneurs.

In its role as a development bank, BDC will assume the majority of costs associated with the provision of such services, ensuring they are affordable and accessible to a variety of SMEs.

As a result of the transition to the new approach, revenue for BDC Consulting is expected to be $21 million in each of fiscal 2014 and fiscal 2015, before increasing over the planning period as new solutions improve reach and impact.

BDC Consulting expects that efficiencies created by standardization of processes and reductions in administrative support will result in operating expenses remaining stable even as revenues increase.

Table 6: Consulting - Financial Forecasts ($M)	Actual 2013	Estimate 2014	Proposed 2015
Revenue from activities	24	21	21
Delivery costs	10	9	12
Margin	**14**	**12**	**9**
Operating and administrative expenses	26	26	29
Net income (loss) before transition costs	**(12)**	**(14)**	**(20)**
Transition costs	–	2	5
Net income (loss)	**(12)**	**(16)**	**(25)**

Venture Capital

In 2010, BDC VC completed a review of the industry and its own operations and, based on the findings, embarked on a new approach designed to:

- help build leading Canadian technology companies in digital technologies and ICT, health care, energy and clean/environmental technologies, and other high-growth sectors;
- maximize the exit value of BDC VC's existing portfolio and remain responsive to specific government requests;
- build and sustain world-class Canadian venture capitalists by investing in high-performing fund managers;
- develop strategic initiatives to reinforce key areas in the VC and innovation ecosystem; and,
- help demonstrate the viability of the Canadian VC industry.

Over the past three years, BDC's strategy of direct and indirect investing, complemented by innovative work in the VC ecosystem, has resulted in significant progress on each of these goals. More recently, BDC VC has also demonstrated its ability to react quickly and effectively to specific government requests, namely VCAP and VCSIP.

BDC VC's three internal direct investment funds emulate the best practices of the private sector and are focused on building leading Canadian technology businesses in the IT, healthcare, and energy/cleantech sectors. Each fund was "seeded" with promising companies from BDC's legacy portfolio that meet the objectives of the respective fund strategies.

The remaining direct legacy investments are being managed within BDC VC's Diversified Portfolio, which strives to maximize growth and exit value through follow-on investments. BDC VC expects to have exited the majority of the Diversified Portfolio investments within the planning period.

BDC VC's indirect, or fund of funds, approach is focused on building and supporting at-scale, world-class Canadian VC funds. This is being done with larger commitments by BDC VC to private-sector funds that have a clear sector focus and recognized expertise in their field. BDC VC is also invested in GO Capital, a fund designed to support the creation of companies in all sectors of science and technology in Quebec. GO Capital's investment period is complete and it will only invest to support its existing portfolio.

To help rebuild and re-energize the VC ecosystem, BDC VC created the Strategic Initiatives and Investments (SII) team. It is developing innovative initiatives to reinforce key areas of the ecosystem and is making investments in specialized funds that fill financing gaps, focusing on early stage investments, angels and accelerators. Since the SII team's inception, demand for its support – both financial and non-financial – has been strong.

As one of the most active investors in the market, BDC VC is helping to demonstrate the viability of the Canadian VC industry, particularly with its direct investments and by creating the conditions for success through its SII team. BDC VC believes that VCAP and VCSIP, as announced by the government in Economic Action Plan 2013, will play a large part in helping to restore the VC market to health and profitability.

Authorizations

In fiscal 2015, BDC VC expects to authorize $160 million: $60 million in direct investments, $65 million in indirect investments, and $35 million in SII and VCSIP. The investment in VCSIP draws on BDC's own capital and is incremental to the work of the SII team in support of the VC ecosystem.

Disbursements and proceeds

In fiscal 2015, disbursements should total $124 million, while proceeds of $30 million should be generated, mostly by BDC VC's direct investments. BDC VC reinvests its proceeds in support of its overall investment strategy.

It should be noted that the risk associated with estimating proceeds is significant as the value and timing of exits are difficult to predict. Since financial results depend on the level of proceeds, actual results may differ significantly from forecast and additional capital could be required to sustain BDC VC's level of activity.

Net income

Overall, BDC VC is forecasting a net loss in fiscal 2014 of $30 million. Forecast losses over the planning period are expected to be higher than last year's Corporate Plan due to difficulties in estimating proceeds, which has caused BDC VC to take a more conservative approach to forecasting. Note that in fiscal 2015, the net realized gain is affected by lower-than-expected proceeds and realized losses from exits in the Diversified Portfolio.

It is important to point out that the sustained poor performance of the Canadian VC industry for more than a decade has had a significant impact on BDC VC results. Factors leading to these results – difficult market conditions, longer investment periods and a shortage of capital in investee companies – persist. As mentioned, it is difficult to forecast the timing and value of exits and the amount and timing of fair value changes. While BDC is optimistic about the direction of its strategy over the planning period, these factors may cause significant variation from plan.

Table 7: Venture Capital - Authorizations Forecasts ($M)	Actual 2013	Estimate 2014	Proposed 2015
Direct investments	**75**	**45**	**60**
Indirect investments			
Private-sector funds	40	50	65
GO Capital L.P.	2	2	–
Total indirect investments	**42**	**52**	**65**
SII (includes direct convertible notes)	**28**	**5**	**15**
VCSIP	**–**	**20**	**20**
Total authorizations	**145**	**122**	**160**

Table 8: Venture Capital - Disbursements and Proceeds ($M)	Actual 2013	Estimate 2014	Proposed 2015
Proceeds	27	84	30
Disbursements*	(116)	(122)	(124)
	(89)	**(38)**	**(94)**
*Excludes operating and administrative expenses			
Portfolio at cost	531	559	624
Portfolio at fair value	457	485	559
Fair value / cost	86%	87%	90%

Table 9: Venture Capital - Financial Forecasts ($M)	Actual 2013	Estimate 2014	Proposed 2015
Net realized gains (losses) on investments	23	42	6
Write-offs	(58)	(52)	(35)
Net realized gains (losses) on investments and write-offs	**(35)**	**(10)**	**(29)**
Fee and other income	6	3	3
Net realized gains on other financial instruments	3	–	–
Net revenue (loss)	**(26)**	**(7)**	**(26)**
Net fair value change	(3)	(10)	(18)
Fair value adjustment due to realized gains (losses) and write-offs	42	7	27
Net unrealized foreign exchange gains (losses) on investments	2	(2)	–
Net unrealized (losses) gains on financial instruments	(4)	3	–
Income before operating and administrative expenses	**11**	**(9)**	**(17)**
Operating and administrative expenses	20	21	23
Net income (loss)	**(9)**	**(30)**	**(40)**
Net income (loss) attributable to:			
BDC's shareholder	(7)	(29)	(39)
Non-controlling interests*	(2)	(1)	(1)
Net income (loss)	**(9)**	**(30)**	**(40)**

*Non-controlling interests represent 80% of GO Capital net income

Table 10: Venture Capital - Financial Forecasts : Net Income by Funds* ($M)	Actual 2013	Estimate 2014	Proposed 2015
Health	14	(18)	(3)
IT	15	21	(9)
Energy / Cleantech	(16)	(5)	–
New BDC fund	–	–	–
Direct internal investments	**13**	**(2)**	**(12)**
Diversified	(9)	(12)	(9)
GO Capital	(3)	(1)	(2)
Direct legacy investments	**(12)**	**(13)**	**(11)**
Total direct investments	1	**(15)**	**(23)**
Funds - legacy	(3)	(6)	(4)
Funds - new strategy	(1)	(3)	(4)
GO Capital L.P.	(3)	(1)	(2)
Indirect investments	**(7)**	**(10)**	**(10)**
SII	(3)	(4)	(4)
VCSIP	–	(1)	(3)
Net income (loss)	**(9)**	**(30)**	**(40)**

*Includes operating and administrative expenses

Securitization

In Economic Action Plan 2009, the government mandated BDC to develop and offer the Canadian Secured Credit Facility (CSCF), in concert with the private sector, with the goal of increasing liquidity in the market. Under the CSCF, BDC purchased $3.654 billion of asset-backed securities, representing five transactions. The CSCF is now over and the portfolio has been fully repaid.

While the CSCF helped to resolve some of the challenges experienced by the market, other deficiencies remained, especially for smaller players. To address this, BDC partnered with the private sector to create the Multi-Seller Platform for Small Originators (MSPSO), now known as the Funding Platform for Independent Lenders (F-PIL).

The objective of F-PIL is to ensure that financing for vehicles, machinery and equipment is accessible to smaller companies, which tend to under-invest in these areas, leading to poor productivity. F-PIL leverages existing private-sector financing and complements BDC's direct financing of these assets.

In fiscal 2014, BDC anticipates $75 million of acceptances, a relatively low amount as some deals have not materialized as expected; since F-PIL involves fewer deals for larger amounts, it can be difficult to forecast activity levels. BDC has noted that while deals are being accepted, the utilization or disbursement rate has been low, perhaps reflecting depressed levels of business fixed investment in the Canadian economy.

BDC Securitization believes that demand remains in the market and is reviewing the parameters of F-PIL to ensure that it continues to serve Canadian SMEs, including very small players.

BDC expects F-PIL acceptances to return to more typical levels in fiscal 2015. Variation in acceptances over the planning period is due to the revolving nature of authorizations and assumes renewals of authorizations with financing companies.

Net revenue is forecast to increase in the later years of the planning period as the portfolio grows, while operating and administrative expenses remain stable.

Table II: Securitization - Financial Forecasts ($M)	Actual 2013	Estimate 2014	Proposed 2015
Acceptances	265	75	205
Disbursements	193	231	264
Portfolio at cost	435	366	495
Fair value allowance	2	2	3
Portfolio at fair value	**437**	**368**	**498**
Net revenue	13	8	8
Operating and administrative expenses	2	2	2
Net income	**11**	**6**	**6**

Venture Capital Action Plan

Recognizing the importance of venture capital to Canada's economic prosperity, in Economic Action Plan 2012 the government announced $400 million to help increase private-sector investment in early stage risk capital and to support the creation of large-scale VC funds led by the private sector.

In January 2013, the Prime Minister announced the Venture Capital Action Plan (VCAP), which will make available:

- up to $350 million to establish or recapitalize as many as four large funds of funds led by the private sector in partnership with institutional and corporate strategic investors, as well as interested provinces; and,
- an aggregate investment of up to $50 million in existing high-performing VC funds in Canada.

BDC was asked to carry out certain duties and functions to serve as the agent of government under VCAP and has created a small team dedicated to implementing this initiative.

In fiscal 2014, BDC anticipates that $50 million will be authorized for four high-performing funds and $175 million authorized for the funds of funds. The remaining $175 million will be authorized in fiscal 2015.

Disbursements will commence in fiscal 2014 with $3 million for the four high-performing funds. For the funds of funds, BDC will disburse 90% of the required capital, while the other limited partners will disburse 10% until their respective commitments have been met.

BDC expects that the bulk of the proceeds from VCAP will be created outside of the planning period.

In fiscal 2015, BDC forecasts that it will incur a loss of $20 million, attributable to net fair value changes on VCAP investments. Outside of the planning period, BDC expects VCAP to generate a net profit.

With the $350 million to be committed in the funds of funds, BDC expects that $1 billion will be raised from other partners, for a total commitment of $1.35 billion. However, it should be noted that the fundraising environment remains difficult.

Given the nature of the industry and that VCAP is in the early stages of implementation, it is difficult to forecast the overall financial performance of the program. BDC continues to collaborate with officials from Industry Canada and Finance Canada on operational details.

BDC supports the overarching goal of VCAP to encourage private-sector involvement in the VC asset class through a new source of funds and is committed to working with all the players involved to ensure the success of the program. BDC believes that the combined effect of VCAP, VCSIP and its own VC investing activities will have a significant positive impact on the VC market in Canada.

Table 12: VCAP - Financial Forecasts ($M)	Estimate 2014	Proposed 2015
Authorizations	225	175
Disbursements	3	27
Proceeds	–	–
Portfolio at cost	3	30
Portfolio at fair value	3	9
Fee and other income	–	3
Net revenue	**–**	**3**
Net fair value changes	–	(21)
Income (loss) before operating and administrative expenses	**–**	**(18)**
Operating and administrative expenses	1	2
Net income (loss)	**(1)**	**(20)**

Consolidated Portfolio and Net Income

Table 13 shows the composition and growth of BDC's consolidated outstanding portfolio in dollars. Growth is forecast to slow as activity levels stabilize, reflecting BDC's counter-cyclical role and the ongoing focus on small loans.

BDC consolidated net income is expected to reach $372 million in fiscal 2014, $365 million attributable to BDC. Consolidated net income will be impacted, particularly in the early years of the planning period, by results in VC, VCAP, and Consulting, as BDC makes the investments required to fully play its role in catalyzing the entrepreneurial ecosystem and supporting the competitiveness of Canadian SMEs.

In fiscal 2014, because of actuarial gains on post-employment benefits, BDC expects to post a consolidated comprehensive income of $464 million, $457 million attributable to BDC and the remainder to the non-controlling interests of Caisse de dépôt et placement du Québec and GO Capital partners. The actuarial gain is caused by higher interest rates used to discount the benefit obligation, as well as better-than-expected returns on pension assets.

Table 13: Consolidated BDC Portfolio - as at March 31

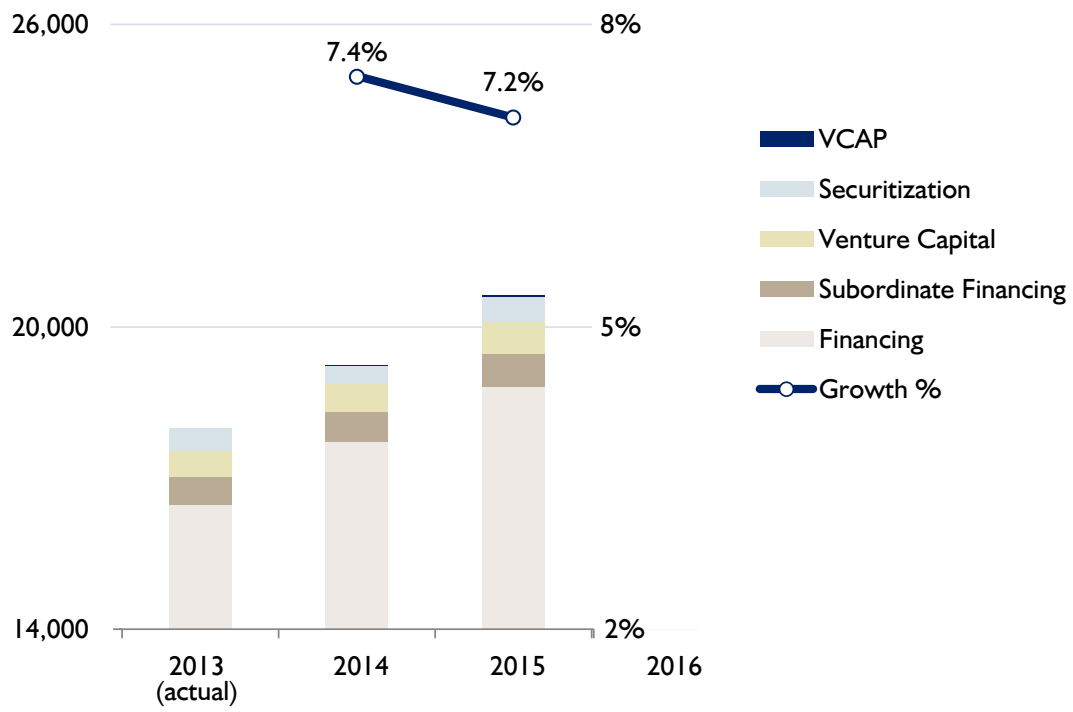


Table 14: Consolidated Net Income ($M)	Actual 2013	Estimate 2014	Proposed 2015
Financing	433	395	374
Subordinate Financing	35	18	22
Venture Capital	(9)	(30)	(40)
Consulting	(12)	(16)	(25)
Securitization	11	6	6
Venture Capital Action Plan	–	(1)	(20)
Net income	**458**	**372**	**317**
Net income (loss) attributable to:			
BDC's shareholder	454	365	315
Non-controlling interests	4	7	2
Net income	**458**	**372**	**317**

Table 15: Consolidated Comprehensive Income ($M)	Actual 2013	Estimate 2014	Proposed 2015
Net income	458	372	317
Other comprehensive income (loss)			
Items that may be reclassified subsequently to profit or loss			
Net change in unrealized gains (losses) on available-for-sale-assets	(4)	1	1
Net change in unrealized gains (losses) on cash flow hedges	(2)	–	–
Total items that may be reclassified subsequently to net income	**(6)**	**1**	**1**
Items that will not be reclassified to OCI			
Remeasurements of net post-employment benefit liability	(18)	91	–
Other comprehensive income (loss)	**(24)**	**92**	**1**
Total comprehensive income	**434**	**464**	**318**
Total comprehensive income (loss) attributable to:			
BDC's shareholder	430	457	316
Non-controlling interests	4	7	2
Total comprehensive income	**434**	**464**	**318**

Cost Containment and Efficiency Measures

In Economic Action Plan 2010, the government announced cost containment measures to improve efficiency and reduce the rate of growth in operating expenditures; in Economic Action Plan 2011, it initiated a strategic review. Over the years, BDC has made a concerted effort to achieve efficiencies and is continuing this tradition and observing the intent of the government's review by:

- carefully managing operating expenses;
- identifying and gaining efficiencies; and,
- improving its efficiency ratio, where a lower ratio reflects greater efficiency.

In fiscal 2014, BDC expects to improve upon results achieved in fiscal 2013 for both its reported and adjusted efficiency ratios and to surpass the target set in last year's Corporate Plan for fiscal 2014, due primarily to lower than expected hiring and decreased operating expenses. Efficiency ratios for the Financing portfolio will improve over the planning period as A&E results in streamlined processes and internal productivity improvements. By fiscal 2015, BDC is forecasting a reported efficiency ratio of 39.7%, meaning that BDC will spend 39.7 cents to generate a dollar of revenue. In fiscal 2007, BDC spent 50.6 cents to generate a dollar of revenue.

Starting in fiscal 2014, BDC expects reduced expenses related to communication, meals, travel and accommodation as a result of investments in videophones, instant messaging, videoconferencing and desktop sharing, as well as a VoIP (Voice over Internet Protocol) network. These technologies allow employees to interact without the need for travel, complementing traditional face-to-face meetings.

Pension expenses are expected to decrease over the planning period as BDC's post-employment benefit asset is increasing more rapidly than the associated liability. This means that the post-employment benefit asset is forecast to generate net interest income, causing pension expenses to decrease.

Table 16: Financing Operating Expenses - Financial Forecast ($M)	Actual 2013	Estimate 2014	Proposed 2015
Total operating expenses	**347**	**343**	**350**
Less:			
Pension expense	41	45	36
Adjusted operating expenses (excluding pension)	**306**	**298**	**314**
Reported efficiency ratio	43.5%	41.1%	39.7%
Adjusted efficiency ratio (excluding pension)	38.3%	35.7%	35.6%

Table 17: Historical Efficiency Ratio - as at March 31 ($M)

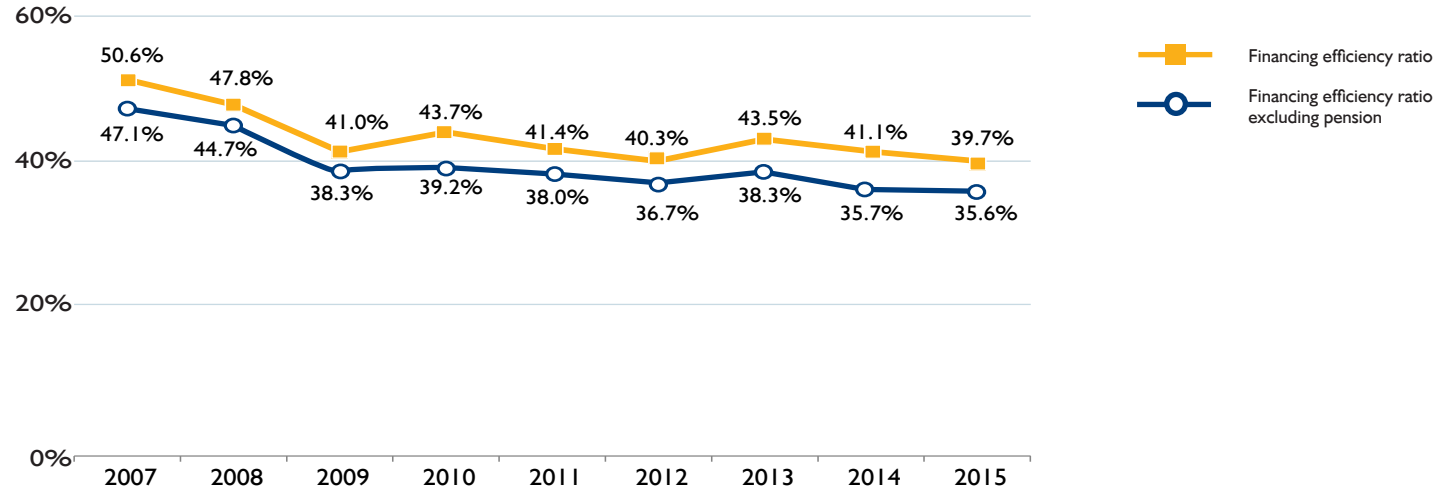


Table 18: Capital Budget ($M)	Actual 2013	Estimate 2014	Proposed 2015
Facilities	4	1	6
Information technology	5	9	6
Agility & Efficiency (A&E)	14	24	4
Total	**23**	**34**	**16**

Capital Budget

In an effort to remain efficient and responsive to client needs, BDC invests in information technology and in its business facilities across Canada. Table 18 shows these expenditures through to fiscal 2015. Capital expenditures in A&E will cease after fiscal 2015 as the project is deployed.

Projected Return on Common Equity

BDC is required to achieve a return on equity (ROE) at least equal to the government's long-term cost of capital. To meet this requirement, BDC follows the 10-year moving average returns for Government of Canada three-year bonds, which is currently 2.1%.

For fiscal 2014, BDC expects its 10-year moving average ROE to be 8.7% due to positive returns in its Financing portfolio. It is expected that the 10-year moving average ROE will decrease slightly as BDC makes the investments required to fully play its role in catalyzing the entrepreneurial ecosystem and supporting the competitiveness of Canadian SMEs.

Dividend Policy, Statutory Limitations and Capital Adequacy

Dividend Policy

Common dividends are payable annually and fluctuate based on BDC performance. In fiscal 2014, BDC is forecasting dividend payments of $60 million. Since 1997, BDC has paid $363 million in dividends (including a $60-million payment in June 2013) to the Government of Canada.

Statutory Limitations

The *BDC Act* requires that the aggregate of borrowings and contingent liabilities in the form of guarantees provided by BDC not exceed 12 times its equity. Growth in earnings should ensure that BDC will not exceed this statutory requirement over the planning period.

The debt-to-equity ratio is projected at 3.3:1 in fiscal 2014. The total equity of BDC should increase from $4.494 billion in fiscal 2014 to $4.937 billion by the end of fiscal 2015.

BDC's paid-in capital limit was raised by the Budget 2009 Implementation Act to $3.0 billion from $1.5 billion, as originally set out in the BDC Act.

BDC's paid-in capital is currently at $2.116 billion.

Capital

In line with its requirement for financial sustainability, BDC provides for an additional capital safeguard to help Canadian entrepreneurs withstand difficult economic conditions without requiring further investment by the Government of Canada. This approach observes Treasury Board guidelines dated March 28, 1996, which state that, "the Bank maintain capital and loss provisions sufficient to ensure that BDC can withstand unfavourable economic circumstances without requiring additional government funding."

Table 19: Dividends ($M)	Actual 2013	Estimate 2014	Proposed 2015
Dividends*	69	60	48

*Common dividends are declared, booked, and paid in the following fiscal year

In a decision dated May 14, 2009, Treasury Board reconfirmed BDC's capital adequacy ratios (percentage of net portfolio assets) of at least:

- 10% for term loans;
- 25% for quasi-equity loans (defined as "venture loans, patient capital, working capital support program");
- 100% for venture capital investments (including VCAP);
- 5% of the fair value of CSCF assets; and,
- 10% of the fair value of F-PIL assets.

BDC's capital (comprised of its paid-in capital, retained earnings and accumulated other comprehensive income that is available for sale) is expected to reach $4.496 billion by the end of fiscal 2014. A portion of this amount must be reserved for loans and investments already committed but not yet disbursed. These undisbursed amounts will represent $0.776 billion of capital by the end of fiscal 2014.

In addition to the Treasury Board guidelines on capital, BDC uses an economic capital model to manage risks by ensuring adequate capital to support its current and future business and to safeguard its financial sustainability. The philosophy behind this model is to balance the requirement for BDC to fulfill its public mandate while remaining financially self-sufficient. It also provides a benchmark for the Treasury Board assessment guidelines.

In keeping with best practices and the core tenets of sound financial and risk management, particularly during times of uncertainty, BDC conducts stress tests on its portfolio to determine an adequate level of capital to withstand a sustained economic downturn. Macro-economic variables are stressed and specific scenarios are selected based on historical and estimated impact on the current portfolio and by drawing on industry best practices.

Appendix A to the Financial Plan

The following table presents BDC's financial highlights. In fiscal 2015, BDC expects total revenues of $945 million and a net income of $317 million, of which $315 million is attributable to BDC's Shareholder.

Table 20: Consolidated Statement of Income ($M)	Actual 2013	Estimate 2014	Proposed 2015
Interest income	968	1,014	1,093
Interest expense	124	137	166
Net interest income	**844**	**877**	**927**
Net realized gains (losses) on investments	(47)	(18)	(46)
Consulting revenue	24	21	21
Fee and other income	39	37	42
Net realized gains (losses) on other financial instruments	4	1	1
Net revenue	**864**	**918**	**945**
Impairment reversals (losses) on loans	(19)	(95)	(156)
Net change in unrealized appreciation (depreciation) of investments*	42	(22)	(20)
Net unrealized foreign exchange gains (losses) on investments	2	(2)	–
Net unrealized gains (losses) on other financial instruments	(3)	2	(1)
Income before operating and administrative expenses	**886**	**801**	**768**
Operating and administrative expenses	428	429	451
Net income	**458**	**372**	**317**
Net income (loss) attributable to:			
BDC's shareholder	454	365	315
Non-controlling interests	4	7	2
Net income	**458**	**372**	**317**

*Includes net fair value change and fair value adjustment due to realized gains (losses) and write-offs

Table 21: Total Revenues by Business Line ($M)	Actual 2013	Estimate 2014	Proposed 2015
Financing	798	834	881
Subordinate Financing	55	62	58
Consulting	24	21	21
Venture Capital	(26)	(7)	(26)
Securitization	13	8	8
Venture Capital Action Plan	–	–	3
Net revenues	**864**	**918**	**945**

Table 22: Operating Budget - Expenses ($M)	Actual 2013	Estimate 2014	Proposed 2015
Financing	347	343	350
Subordinate Financing	23	25	28
Consulting (includes delivery and transition costs)	36	37	46
Venture Capital	20	21	23
Securitization	2	2	2
Venture Capital Action Plan	–	1	2
Total operating budget	**428**	**429**	**451**
Operating expenses as a % of the average total loans and investments portfolio	2.4	2.3	2.3

Table 23: Projected Statement of Cash Flows ($M)	Actual 2013	Estimate 2014	Proposed 2015
Net cash flows provided by operating activities	(679)	(965)	(710)
Net cash flows used in investing activities	101	(53)	(351)
Net cash flows provided by financing activities	539	1,074	1,125
Net increase in cash & cash equivalents	**(39)**	**56**	**64**
Cash & cash equivalents at beginning of year	741	702	758
Cash & cash equivalents at end of year	**702**	**758**	**822**

Table 24: Consolidated Statement of Financial Position (unaudited, in $M)	Actual 2013	Estimate 2014	Proposed 2015
ASSETS			
Cash and cash equivalents	702	758	822
Asset-backed securities	437	368	498
Loan Portfolio	16,410	17,790	18,905
Allowance for credit losses	(538)	(538)	(584)
Loan Portfolio (net)	15,872	17,252	18,321
Subordinate financing investments	558	570	622
Venture capital investments	457	485	559
Venture Capital Action Plan	–	3	9
	17,324	**18,678**	**20,009**
Post-employment benefit asset	–	115	165
Other assets	158	135	140
Total assets	**18,184**	**19,686**	**21,136**
LIABILITIES AND EQUITY			
Liabilities			
Accounts payable and accrued liabilities	106	101	103
Short-term notes	12,732	13,990	15,019
Long-term notes	1,136	799	788
Borrowings	13,868	14,789	15,807
Post-employment benefit liability	191	180	185
Other liabilities	64	68	73
Total liabilities	**14,229**	**15,138**	**16,168**
Equity			
Share capital	2,088	2,313	2,488
Contributed surplus	28	28	28
Retained earnings at beginning of year	1,380	1,747	2,143
Net income	454	365	315
Remeasurements of net post-employment benefit liability	(18)	91	–
Dividends on common shares	(69)	(60)	(48)
Retained earnings	1,747	2,143	2,410
Accumulated other comprehensive income	9	10	11
Equity attributable to BDC's shareholder	**3,872**	**4,494**	**4,937**
Non-controlling interests	83	54	31
Total equity	3,955	4,548	4,968
Total liabilities and equity	**18,184**	**19,686**	**21,136**
Debt/Equity ratio	3.6	3.3	3.2

Appendix B to the Financial Plan

Future accounting changes

Information on new standards, amendments and interpretations that are not yet effective but are expected to impact BDC's financial results is provided below. These pronouncements are being assessed to determine their impact on BDC's consolidated financial statements. Certain other new standards, amendments and interpretations have been issued but are not yet effective and are not expected to have a significant impact on BDC's financial results.

Financial Instruments

Over the past few years, the International Accounting Standards Board (IASB) has been working on a project to replace IAS 39, *Financial Instruments: Recognition and Measurements: Recognition and Measurement* with IFRS 9, *Financial Instruments*. The project is divided into three phases:

- Classification and measurement;
- Impairment methodology; and
- Hedge accounting

The first phase of IFRS 9 was released in two parts. The first part, published in November 2009, contained the requirements for financial assets. These requirements used a single approach to determine whether a financial asset is measured at amortized cost or at fair value, replacing the multiple rules in IAS 39. This approach is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Requirements for financial liabilities were added to IFRS 9 in October 2010. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9.

The objective of the impairment phase is to improve the transparency of provision for losses on loans and for the quality of financial assets. An exposure draft was issued in March 2013 and deliberations are ongoing.

Phase three of IFRS 9 was completed in November 2013 with the publication of IFRS 9, *Financial Instruments (2013)*. This phase replaced the rule-based hedge accounting requirements in IAS 39 to more closely align the accounting with risk management activities. In the new requirements, there are fewer restrictions and, therefore, entities may be able to apply hedge accounting to more transactions.

The IASB recently announced that the mandatory effective date of January 1, 2015 would not allow sufficient time for entities to apply the new standard since phase two of the project is not yet complete. Consequently, the IASB has removed the mandatory effective date from IFRS 9.