BDC Corporate Plan Summary

2016–17 to 2020–21

BDC
Entrepreneurs first

OPERATING BUDGET | CAPITAL BUDGET

Canada

The Corporate Plan Summary of the Business Development Bank of Canada (BDC) is based on the 2016–17 to 2020–21 BDC Corporate plan, as approved by the Governor in Council on the recommendation of the Minister of Innovation, Science and Economic Development.

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Executive summary

The Business Development Bank of Canada (BDC) is dedicated to supporting Canadian entrepreneurs, in line with its aspiration to be a leader in making Canadian entrepreneurs the most competitive in the world. BDC helps create and develop strong Canadian small and medium-sized enterprises (SMEs) in a complementary way, often in collaboration with partners, by investing in and providing financing and advisory services to entrepreneurs. BDC is able to help businesses with a higher risk profile while continuously enhancing its risk management practices to ensure that it continues to be an effective and impactful financial Crown corporation.

According to the World Economic Forum, Canada has made some progress in terms of competitiveness over the last year, moving from the 15th to the 13th position in the Global Competitiveness Index. However, Canada's performance remains below its 10th position of six years ago and it is still under performing compared to many peer countries in terms of productivity, growth, investments in innovation and globalization.

To address the challenges currently faced by Canadian SMEs, BDC structures its approach around three strategic objectives: increasing access to capital and advice for entrepreneurs; accelerating innovation, growth and productivity for targeted entrepreneurs; and improving the Canadian entrepreneurial ecosystem. These objectives are closely aligned with many of the government's priorities, especially around the themes of innovation, exports, collaboration and promising sectors such as clean technology. As such, BDC is in a position to play an effective role in helping the government deliver on these priorities.

Over the planning period, BDC will achieve its strategic objectives by:

Providing access to financing and advisory services for Canadian SMEs of all types, and from all regions and sectors

BDC's focus will be on continuing the deployment of its initiative to enhance its reach and visibility across Canada to help even more entrepreneurs succeed by introducing a new brand identity, investing in marketing, opening and relocating business centres and shared offices, as well as hiring new employees. BDC will continue to play its complementary role by, for example, helping firms impacted by a sectorial downturn, especially those in the oil and gas supply chain, focusing on small businesses by providing small loans and meeting the needs of specific groups of entrepreneurs, such as immigrants, youth and women.

As a result, Financing's acceptances are forecast to grow to $5.2 billion in fiscal 2017.

BDC will also continue to deploy its initiative to transform the content, methodologies and processes of its consulting services to improve access, effectiveness and affordability.

Supporting innovation as a catalyst for SME success

BDC supports innovation by helping firms develop new products and services, acquire information and communications technologies (ICT), purchase machinery and equipment and invest in and implement new processes. It also provides financing to support firms developing innovative technologies, including in the clean technology sector. Through its consulting services, BDC helps firms bring innovation to market, improve operational efficiency and productivity, and integrate ICT.

In addition, BDC plays a critical role in fostering a strong and vibrant innovation ecosystem with its activities in venture capital (VC). Its efforts have yielded positive results in the market, with increasing Canadian VC investments since 2010 and improved company valuations across all sectors and stages. Over the planning period, BDC intends to increase the scale of its indirect investments to help sustain this momentum. On the direct investment side, additional capital will be allocated to two internal funds and a co-investment initiative will be rolled out to invest in companies

alongside its indirect fund partners. As a result, VC authorizations forecast are higher than last year, with a total of $250 million in fiscal 2017. The VC portfolio at fair value is expected to increase to $995 million in fiscal 2017.

BDC is also playing a leadership role in strengthening the Canadian VC ecosystem through the management of the Venture Capital Action Plan (VCAP), through which capital from the public sector is being used to leverage private sector capital, allowing emerging VC managers to find new sources to raise their funds and more established VC managers to scale their existing funds.

Fuelling the growth and expansion of Canadian SMEs

Within its new BDC Advantage line of business, which also includes BDC's consulting practice, BDC is developing a range of non-financial services to help SMEs scale-up and expand internationally.

While BDC has been active for many years in helping Canadian firms globalize, it is enhancing its service offering and strengthening collaboration with partners to maximize its impact.

To support companies that have the potential to make a disproportionate impact on Canada's economic growth, BDC will focus efforts on the deployment of its high-impact firm program. The first element of this approach carries the internal working title Accelerator program and focuses on an in-depth and long-term relationship with selected companies. The other element carries the internal working title Impact Exchange program and offers a platform for skill-building, learning and networking to a greater number of entrepreneurs and mid-sized firms.

Most of what BDC Advantage does is considered an investment in helping SME competitiveness as BDC takes on a great proportion of the costs associated with the development and delivery of these initiatives.

To financially support faster growth companies, BDC provides a seamless range of financing and equity solutions for each stage of development, from pre-seed and start-up to maturity and transfer stages. Growth & Transition Capital is an impactful partner for growing, more mature companies. In these stages of growth, financing gaps exists for fast-growth companies and for firms with few tangible assets to offer as security. A gap also exist for SMEs looking for capital in the range of $2 million to $10 million and this is why Growth & Transition Capital will be accelerating the deployment of its growth equity solution over the planning period, positioning itself as a management-friendly long-term growth partner. Acceptances for Growth & Transition Capital are expected to increase to $270 million in fiscal 2017.

Even with all these important activities and investments in Canada's entrepreneurs, BDC remains financially sustainable. Its consolidated net income is expected to be $368 million in fiscal 2017. BDC is forecasting dividend payments of $66 million in fiscal 2017.

In fiscal 2017, the deployment of BDC's reach and visibility strategy and higher provisions for credit losses will have a slight negative impact on BDC's 10-year moving average return on equity. The reach and visibility strategy will also have a slight negative impact on BDC Financing's reported efficiency ratio. But as benefits from this strategy are materialized, both indicators are expected to improve over the rest of the planning period.

BDC will continue to serve an increasing number of entrepreneurs across Canada, maximizing impact by fostering effective partnerships with business stakeholders and fruitful collaboration with other government entities. With over 72 years of privileged relationships with entrepreneurs, BDC has gained a deep understanding of what it takes to create and grow a successful business, expertise that it can share to help develop evidence-based policies and shape responses to emerging issues affecting Canadian entrepreneurs.

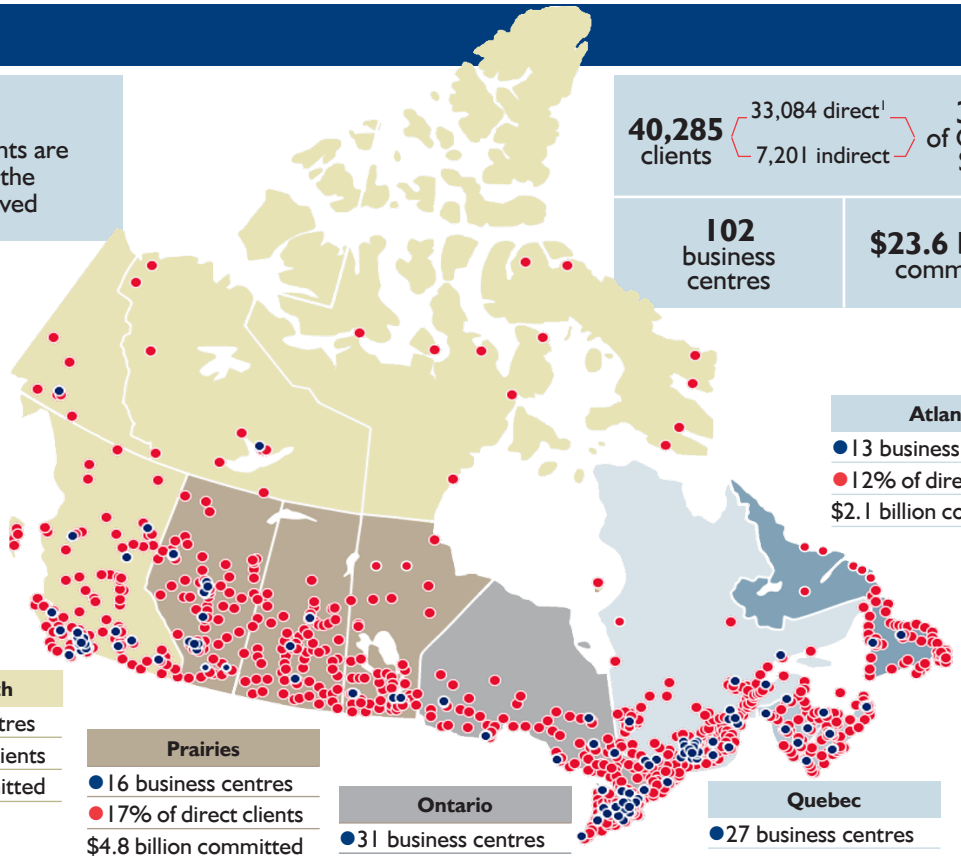
BDC Profile

94% of BDC's clients are satisfied with the services received

40,285 clients (33,084 direct[1] / 7,201 indirect) — **3.7%** of Canadian SMEs[2]

102 business centres

$23.6 billion committed



Atlantic
- 13 business centres
- 12% of direct clients
- $2.1 billion committed

BC and North
- 15 business centres
- 12% of direct clients
- $2.7 billion committed

Prairies
- 16 business centres
- 17% of direct clients
- $4.8 billion committed

Ontario
- 31 business centres
- 25% of direct clients
- $6.3 billion committed

Quebec
- 27 business centres
- 35% of direct clients
- $7.7 billion committed

Reaching more entrepreneurs across Canada, making a greater impact on SMEs

More than **290** partnership agreements, strategic relationships and memberships

3 million visits to BDC.ca,
28,000+ eBook downloads
43,000+ website assessments in fiscal 2015

315,000 entrepreneur interactions per year

BDC lends to higher risk entrepreneurs with **93%** of its portfolio being sub-investment grade[3]

96% of BDC clients are small businesses (defined as fewer than 100 employees)

Circulation of **114,000** for publications targeting entrepreneurs and professionals

Encouraging business creation

BDC has direct VC investments in **202** companies and indirect investments in **423** companies

BDC is a limited partner in funds representing **71%** of the VC investing actively in Canada

60% of start-ups financed by BDC survive more than 5 years, compared to 51% of all Canadian SMEs[4]

BDC partners with **12** accelerators

Increasing entrepreneurial know-how with tailored consulting services

over the past 5 years, BDC has provided some **11,000** consulting mandates to SMEs

Promoting international expansion

18% of BDC's clients are exporters compared to 10% of all Canadian SMEs[2]

Helping entrepreneurs and industries with specific financing and consulting needs

such as women, youth, immigrant, and Aboriginal entrepreneurs, or with highly cyclical cash flow

BDC Profile

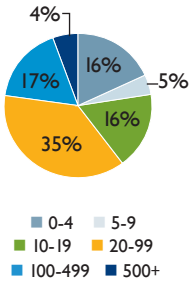
Financing

Term loans with flexible repayment schedules

$21.2 billion committed

By industry	%
Manufacturing	22%
Tourism	13%
Retail	12%
Commercial properties	11%
Construction	9%
Wholesale and retail	8%
Transportation and storage	6%
Business services	5%
Other	14%

By firm size (number of employees)



BDC clients employ **10%** of Canada's entire SME workforce[2]

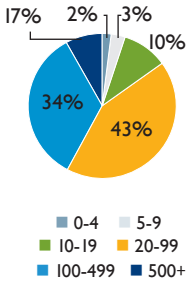
Growth & Transition Capital

Cash flow, mezzanine, quasi-equity and equity solutions for growth and transition projects

$706.9 million committed[5]

By industry	%
Manufacturing	35%
Business services	22%
Wholesale	11%
Construction	8%
Retail	5%
Transportation and storage	2%
Tourism	1%
Other	16%

By firm size (number of employees)



52% of Growth & Transition Capital clients are exporters

Venture Capital

Direct and indirect equity investments in multiple sectors

$1,027 million committed

$2.08 billion assets under management[6]

For every $1 invested, BDC has leveraged **$2.85** from external investors

75% of BDC's direct VC clients are in early stages

Direct commitment (investments in companies)	$ millions	%
Information technology (IT)	$257.2	25%
Healthcare	$124.6	12%
Industrial, clean and energy technology (ICE)	$77.0	8%
Indirect commitment (investments in funds)		
Private independent funds	$485.4	47%
Strategic initiatives and partnerships (SIP)	$82.8	8%

BDC Advantage

Encompassing affordable business consulting, planning and management solutions together with BDC's new high-impact firm initiative and international expansion offering

BDC Advantage handled **1,547** consulting mandates in fiscal 2015

Securitization

Debt financing that relies on the pooling of assets (under the Funding Platform for Independent Lenders, or F-PIL)

$680 million committed

In fiscal 2015, **6,833** SMEs benefited indirectly from BDC's role in the securitization market

DATA ARE AS AT MARCH 31, 2015, UNLESS OTHERWISE NOTED

[1] Direct clients receiving services from more than one business line have been counted only once
[2] Small Business Branch, Industry Canada, *Key Small Business Statistics*, August 2013
[3] Sub-investment grade, which is rated BB+ or less, relates to BDC's Financing outstanding loans portfolio
[4] Industry Canada, *The State of Entrepreneurship*, February 2010
[5] Includes both BDC and non-controlling interests
[6] Assets under management represents the total committed capital of active portfolios, including anticipated commitments

BDC Profile

Helping Canadian SMEs be the most competitive in the world

Providing financial and advisory services

BDC provides SMEs with the financial and advisory services they need to increase productivity, innovate, scale up, and globalize in order to remain competitive and thrive in today's economy.

- Patient, flexible capital for equipment, working capital, commercial real estate, and expansion projects
- Tailored consulting services to drive growth, improve agility and productivity, and build organizational capability
- Specific and complementary financing such as portfolio guarantees, capital payment postponements, and securitization to meet specialized needs
- Support for more Canadian entrepreneurs and increased visibility through partnerships and strategic relationships, new shared offices and business centres, and increased public relations and brand identity

Meeting specific needs of SMEs

Canada has a dynamic entrepreneurial culture, but certain entrepreneurs and sectors face particular pressure both at home and from abroad. BDC helps SMEs remain competitive through tailored financing and advisory services.

- Youth, women, Aboriginal, immigrant, and social/B.corp. entrepreneurs
- Small businesses
- Businesses in remote locations
- Aerospace
- Oil and gas
- Automotive
- Shipbuilding
- Retail
- Tourism
- Cleantech
- ICT

Leveraging thought leadership

With 40,000+ clients in virtually every industry, every region, and at every business lifecycle stage, plus 72 years' experience and its own research and internal know-how, BDC can leverage its considerable knowledge and expertise to help develop evidence-based policies and services. Its expertise and research are wide-ranging and include:

- Managing growth
- Global competitive pressures
- Benchmarking tools for SMEs
- Market trends
- Needs of aboriginal SMEs and those doing business in the North
- Trends and characteristics of high-impact and mid-size firms
- Impact of emerging fintech on SME financing

BDC's aspiration

To be a leader in making Canadian entrepreneurs the most competitive in the world

Spearheading innovation

BDC supports innovation by helping SMEs invest in R&D, ICT or state-of-the-art machinery, or to implement innovative processes. It is also a major player in fostering a vibrant venture capital ecosystem in Canada.

- Indirect and direct VC investments
- VCAP to attract private sector investments
- Support for ICT creation and adoption
- Strategic initiatives and partnerships as well as accelerators to foster business creation
- Support for emerging industries such as cleantech
- Financing to help firms bring innovative products and services to market
- Advice to help improve operational efficiency and productivity and implement ICT

Driving growth and international expansion

To help strengthen Canada's entrepreneurial ecosystem, BDC offers advice and growth capital at every stage of a business's lifecycle and supports firms that have the potential to become Canadian champions and contribute significantly to the Canadian economy.

- Seamless spectrum of growth capital, including VC, equity, quasi-equity, and subordinated debt solutions
- Succession financing
- Targeted, issue-based consulting methodologies and high-impact firm program
- Partnerships (Export Development Canada, Global Affairs Canada, The Montreal Group, C100, foreign VC investors, Canadian Technology Accelerator)

Operating environment

BDC's Corporate Plan is based on the following economic observations and assumptions

Canadian SMEs continue to face pressures at home and abroad that require them to increase productivity, innovate, scale-up and globalize in order to remain competitive. In addition to these challenges, SMEs are affected by a variety of factors, including economic cycles and changes in commodity prices to credit conditions.

BDC considers a number of factors in deciding how best to support SMEs in a manner that is complementary to the market and that provides the most benefit to Canadian entrepreneurs.

The competitiveness imperative

Canada has many of the right ingredients for a healthy entrepreneurial ecosystem that enables SMEs to start, grow and compete with the best around the world.

However, the Canadian economy is underperforming compared to many peer countries on many fronts:

- According to the World Economic Forum, Canada has made some progress in terms of competitiveness over the last year, moving from the 15th to the 13th position in its Global Competitiveness Index. However, Canada's performance remains below its 10th position of six years ago, spurred by a drop in innovation capacity (from 19th to 23rd position), a reduction in firm-level absorption of technology (from 22nd to 29th position) and a decrease in business sector spending on R&D (from 20th to 26th position)
- Canadian business productivity only reaches 70% of U.S. productivity and is lower than that of many other developed countries. This is in part due to Canadian businesses having lower levels of investment in sophisticated machinery and equipment, particularly in ICT: Canadian business sector investment per worker in ICT is only half that of the U.S. (2013)
- Canada has been losing corporate global leaders
- According to the World Trade Organization, the volume of Canadian exports has grown by 4% between 2010 to 2014, slightly less than its North American neighbours
- It is clear that to remain competitive, Canadian entrepreneurs must "up their game" by improving their management skills and by investing to increase productivity, innovate, scale-up their firms and globalize

Anticipated global economic growth	Share of global GDP (%)	Real GDP growth (%)			
		2014	2015f	2016f	2017f
World	100	3.4	3.0	3.4	3.6
Oil-importing emerging market economies[1]	33	3.7	3.2	3.8	4.2
China	17	7.3	6.8	6.3	6.2
United States	16	2.4	2.5	2.6	2.5
Euro area	12	0.8	1.5	1.5	1.5
Japan	4	-0.1	0.6	0.8	0.7
Canada	1	2.4	1.1	2.0	2.5
Rest of the world[2]	17	2.9	1.3	2.7	3.2

Sources: Bank of Canada and International Monetary Fund, October 2015, f = forecast

[1] Includes large emerging markets in Asia, Latin America, the Middle East and Africa (such as India, Brazil and South Africa), as well as newly industrialized economies (such as South Korea). Excludes China

[2] Includes oil-exporting emerging markets (such as Russia, Nigeria and Saudi Arabia) and other advanced economies (such as the United Kingdom and Australia)

Economic conditions

According to the Bank of Canada, global economic growth is expected to be moderate in the years ahead, at an annual rate of 3% to 4%. In the U.S., economic growth should continue, with employment, housing starts and automobile sales expected to rise.

In the Euro area, growth is expected to remain fairly flat, while in China, growth is forecast to be weaker than in the past but will remain high compared with that of many advanced countries.

In Canada, growth projections are modest and have been affected by a number of factors. A growing U.S. economy will have a stimulating effect on Canadian businesses focused on that market, despite increased competition from Mexican and Chinese firms. Increased spending on infrastructure over the next few years should also stimulate the economy. However, low commodity prices combined with slow productivity growth and an aging population are expected to keep Canada's annual GDP growth between 1% and 2%, with great regional disparities ranging from higher than 2% in British-Columbia to negative growth at about 1.5% in Newfoundland and Labrador.

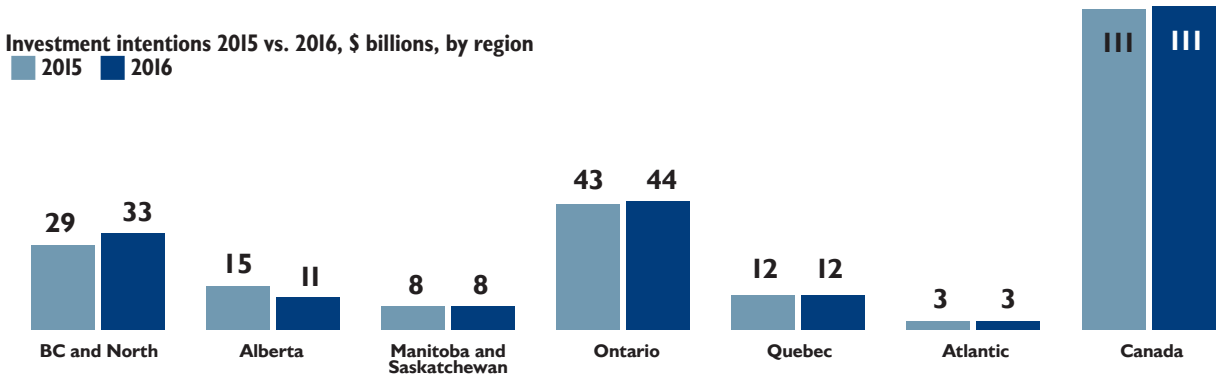
A pullback in the Chinese real estate sector is expected to contribute to slowing demand for Canadian metals and lumber. On the other hand, growing demand from China's large middle class for consumer goods and services should have a positive effect on Canada's food and tourism industries.

While global demand for crude oil will likely continue its upward trend, an abundant supply is likely to keep prices at historically low levels. For Canada, this means that investments in that sector will stay low. This will continue to have a negative effect on support services in the energy sector in all parts of the country, particularly Alberta, Saskatchewan and Newfoundland and Labrador.

Business investment in sectors other than energy and mining has barely increased in recent years and still stands below pre-recession levels. However, it is expected to pick up, thanks to stimulus from U.S. demand. The weakness of the Canadian dollar could continue to curtail investment, especially in machinery and equipment of which about 40% of which is imported.

From an SME viewpoint, a BDC study on investment intentions for 2016 indicates that at an aggregated level, SMEs do not intend to change the level of spending on investment projects in the coming year due to a lack of confidence in the economy and to the scarcity of talent needed to realize such projects. However, regional disparities exist, with investment intentions increasing by 14% in British-Columbia and the Territories and by 2% in Ontario, while they are decreasing by 27% in Alberta.

Finally, the Canadian dollar should continue to be weak against the American currency, particularly if oil prices do not rise. This will benefit exporters, especially those in the manufacturing sector, as well as the tourism industry.



Source: *BDC, Investment Intentions of Canadian Entrepreneurs: An Outlook for 2016, January 2016*. Totals may not add up due to rounding.

Credit conditions

Continuing low interest rates and liquidity in the market should facilitate access to credit for Canadian SMEs. However, firms operating in sectors experiencing cyclical challenges, such as the oil and gas and mining sectors, will likely continue to face less favourable financing conditions.

Research shows that credit conditions continue to be challenging for smaller and younger firms, as well as those that are growing. Many of these firms have few tangible assets, which makes securing financing difficult.

In VC, there has been significant upward momentum in investments since 2010; however, fundraising for Canadian fund managers remains a challenge.

Other key trends in the financial and management consulting services markets

The financial industry has been facing tighter regulations and scrutiny in the wake of the economic crisis, with the introduction of Basel III and, in Canada, increased oversight by the Office of the Superintendent of Financial Institutions (OSFI). On the other hand, increasing numbers of unregulated entities are leveraging technology, the prime driver of change in the industry, to modify industry dynamics. The emergence of "fintech"—such as crowdfunding, peer-to-peer lending, and marketplace lending that use technology to make financial systems more efficient—will be adding to a very competitive market characterized by high liquidity.

Management advisory services remain important to Canadian firms, particularly SMEs. Larger firms tend to dominate this market and gaps remain for services tailored to small businesses, even with new online talent platforms emerging.

BDC is taking action

Given current market dynamics, and in line with its aspiration to be a leader in making Canadian entrepreneurs the most competitive in the world, BDC is taking steps to help Canadian SMEs via three key strategic objectives:

- increasing access to capital and advice for entrepreneurs
- accelerating innovation, growth, and productivity for targeted entrepreneurs
- improving the Canadian entrepreneurial ecosystem

More specifically, BDC is:

- assisting Canadian SMEs of all types and from all regions and sectors by increasing its reach and visibility, working with partners, and enhancing its consulting services to help SMEs succeed. It is also leveraging its extensive knowledge of SME challenges and needs to help develop evidence-based policies and tools that support the entrepreneurial ecosystem
- supporting innovation as a catalyst for SME success with its significant presence in the VC landscape, and its strategies to support technology sectors, especially clean technology and ICT creation and adoption
- fuelling the growth and expansion of Canadian SMEs with an innovative approach to support high-impact firms, a seamless spectrum of growth capital offering and enhanced initiatives to support international expansion
- standing ready to further support Canadian SME competitiveness by helping them scale up, increase productivity, invest in innovation and expand to new markets

Despite economic uncertainty, BDC will also be encouraging entrepreneurs to ramp up investments given that, as a BDC study indicates, there is a direct correlation between investments and revenue growth.

In these ways, BDC is focusing on the key drivers of competitiveness—innovation, productivity, scale and globalization—to help Canadian SMEs become the most competitive in the world. At the same time, BDC is continuously enhancing its risk management practices to ensure that it continues to be a conscientious and effective financial Crown corporation.

Providing access to financing and advisory services for SMEs

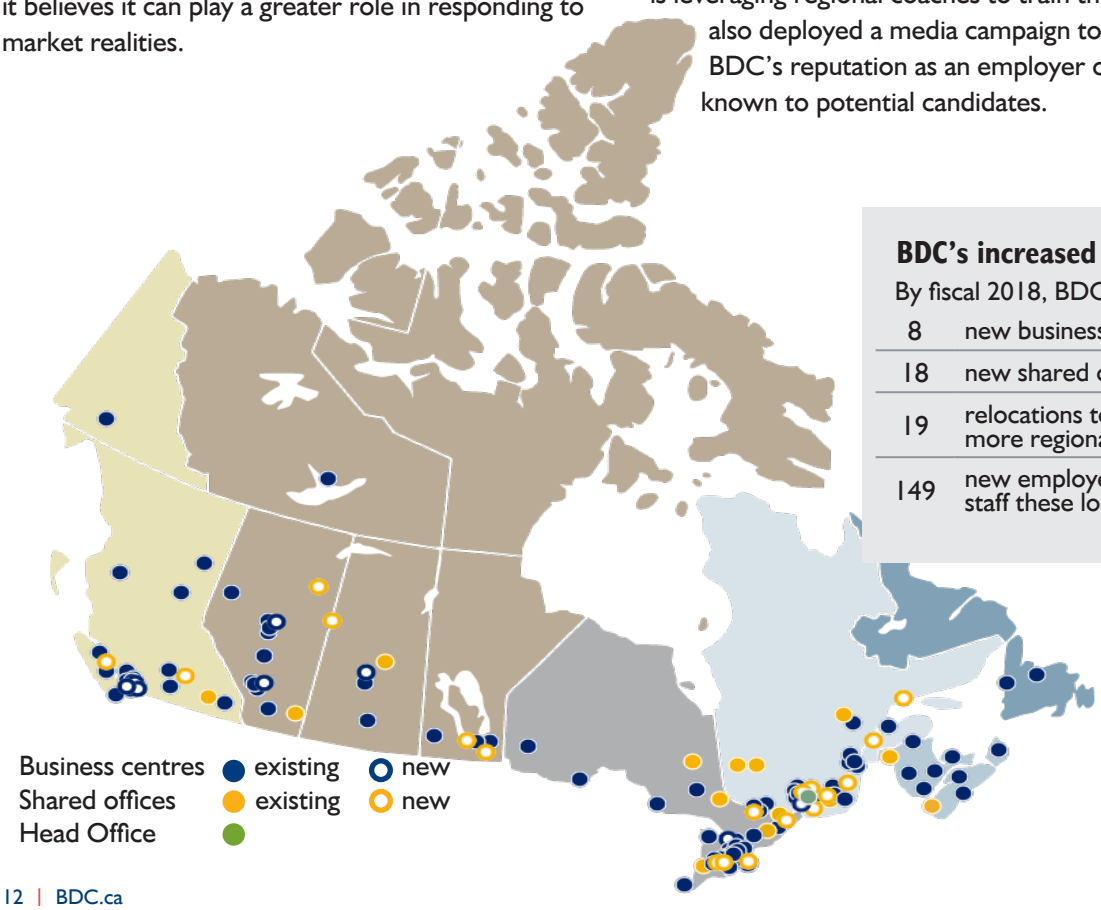
As the only Canadian bank exclusively dedicated to entrepreneurs, BDC helps create and develop strong and competitive Canadian SMEs. BDC does this both at home and on a global scale, by providing financing and advisory services that complement those offered by financial institutions and private sector service providers. It is able to do so by being present in communities across Canada, by promoting its offering to entrepreneurs, by partnering with key stakeholders in the business landscape to help as many SMEs as possible, and by understanding the specific needs of entrepreneurs and industries to tailor its financing and advisory offering so that it can meet those needs.

Increasing BDC's reach and visibility to better support SMEs

To ensure that BDC continues to adequately support SMEs across Canada, it launched a four-year initiative in fiscal 2015 to enhance its reach and visibility particularly in Western Canada and Ontario where it believes it can play a greater role in responding to market realities.

Results of a recent study measuring BDC's brand awareness and recognition show that Canadian entrepreneurs are not always aware of or familiar with BDC. BDC recognizes that it is important to create a stronger brand identity that resonates with today's entrepreneurs. In parallel to introducing a new brand identity in the marketplace, BDC will be investing in marketing, communications and advertising over the planning period. The initiative also entails opening new business centres and shared offices with partners, relocating offices, and strengthening relationships with stakeholders and partners. The ultimate objective of these investments is to position BDC to help even more entrepreneurs and have a greater impact on their ability to innovate, grow and become more productive.

The most important challenges associated with this initiative include BDC's capacity to attract, train and retain talent, especially in certain Canadian regions. To mitigate this risk, BDC has developed a solid recruitment plan to find the best employees, and is leveraging regional coaches to train them. It has also deployed a media campaign to ensure that BDC's reputation as an employer of choice is known to potential candidates.



BDC's increased presence

By fiscal 2018, BDC will have:

8	new business centres
18	new shared offices
19	relocations to create more regional impact
149	new employees to staff these locations

BDC is on target to meet its four-year national objectives related to increasing its physical presence. As at December 31, 2015, BDC had opened two new business centres (in British Columbia and Quebec), added nine new shared offices (one in British Columbia, two in Manitoba, three in Ontario and three in Quebec), relocated nine centres and hired 69 new employees across the country.

Reaching more entrepreneurs through partnerships

Partnering with other financial institutions and lenders

BDC increases the number of entrepreneurs who benefit from financing by offering its support through a partner. BDC's Securitization team plays an important role in this respect, by leveraging its skills and expertise in indirect financing.

BDC's involvement in securitization began during the financial crisis, when the market for asset-backed securities was severely compromised. Since then, by partnering with independent financing companies, BDC has improved the availability of financing for SMEs wishing to purchase vehicles and equipment needed to improve productivity.

Through the Funding Platform for Independent Lenders (F-PIL), a partnership between BDC and TAO Asset Management (TAO), BDC's approach has been to:

- use securitization techniques and fund creditworthy finance companies
- deploy best practices for legal documentation, due diligence and transaction structures to increase confidence and improve funding
- require a true risk-sharing arrangement between BDC and the company benefitting from the financing
- commit to participating in this market for a sustained period of time

Promoting and celebrating Canada's entrepreneurial culture

BDC recognizes the importance of promoting and celebrating Canada's entrepreneurial culture while inspiring Canadian entrepreneurs to innovate, take risks and grow their businesses. This is why BDC offers, either by itself or in partnership with entrepreneurial stakeholders, a number of events, awards and recognitions.

BDC Small Business Week—BDC has been organizing this annual event for 36 years, which recognizes Canadian entrepreneurs and SMEs while providing opportunities to learn and network. Knocking down barriers and daring to grow was the theme of the 2015 edition that was held in October.

BDC Entrepreneurship Awards—BDC draws on its experience with the Young Entrepreneur Award program to administer BDC Entrepreneurship Awards since January 2014.

Spin Master Innovation Fund—BDC partners with Futurpreneur and major Canadian toy company Spin Master Corp. in selecting the young businesses recipients of this award. They are chosen based on the viability and innovative aspects of their business plans. In 2015, eleven businesses each received start-up financing of up to $50,000 in addition to mentoring and coaching.

Vanier College BDC Business Case Challenge—a national business case competition for pre-university students.

Enactus—BDC renewed in fiscal 2015 its contribution to Enactus through a three-year commitment of $50,000 annually. The BDC Entrepreneurs First Project awards $2,500 each to six Enactus teams to implement projects in their communities that accelerate the success of entrepreneurs. Since 2011, 384 students have been involved.

As at March 31, 2015, there were 9,115 SMEs that had benefited indirectly from F-PIL. BDC is considering partnerships with other financial intermediaries similar to TAO in the automotive and equipment areas.

In addition to indirectly helping SMEs, BDC's goals in indirect financing are to grow the size and sophistication of smaller independent finance companies and emerging players. BDC has developed a secured lending product that is more accessible to new or small finance companies. There may be opportunities to use this product to work with independent finance companies who are lending to SMEs outside the auto and equipment areas. BDC will continue to monitor and address needs that may arise to ensure liquidity in the market for SMEs.

BDC also offers indirect support through portfolio guarantees. With this approach, BDC "de-risks" finance transactions with SMEs. Since September 2015, BDC has provided the Laurentian Bank of Canada with a guarantee on a portfolio of commercial equipment financing up to $300 million. This agreement allows Laurentian Bank to offer more flexible terms and take greater risk on SMEs—risks that BDC has experience in managing. Laurentian Bank will focus on SMEs interested in equipment financing, mainly in the manufacturing, oil and gas, and forestry sectors. BDC estimates it will reach 800 clients indirectly over the next two years through this agreement and is working on agreements with other financial institutions to further increase its reach through portfolio guarantees.

Following amendments made to the *BDC Act* as a result of the ten-year legislative review (▸ page 45), the portfolio guarantee approach was extended to the not-for-profit organization Futurpreneur Canada, which provides funding to young entrepreneurs (▸ page 18).

BDC also plays a complementary role and increases credit availability for SMEs through its asymmetric lending program, where it partners with other financial institutions to provide a loan. In asymmetric lending, BDC's terms and conditions differ from those of other lenders in the same transaction. This results in BDC taking a greater share of the risk in the transaction and helps ensure that the SME receives the financing it needs. It differs from pari passu lending where terms and conditions for each lender are the same. For fiscal 2015, BDC authorized $56 million in 55 asymmetric financing transactions, in addition to authorizing $223 million through 246 pari passu loans.

Similarly, to help larger companies access financing required to become more competitive, BDC participates in bigger transactions through syndication.

To ensure collaboration and complementarity with financial institutions, BDC participates in the Lending Practitioners Forum, an initiative spearheaded by the Canadian Bankers Association that involves the major chartered banks and Export Development Canada (EDC). BDC also collaborates with the Canadian Venture Capital & Private Equity Association and Credit Union Central of Canada.

Partnering with regional development agencies (RDAs) and provincial and territorial governments

Through its business centres in communities across Canada and its daily interactions with entrepreneurs, BDC has extensive knowledge of the regional realities that entrepreneurs face. To maximize its reach, BDC has invested in dedicated regional resources to foster and manage relationships with regional partners.

RDAs and provincial and territorial governments are key partners with which BDC is collaborating to develop solutions to support entrepreneurs. For example:

- BDC and the Government of Alberta have jointly developed a diversification initiative. This mixed offering of financing and advisory services will help Alberta SMEs scale up and become more productive
- In rural markets, BDC works with Community Futures Development Corporations (CFDCs), which are funded by RDAs. Over the past five years, BDC has authorized close to $330 million for SMEs in collaboration with CFDCs
- In Northern Canada, BDC is already collaborating with partners to reach more SMEs and is looking

to enhance its collaboration with provincial and territorial governments as well as RDAs in this respect

> RDAs collaborate in industry-specific BDC initiatives such as for the shipbuilding, automotive, and oil and gas industries

Other partnerships

BDC also has impactful collaborations with many industry clusters, business networks, innovation centres and other business stakeholders. For an index of BDC's partners and business relationships, see page 35.

Supporting industry-specific realities with tailored financing and advisory services

Businesses in certain sectors may have difficulty accessing financing because they represent a higher risk, are seasonal or cyclical, or simply experience greater competitive pressures than firms in other sectors. Examples include manufacturing, retail and tourism, which are the three largest sectors in BDC's portfolio and contribute significantly to the local, regional and national economies. BDC also plays an important role by offering support to sectors that are experiencing downturns, as well as to those where loan size and complexity call for a specialized approach.

Aerospace—Aerospace is a significant sub-sector of the manufacturing industry, mainly composed of SMEs that supply aerospace original equipment manufacturers (OEM). These SMEs need funds to secure their place in the global supply chain and to be able to operate during production periods that can last up to 50 years. Patient and flexible capital is needed for large, upfront investments but this can be difficult to find for SMEs.

Over the last three years, BDC has developed a unique approach to support this sector and tripled its funding to SMEs. Through its tailored solutions, BDC will continue to help aerospace SMEs improve their global competitiveness by diversifying their customer base, developing product niches and improving productivity. While the industry is mainly concentrated in Quebec, BDC is targeting other regions, especially Ontario and the West. It will also help these firms increase in scale and global reach, notably by leveraging its strategic partnerships with the Aerospace Industries Association of Canada, the Ontario Aerospace Council, Aero Montréal, EDC, and the Caisse de dépôt et placement du Québec.

Automotive—The Canadian automotive sector and its supply chain are mainly concentrated in Ontario which is home to production facilities of five important automotive OEMs, world-class parts suppliers and several automotive research and development (R&D) facilities. To remain competitive in the international market, firms in this sector have to invest in increasing capacity, global expansion, R&D and focus on the commercialization of innovation.

In fiscal 2015, BDC launched an automotive lending facility pilot aimed at tooling and parts manufacturers which are poised for growth but often lack the financing to capitalize on opportunities. BDC also developed strong relationships with industry stakeholders and is working with them to become an impactful partner.

Infrastructure—Infrastructure is a key contributor to economic growth and significantly increases the

Examples of new partnerships

Partnership with RiSE Asset Development—BDC is supporting RiSE, a social enterprise that provides microfinance for people with mental health challenges. BDC will provide $40,000 per year for three years as well as skilled employees to serve as volunteer mentors and coaches for RiSE's activities and programs. BDC will also provide RiSE with strategic planning advice.

Partnership with TD Bank—In a gesture that proves that it also believes in the power of partnerships, TD recently included a section about BDC on its corporate intranet so that its employees can see firsthand the value of working with BDC to better support entrepreneurs. TD also updated its internal policies to outline some of the principles and benefits of collaborating with BDC and the ways asymmetric and pari passu financing work.

ability of Canada's SMEs to engage in international trade. BDC is present in communities across Canada where projects are being developed. It plays an important role in supporting domestic infrastructure by participating in syndicated transactions for infrastructure and public-private partnership projects. However, financing options continue to be limited for smaller scale infrastructure projects in Canada, including in the area of environmental and renewable energy projects. Market awareness of BDC's ability to support these financings has grown and BDC is increasingly being invited to participate in these projects. BDC's diligence process is consistent with best practices at other Canadian financial institutions, enabling seamless partnerships with commercial banks and other private sector infrastructure players. BDC has the capability to support additional activities in this sector and remains committed to using its development bank mandate to deepen its engagement to better position SMEs to compete both in the domestic and international market place.

Shipbuilding—The National Shipbuilding Procurement Strategy announced in 2010 has created many opportunities for SMEs to enter the shipbuilding supply chain. However, before they can reap the benefits of those opportunities, many SMEs must overcome challenges such as identifying procurement opportunities and the associated processes and timelines, building the necessary organizational capabilities, securing skilled labour, and complying with rigorous security and quality requirements.

By leveraging its strong relationships with industry stakeholders and RDAs, BDC is becoming a partner of choice to help SMEs overcome these challenges and gain access to the shipbuilding supply chain through customized financing and consulting services.

Oil and gas—The drop in the price of oil is affecting SMEs that participate in or support the oil and gas sector. In response, BDC has analyzed these SMEs' needs, strengthened its internal skills and know-

Leveraging technology to better serve clients

BDC recognizes the power of technology to help it better serve its clients. It is leveraging its online presence to make it simpler and faster to secure financing. For example, SMEs can access up to $50,000 through BDC's Virtual Business Centre, without having to travel to a BDC business centre. In fiscal 2015, loans processed through the Virtual Business Centre increased by 110%, and BDC's client portal provides updates and information on their account.

In fiscal 2016, BDC piloted a new approach with account managers, allowing them to use tablets and a mobile application to finalize pre-approved loans in a single visit to their client. While greatly improving the client and employee experiences, the pilot has also significantly reduced processing and disbursement times. BDC is planning on adopting additional mobile applications that could, for example:

- improve the loan approval process for existing clients
- help gather relevant internal and external information on a client's industry to support even more meaningful discussions
- use key performance indicators and benchmarking to help clients understand where their competitive advantage lies
- present the client with interactive scenarios for repayment schedules and amortization

BDC also provides more value to entrepreneurs through its online presence by offering access to services and publishing content that helps entrepreneurs solve business challenges, learn from the experiences of others or gain insights into economic trends affecting SMEs. In fiscal 2015, users visited BDC.ca over three million times, assessed 43,000 websites via its free online tool (31% increase from fiscal 2014) and logged more than 28,000 eBook downloads (22% increase from fiscal 2014).

ledge, and has reached out to existing clients to offer help by way of pre-authorized postponements and increased financing.

BDC is continuing to play a leadership role in helping SMEs in this sector. In November 2015, it announced an additional $500 million to support more entrepreneurs including non-clients who present higher risk profiles. It is also offering a unique financing and consulting bundle to better address entrepreneurs' needs, providing quasi-equity and equity to help strengthen firms' balance sheet, and developing an approach to act as a financing intermediary between suppliers and oil and gas producers.

Tailoring products and services to meet entrepreneurs' needs

Canadian firms, because of their location or demographic, have wide-ranging needs which include working capital for growth projects, machinery and equipment to improve productivity, fuelling innovation projects or upgrading production capacity to respond to increased demand or competition.

Consistent with its public policy mandate, and with a focus on complementarity, BDC offers a mix of tailored financing products and advisory services to help these SMEs reach their full business potential.

Small businesses—Many small businesses find it difficult to access financing as they lack management experience and collateral. BDC recognizes the importance of supporting these small businesses, which could become tomorrow's champions. In fact, more than 75% of BDC's clients need small loans (a total commitment of $750,000 or less); of those clients, more than 99% are small businesses with fewer than 100 employees. Also, 26% of these businesses are new, having been in operation for less than five years. BDC's focus on small loans is paying off, with 8,966 small loans for small businesses accepted in fiscal 2015, a 10% increase compared to the previous year. BDC also helped 1,935 start-ups (in operation for less than two years), exceeding its corporate target of 1,500.

Business Restructuring Unit and Special Accounts

BDC plays an important role as a business development bank by working with clients who are facing challenges to support the turnaround of their business. BDC's special accounts team and business restructuring unit focus on diagnosing the root of the problem; provide expertise and advice to help entrepreneurs develop a turnaround plan and assess the plan; provide support and monitoring during the execution phase; and propose, where appropriate, financing options adapted to each situation.

As at December 31, 2015, 84% of BDC clients receiving dedicated support from either the special accounts team or the business restructuring unit have demonstrated significant improvements in their financial situation and are expected to no longer require this support in the near future.

Women entrepreneurs—Self-employment among women is increasing at a faster rate than among men. However, their businesses tend to start and stay small, have a high proportion of intangible assets and operate in industries less likely to experience high growth. To help majority women-owned businesses (more than 50% ownership), BDC developed a strategy with three goals:

- support the growth (size and scale) of majority women-owned businesses through financing and consulting services
- raise general awareness among BDC employees of the needs, opportunities and challenges faced by women entrepreneurs
- position BDC as an organization that responds to the needs of women entrepreneurs

BDC has committed $700 million in term lending to these businesses over three years. For the first nine months of fiscal 2016, BDC had authorized $175 million to majority women-owned businesses and is on

track to meet this commitment. Beyond its support to majority women-owned businesses, BDC also authorized $900 million to businesses owned 50% or less by women.

BDC is also supporting programs, events and initiatives focused on women entrepreneurs. It is teaming up with various national and local organizations to promote and celebrate women entrepreneurship through various activities such as luncheons, galas, workshops, seminars and conferences. So far, events planned for fiscal 2016 are expected to reach more than 3,000 women entrepreneurs.

Social entrepreneurs—BDC recognizes the economic and social potential of a growing group of entrepreneurs whose business models include the creation of social and environmental value, such as certified Beneficial Corporations (B Corps). BDC is building on its own B Corp certification and has successfully piloted projects in fiscal 2014 and 2015 in Quebec, Ontario and British Columbia to offer support for social entrepreneurs by:

- partnering up with the MaRS Centre for Impact Investing in the Social Venture Exchange (SVX), an online platform providing financial expertise and connecting social ventures with potential investors
- building relationships with, and having a physical presence in, organizations across Canada that support social entrepreneurs

Immigrant entrepreneurs—For many newcomers to Canada with previous entrepreneurial experience, self-employment is an effective way to contribute to the economy. In fact, many innovative and high-growth firms have been founded by immigrant entrepreneurs. However, they often lack the information, resources and Canadian credit history needed to start a business in Canada.

To help them, BDC is exploring a credit assessment method to offset this lack of credit history and make it easier for them to secure financing. Since 2011, BDC has also been a partner in Toronto's ACCES Employment's Entrepreneurship Connections, a program that provides immigrants with knowledge of the Canadian business environment and culture they need to create and grow their own business. To date, the program has helped more than 197 new Canadians and has seen 70 new businesses created. The program will be piloted in Ottawa in January 2016, with another pilot being considered in Vancouver. BDC will also explore whether non-financial services aimed at newcomers wishing to establish businesses in Canada might be offered, either stand-alone, or bundled with a targeted financial services offering.

BDC is also taking part in a multi-party working group to help Syrian refugees integrate the Canadian workforce. The working group is identifying challenges related to employment and entrepreneurship and leveraging its collective resources and expertise to create opportunities so that refugees can quickly use their skills and past experiences to become productive members of society.

Young entrepreneurs—Young entrepreneurs are vital to the vigour of the entrepreneurial ecosystem. They are the foundation on which to continue building a strong and vibrant economy. To support young entrepreneurs, BDC partners with Futurpreneur Canada to provide up to $30,000 to aspiring business owners aged 18 to 39, twice the amount provided by Futurpreneur. As at March 31, 2015, BDC's commitment under this alliance was $31 million for 1,368 young entrepreneurs. Furthermore, by guaranteeing funding of Futurpreneur's loan portfolio, BDC is allowing the organization to help even more young entrepreneurs. As at October 31, 2015, BDC's portfolio guarantee had enabled 84 entrepreneurs to access financing (▸page 14).

With Futurpreneur, BDC helps to build entrepreneurial mentoring capacity in Canada by offering mentoring-focused crash courses on Futurpreneur's online site. BDC also worked with Futurpreneur to launch moMENTum, a national program through which young entrepreneurs, whether they receive financing from Futurpreneur or not, are matched with experienced entrepreneurs for six months.

BDC also partners with 12 accelerators that help mostly young entrepreneurs develop and launch their business (▸page 24).

Aboriginal entrepreneurs—Aboriginal entrepreneurs' access to financing is constrained in part by their remote location, and in part by legislation prohibiting

the use of on-reserve assets as collateral for non-Aboriginal creditors. With Aboriginal small businesses growing at a rate well above the national average, BDC is active in complementing existing Aboriginal financial institutions' services with customized solutions such as:

- *Growth Capital for Aboriginal Business*—flexible term loans with the added benefit of donating a percentage of the annual interest to a charitable organization of the client's choice
- *Aboriginal Business Development Funds*—$1 million committed to four Aboriginal grassroots organizations that offer microcredit loans in the communities
- *Advisory services*—experienced Aboriginal consultants deliver entrepreneurial training related to priorities identified by Aboriginal entrepreneurs, such as mentoring and improving management skills

BDC has a growing group of specialized account managers across Canada dedicated to Aboriginal financing. Fiscal 2015, the first full year with this model, has proved it to be extremely successful: as at March 31, 2015, BDC's commitment to Aboriginal businesses was $185 million to 340 clients, a 13% growth in the number of clients compared to the previous year. Building on this model, BDC is ready to help an even greater number of Aboriginal entrepreneurs. It is also collaborating with the National Aboriginal Capital Corporations Association to identify existing gaps in Aboriginal financing institutions' offerings to determine ways to improve access to capital.

SMEs doing business in the North—Northern Canada offers significant economic opportunities for Canadian SMEs but also presents unique challenges including difficulties in finding and retaining skilled talent, high transportation costs, remote locations and

Improving the entrepreneurial ecosystem through thought leadership

With over 72 years of close collaboration and privileged relationships with entrepreneurs and other business stakeholders, BDC has gained a deep understanding of what it takes to create and grow a successful business, and the environment needed to enhance Canadian firms' performance and competitiveness. Continuing to enrich this knowledge through research and analysis and sharing it through a variety of channels is an important way BDC supports the entrepreneurial ecosystem.

With BDC's expertise, entrepreneurs can learn about a wealth of issues important to them, including effective business practices, managing growth, and understanding market trends and their impact on Canadian businesses. Themes of interest that will be explored in the near future could include:

- all aspects of innovation, including research commercialization and accelerators
- the application of technology to emerging sectors
- scaling challenges in the early stages of firm development
- the effect of SME investment intentions on business performance
- an online tool to allow firms to benchmark their productivity level against that of their peers
- the impact of the emergence of fintech on SME access to financing
- trends and characteristics of high-impact firms, including mid-sized firms
- the needs of Aboriginal SMEs and those doing business in the North
- trends in the oil and gas industry as well as other economic trends

BDC's connections with entrepreneurs, plus its knowledge and expertise, represent a gold mine of information that can be leveraged to help develop evidence-based policies and tools to support the entrepreneurial ecosystem. By collaborating closely with government departments and other partners, BDC can help shape responses to emerging issues affecting the business environment.

limited infrastructure. These factors affect Northern SMEs' ability to secure financing because of high project risk levels, and appropriate advisory services are often simply non-existent or too costly.

BDC is already helping entrepreneurs doing business in the North, including Aboriginal entrepreneurs, but is looking to do more. It is developing a strategy to draw on its experience with the North, oil and gas and infrastructure projects. The preliminary road map includes leveraging its partnerships for a greater geographic coverage, using technology to render its advisory services more accessible, and tailoring its financing and consulting services to address Northern-specific needs.

Enhancing BDC's consulting services to help SMEs succeed

BDC has been offering consulting services, in one form or another, for more than 30 years. Over the years, BDC has found that small businesses have unmet needs for a broad range of value-added services in addition to financing. Access to these services is now a key enabler of performance.

To improve access, effectiveness and affordability, BDC initiated a three-year initiative in fiscal 2015 to transform the content, methodologies and processes of its consulting services.

So far, the results of the consulting transformation have been significant on multiple fronts. A key element of the transformation has been the development of more than 20 high-quality consulting methodologies that help small businesses to:

- drive growth—by, for example, using ICT to enhance their online presence, improving their branding and increasing the effectiveness of their sales and marketing activities
- improve productivity and agility—by, for example, adopting lean concepts, implementing process improvements and increasing technology adoption
- build organizational capabilities—by, for example, leveraging business coaching, developing strategic plans, implementing financial and human resources management techniques and setting up advisory boards

Enhancing consulting services

The three-year transformation initiative is focused on maximizing client impact, improving BDC's responsiveness and efficiency, and complementing ecosystem offerings

	Previous model	Today (year two of three)
Solutions and offerings	Local market-based consultant selection and methodology	Proven BDC solutions backed by BDC experts deployed nationally with a qualified network of external consultants
Opportunity management	Multiple approaches and individual initiatives	Synchronized and integrated go-to-market strategies, tactics and tools
Administration management	Local and regional	National and centralized
Project management	Multiple approaches and individual initiatives	Standardized project management and quality assurance processes by BDC practice area

Many of the solutions are aligned with government priorities, especially with regards to ICT adoption and global expansion. BDC-designed methodologies have been well-received by BDC clients.

BDC has also enhanced its internal operational capabilities by improving the quality of delivery and making project management and execution more efficient. It has also strengthened its national network of subject matter experts. Finally, entrepreneurs are increasingly using BDC-created intellectual capital in the form of eBooks and blogs to help them build their knowledge and perform better.

BDC will continue to identify and fill gaps in its portfolio of consulting solutions based on unmet SME needs. One area of focus will be to address the unique needs of Canada's micro businesses (businesses with revenues below $2 million) by complementing the individual expert advice currently provided with a new range of materials available online.

It is important to underscore that BDC's consulting services remain complementary to those available in the market. As stipulated in the amended *BDC Act* (▸Appendix D, page 45), BDC's consulting solutions are complementary in that they are available to all types of entrepreneurs in every region, including rural and remote areas; complement other consulting firms with a range of services aligned to the reality and price points of SMEs; and support the development and sustainability of small consulting firms by partnering with them to deliver more than 75% of its consulting projects.

Looking ahead: Further enhancing access to financing and advisory services for SMEs

- BDC is actively looking at other alternative SME financing options that could help increase SMEs' access to capital. For example, it is developing an approach to tap into the institutional investor base (pension funds and insurance companies) which underinvest in SMEs because they deem these investments too labour intensive and too risky
- BDC is developing strategies to enhance its collaboration with RDAs, leveraging each organization's strength and resources to jointly help entrepreneurs in all regions of Canada
- BDC could develop additional sector strategies, for example, to help traditional manufacturers move up the value chain
- BDC could develop an approach to help immigrants become entrepreneurs, offering them its financing services, but also advice on Canadian business realities and on ways to leverage their knowledge and connections in their home country to export
- BDC will continue to identify and fill gaps in its portfolio of consulting solutions based on SME needs

Supporting innovation as a catalyst for SME success

Innovation improves Canadian firms' ability to increase productivity, grow and compete, both at home and internationally. Innovation can be radical, which generally involves the creation of something that did not exist before, often fuelled by R&D and VC investments. However, it can also be incremental, achieved through improvements that enhance the efficiency and effectiveness of existing processes and practices. This usually requires tools, such as ICT to implement new approaches.

BDC supports innovation by providing financing to help firms develop new products and services, invest in R&D, acquire or improve ICT, purchase state-of-the-art equipment and machinery and invest in and implement new processes. Through its consulting services, BDC also helps firms bring innovations to market, improve operational efficiency and productivity and integrate ICT.

BDC also plays a critical role in fostering a strong and vibrant innovation ecosystem with its activities in VC and support for technology industries.

Venture capital: Strengthening the Canadian innovation ecosystem

VC investors spur innovation by taking the high risks necessary to finance highly innovative and promising young firms from start-up to scale so they can develop and compete with the best in the world.

BDC is not only a VC investor; it also significantly impacts the Canadian VC landscape by addressing fundamental issues in the VC market with its VC strategy and by managing the Venture Capital Action Plan (▸page 23). It also has an extensive footprint: BDC is a limited partner in funds representing 71% of the VC investing actively in Canada, has direct investments in 202 companies, indirect investments in 423 companies and collaborates with a large number of stakeholders in the VC ecosystem.

Canada's VC market has improved markedly over the past few years. VC investments have increased since 2010 and company valuations have improved across all sectors and stages. Canada has climbed from 13th place in 2009 to second place in 2014 in terms of VC investments as a percentage of gross domestic product relative to 15 peer countries, according to the Conference Board of Canada. However, Canadian VC fund managers are still having difficulty raising funds, which affects companies seeking early stage financing in certain sectors and those requiring later stage investments.

BDC's strategic objective is to help create a sustainable, steady state of VC investing in Canada, featuring at-scale, top-tier Canadian funds balanced by new fund models in emerging sectors. The key feature of this ideal state is private sector interest and participation, allowing the industry to be self-sustaining by providing enough returns to investors so that they continue to invest.

BDC plays its role on multiple levels:

In indirect investing—investments in private sector funds—BDC's objectives are to:

- create the next generation of Canadian fund managers
- support existing top-tier fund managers
- attract top-tier global funds

The indirect investing strategy to restore VC as an attractive asset class is generating positive results, with the Fund of Funds portfolio performing at all-time highs.

Going forward, BDC's VC team will address gaps in other areas of the market where it can apply its expertise, such as investing in smaller and mid-sized growth capital or private equity funds. It will also continue to offer educational support for fund managers in partnership with the industry so that they can benefit from BDC's experience and knowledge.

In direct investing—investments in companies—BDC manages its three direct investment funds, which operate like private-sector funds, in the areas of:

- information technology
- healthcare
- industrial, clean and energy technology

The direct investment strategy is also helping restore VC as an attractive asset class for institutional investors, with two of the funds outperforming industry benchmarks. BDC is pursuing its direct investment strategy by allocating additional capital to each of its three funds: BDC allocated $150 million to create a second IT fund to support promising companies in this sector, while the other two funds are developing strategies to secure additional capital to meet investment demand.

To ensure that promising companies in a variety of emerging sectors in Canada have access to the level of investment required to compete on the world stage, BDC is rolling out a co-investment initiative. Co-investing means that BDC will make direct investments in companies alongside its indirect fund partners.

The co-investment initiative is supplementing existing funds by addressing:

- the need for increased funding for emerging sectors
- the need to help Canada's best technology companies reach scale
- the need to balance early stage capital with greater late-stage domestic VC funding

With Strategic initiatives and partnerships (SIP), BDC is a leader in reinforcing the early-stage innovation ecosystem with direct support to accelerators, the issuance of convertible notes to graduates of accelerators, and indirect support through investment in emerging funds. Since fiscal 2012, SIP has disbursed $18 million to 112 companies via accelerators and $26 million through 15 indirect investments that have a total commitment of $83 million. Going forward, indirect support formerly undertaken under SIP will be integrated into VC's indirect investing strategy. It

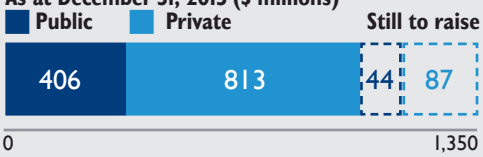
Update on the Venture Capital Action Plan (VCAP)

BDC has made significant progress in operationalizing the Venture Capital Action Plan which is designed to help create a vibrant VC ecosystem in Canada, led by the private sector. Through VCAP, a $350-million contribution from the government is being used to leverage up to $1 billion in private sector capital to establish and recapitalize large, private sector Funds of Funds. VCAP also includes $50 million for a few high-performing VC funds.

The four private sector Funds of Funds created under VCAP are now operational and as at December 31, 2015 had raised more than $1.2 billion in commitments. VCAP is well on its way to its target size of $1.35 billion.

VCAP's success in attracting significant private sector capital back into the VC ecosystem has helped increase both the depth and breadth of VC activity in Canada. With VCAP Funds of Funds active in the market, emerging VC managers are finding new sources of capital to raise their funds. More established VC managers have also been able to scale their funds to better support Canada's best in class technology companies while they grow and expand into international markets.

VCAP funding status
As at December 31, 2015 ($ millions)



As at December 31, 2015, 16 Canadian VC funds had received funds through VCAP. As at March 31, 2015, 62 Canadian companies had received $95 million in investments.

BDC will continue to apply its usual rigour and high standards in its capacity as an agent of the government and work proactively with the private sector to ensure that VCAP plays the critical role for which it was designed.

has also established partnerships with groups such as C100, the National Angel Capital Organization and the Canadian Technology Accelerator program which acts as a bridge to global markets for Canadian technology companies.

Building on the success of the SIP approach, the government asked BDC to invest more of its own capital in strategic investments and partnerships with accelerators through the Venture Capital Strategic Investment Plan (VCSIP). While VCSIP will end in fiscal 2018, BDC's knowledge of the industry indicates there is still a need for this type of support, so BDC will continue to provide it.

BDC's VC portfolio performance has never been better, and net income was positive in fiscal 2015 for the first time since fiscal 2002. However, uncertainty exists about expected returns for some of the investments given a recent slowdown in exit activity in the U.S. and volatility in public markets. BDC Capital is mitigating this risk by contributing value beyond capital to the companies and funds it invests in. It is playing a nurturing role, sharing its experience and industry expertise to make sure companies achieve the size and credibility needed to attract acquirers or to access public markets.

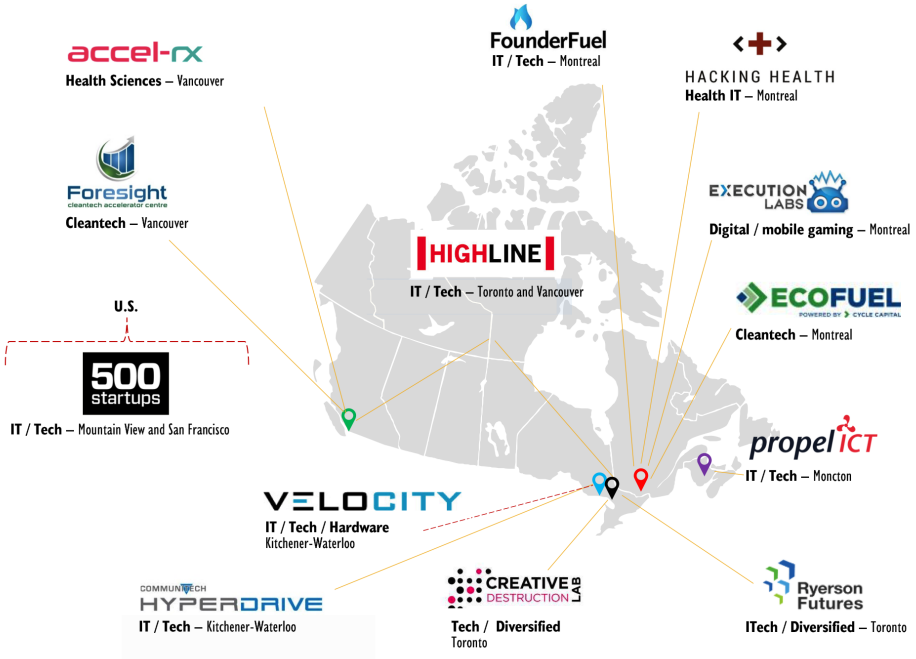
Providing additional value to clients and the innovation ecosystem

Beyond providing capital to promising innovative Canadian businesses, BDC Capital is developing ways to leverage its extensive knowledge of the market and its many relationships with industry stakeholders to have an even greater impact on its clients and the ecosystem. These value-added initiatives include:

- facilitating peer-to-peer meetings or discussions with industry stakeholders and mentors
- publishing research and opinions on the risk capital market
- developing training materials for specific stakeholders such as VC fund managers. For example, BDC is already offering, under its *FUNDamentals Principals* seminar series, opportunities for VC fund managers to hear from world experts on fund management best practices
- reaching out to key private institutional investors and companies that could become potential customer or acquirers

These types of services will provide an additional way for BDC to help great ideas become great companies that contribute to the growth of the Canadian economy.

BDC's VC accelerator partners



Spurring innovation by focusing on ICT and clean technologies

Innovation is essential to the survival of technology firms. BDC helps them commercialize their innovative ideas and is present through every stage of a company's life cycle. Technology entrepreneurs are well aware of BDC's large footprint in the VC industry, but less so of BDC's ability to provide additional support as they develop and grow. BDC plans to leverage its reputation in this industry and thus increase its support to meet their needs.

BDC is paying particular attention to Canada's fast growing clean technology industry. In fact, Analytica Advisor's 2015 Canadian Clean Technology Industry report mentions that this highly innovative and export oriented industry directly employs 50,000 people in more than 800 firms. BDC is actively supporting SMEs in the industry because of their potential to impact the Canadian economy, become global leaders, and their ability to have a positive effect on the environment and climate change. BDC is:

- providing capital to innovative cleantech companies through its internal VC fund
- nurturing strategic relationships with two accelerators, Foresight Cleantech Accelerator (Vancouver) and Ecofuel (Montreal), and directly investing in their top graduates through a secured convertible note
- taking part in syndicated transactions for renewable energy (wind, solar and biomass) projects that have a clean technology component
- sponsoring CIX Cleantech, an event showcasing Canada's most promising cleantech ventures and connecting them with investors, policy-makers, strategic partners and advisors

Furthermore, BDC is collaborating closely with Global Affairs Canada (GAC), Sustainable Development Technology Canada (SDTC), and EDC and to provide a coherent approach to clean technology support.

BDC is also supporting the development and adoption of ICT. This is an important driver of national competitiveness. For SMEs with limited money, expertise and time, it can be difficult to take advantage of ICT to support their innovative capacity to make their business more profitable, efficient and competitive. BDC committed to providing $200 million in loans annually until 2017 to help companies that create or wish to invest in ICT, plus $300 million in VC by 2017 for companies that create ICT. As at March 31, 2015, BDC clients had accepted $277 million in ICT loans and BDC had authorized $133 million in VC in the ICT sector.

Looking ahead: Further supporting innovation

- BDC is developing additional sector strategies to further support innovation by:
  - fostering the creation and development of more cleantech start-ups by nurturing additional accelerators in this space, investing in emerging funds or company creation platforms, and identifying and leveraging other strategic partnerships
  - supporting the adoption of clean technologies by SMEs through financing and consulting services to reduce carbon footprint and waste
  - collaborating with EDC and SDTC in order to harmonize financial services available to support cleantech companies at all levels of development and ensure that no gaps exist. For BDC, this could mean supporting SMEs' first few commercial-scale green infrastructure projects, providing working capital to emerging firms at an earlier stage, and providing growth capital (quasi-equity) for firms in the expansion phase

Fuelling the growth and expansion of Canadian SMEs

Canada has many of the right ingredients of a healthy ecosystem that allows businesses to thrive. While some firms remain small for many years, others, whether they are start-ups or more mature firms, seek to invest more to increase productivity, innovate and expand to new markets. These ambitious firms have the potential to make a significant difference to the growth and competitiveness of the Canadian economy. As part of this plan, BDC aims to significantly increase its support through its tailored advisory services, a seamless spectrum of growth capital and support for global expansion.

Deploying service offerings for high-impact firms

From extensive research, BDC found that it can increase its impact on the SME sector by providing additional support to firms that are growing faster than their peers, are led by ambitious entrepreneurs and have a disproportionate effect on economic growth.

These high-impact firms account for about 5% of Canadian SMEs, and generally:

- are mid-sized, although smaller firms with particularly high growth can also fit this profile
- grow more quickly than their overall sector
- have a management team that exhibits higher ambition and higher risk tolerance than their peers

Although these firms are in many sectors, they have a number of key growth enablers in common:

- strong strategy execution capabilities
- domestic and international marketing and sales plans
- optimized operations and improved efficiency
- ability to attract, develop and retain talent

Many high-impact firms also need higher-risk financing to: develop new products, services and processes; acquire other companies; purchase machinery or technology; or expand capacity.

With a strong pan-Canadian network of partners and a deep knowledge of entrepreneurs, BDC is in a unique position to support these firms.

As a result, BDC has developed and is now deploying a two-part program aimed at supporting high-impact firms. One element focuses on creating long term, in-depth strategic advisory relationships with executives of selected companies and carries the internal working title Accelerator program. The other element offers a platform for skill-building, learning and networking to a greater number of entrepreneurs and mid-sized firms. This program carries the working title Impact Exchange program.

The Accelerator program focuses on developing the ability to provide long-term, unbiased advice. To serve these firms, BDC is expanding its advisory team with seasoned executive advisors who accompany entrepreneurs on their growth journey over a number of years. These advisors will provide support through a range of methodologies and approaches to help high-impact firms accelerate and sustain even higher rates of growth. Included in this will be guided access to tailored financing solutions, advisory services from within and outside BDC as well as peer-to-peer advisory opportunities.

BDC is planning to provide these services for a fee and deliver them through its internal resources and consultant networks as well as by partnering with third-party organizations, thus creating a full range of financial and non-financial support for Canada's most promising firms.

In fiscal 2016, BDC began implementing its Accelerator program. It now has in place an executive leader, a new leadership team, solutions tailored to

the needs of these firms and has already launched the Beta phase of the program. The program will be launched nationally in fiscal 2017.

BDC understands there are both market and internal risks to implementing this approach and will be carefully monitoring progress throughout implementation using its robust internal governances and risk management practices. Moreover, BDC will rigorously measure the performance of this program over time.

The second element of BDC's high-impact firm program will reach a greater number of potential high-impact firms with the goal of helping them realize their full potential. By offering affordable seminars and conferences with experts in various fields in collaboration with partners, and facilitating peer-to-peer discussions, BDC will pursue a lower-cost way to support these clients and, by extension, increase its reach. BDC is planning to launch the Impact Exchange as a pilot in Ontario in fiscal 2017.

BDC is recruiting companies for its high-impact firms initiative from its own client base and, with the help of partners, from the broader Canadian mid-sized firm population. It is also collaborating with provincial and local governments and other organizations to create synergies.

To ensure impactful collaboration amongst the various federal entities, BDC is leading a working group including the department of Innovation, Science and Economic Development (ISED), GAC, and EDC that aims at adopting a coherent approach to supporting high-impact and high-growth firms. BDC is also collaborating with the National Research Council's Industrial Research Assistance Program (NRC-IRAP) and RDAs.

Creating a seamless spectrum of growth capital to fuel growth

To support growth-oriented companies, BDC provides a seamless range of financing and equity solutions for each stage of development, from pre-seed and start-up to maturity and transfer stages.

BDC's ViewPoints panel[1] reveals that 91% of clients who responded considered the growth of their business to be important. The great majority of projects financed by BDC's term lending can help businesses achieve their growth objectives: working capital allows businesses to, amongst other things, develop new products, hire and train additional employee

[1]The BDC ViewPoints panel is composed of a group of about 5,500 Canadian entrepreneurs and business professionals that have agreed to share their expertise and opinions regarding the reality of SMEs in today's economic landscape. Panellists are asked to complete online surveys a few times a year

Accelerator program: BDC's value proposition

1. Validate and articulate the company strategy, providing the CEO and leadership team with greater confidence in where to deploy effort and resources (and avoid costly mistakes)
2. Maintain focus and discipline, arming the CEO and leadership team to effectively manage the execution of the strategic plan
3. Provide unbiased guidance and access to specifically designed BDC and third-party financing and advisory solutions

and expand to new markets, while the purchase of equipment, acquisition of land and buildings, expansion or renovation of existing premises and investment in ICT allow firms to scale-up.

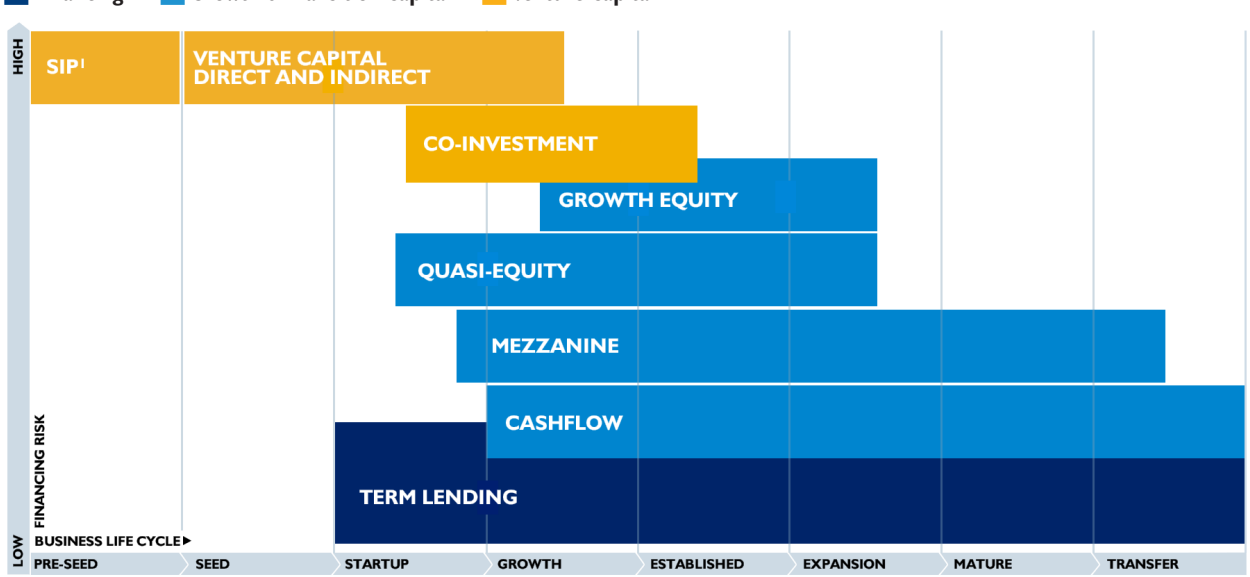
In addition to the VC offering explained previously (▸pages 22-25), BDC Capital is ensuring that more mature companies outside of the VC space have access to growth capital. In later stages of growth, financing gaps exist for fast-growth companies, firms with few tangible assets to offer as security and small and mid-sized companies looking for capital in the range of $2 million to $10 million. In addition, Canada's aging population means that more entrepreneurs are looking to exit or transfer their business and require specialized financing and advisory support.

Growth & Transition Capital works with entrepreneurs to find the optimal financing structure that allows them to focus on growth. With its cash flow, mezzanine financing and quasi-equity, BDC provides flexible financing to firms with insufficient tangible assets to secure conventional financing that have a need for more patient financing and that may not want to dilute ownership of share capital. It subordinates its security to that of other lenders and as a result takes more risk, helping entrepreneurs secure the financing required to achieve their business goals. This type of financing is a powerful tool to fuel growth and is one reason why about 32% of clients in the Growth & Transition Capital portfolio are high-growth firms (firms with annualized growth greater than 20% per year in sales over a three-year period). BDC is also strengthening its support through a program that combines Growth & Transition Capital's financial solutions with strategic advice from private sector experts tailored to the needs of high-growth firms.

Growth & Transition Capital is also providing a growth equity solution to address gaps for small-ticket equity investments in the range of $2 million to $10 million for growth-oriented companies with the potential to be globally competitive. To date, nine transactions totalling $26 million have been accepted. BDC is accelerating the deployment of this equity solution and is positioning itself as a management-friendly growth partner, sharing in the entrepreneur's vision as a long-term minority investor and tailoring solutions to the entrepreneur's needs. With this growth equity solution, BDC's goal is to create more mid-sized companies capable of becoming Canadian champions.

Around 60% of SME owners are planning on selling, transferring or winding down their business within the next 10 years. Growth & Transition Capital

BDC's seamless spectrum of growth capital



[1]Strategic initiatives and partnerships

is helping them with succession financing, which now comprises about 40% of the transactions in its portfolio. Typical succession financing solutions include management buy-in, management buy-out and acquisition. BDC also offers business owners the opportunity to withdraw hard earned capital while maintaining their ownership and commitment to the company. Often this solution is seen by owners as an alternative to selling their company. These solutions also help Canadian entrepreneurs acquire companies that might otherwise cease operations or be bought by foreign interests.

Helping Canadian businesses be more competitive by supporting global expansion

Increased internationalization is important to the growth and competitiveness of Canadian firms. With an extensive network of business centres and strategic partnerships, BDC reaches over 40,000 entrepreneurs across Canada and is in a unique position to promote the benefits of exporting to Canadian SMEs and to help them to do so.

BDC is enhancing its International Expansion team to enhance its support for the globalization of Canadian companies. The team will also serve as a focal point for other international business activities within BDC.

Through advisory services, BDC already helps SMEs determine whether they are ready to internationalize, find opportunities to export, and identify which markets would best suit them. BDC also supports internationalization projects with financing. Moreover, leveraging the amendments to the *BDC Act* following the 10-year legislative review, BDC is now ready to make loans and disburse funds to enterprises located in the U.S. that are totally or partially owned by Canadians.

BDC further supports clients that wish to expand abroad by reaching out to its domestic and international networks and contacts to provide a better understanding of markets and the products and services available to SMEs, particularly in large, nearby markets to which Canada enjoys privileged access. In this way, BDC takes an informed and complementary approach to international markets that leverages Canadian and global partners. These partners include other development banks—such as members of The Montreal Group, an initiative spearheaded by BDC (▸page 35 for a list of members)— as well as other organizations around the globe and domestically based groups such as QG100 and OG100.

BDC's international expansion offering is complementary to Export Development Canada's activities. The two organizations are working closely together to maximize impact of Canadian SMEs. They have a formal collaboration agreement since 2011 that highlights the organizations' complementarity and cooperation in terms of sharing each other's offering with clients, referring clients, and sharing intelligence on entrepreneurs' needs.

BDC and EDC are exploring even more opportunity for successful collaboration. Some examples include supporting the development of a new Canadian trade and export strategy, assisting in the development of a targeted trade and investment strategy for emerging markets and finding ways to educate and inform Canadian businesses of the opportunities generated by existing trade agreements and helping them take advantage of these opportunities.

The two organizations, along with other partners, also collaborate to support clean technology firms that face challenges in accessing financing and insurance, with the aim of helping them move past the development stage to a viable commercial state where they can penetrate key global markets.

BDC also has a close relationship with Global Affairs Canada to help Canadian firms expand abroad. This includes working with the Canadian Trade Commissioner Service to support the Canadian Technology Accelerator (CTA) program, which helps Canadian high-growth firms access global markets.

Looking ahead: further supporting scaling-up of SMEs

> BDC is investigating additional and innovative solutions to help entrepreneurs successfully grow and enter new markets. These could include:

- providing incentives for other financial institutions to invest in mid-sized firms
- further developing its non-financial service offering to include, for example, a suite of tailored educational materials and classes for entrepreneurs' skill-building
- developing a trade agreement navigator service offering to ensure Canadian SMEs take full advantage of opportunities to expand to international markets
- identifying BDC clients and non-clients that are not exporters or export in only one international market that could benefit from advice and financing for international expansion

Progress on initiatives included in the 2015–16 to 2019–20 Corporate Plan

Initiative	BDC's progress
Gradually deploy an initiative to remove barriers to competitiveness for high-impact firms in Canada ▸ page 26	> Developed and is now deploying a two-part program aimed at supporting high-impact firms. One element focuses on creating long-term strategic executive advisory relationships with selected companies (Accelerator program) and the other element offers a platform for skill-building, learning and peer-to-peer networking to a greater number of entrepreneurs and mid-sized firms (Impact Exchange program). > The Beta phase of the Accelerator program was launched in fiscal 2016 and a national launch is planned for fiscal 2017. BDC is planning to launch Impact Exchange as a pilot basis in Ontario in fiscal 2017.
Refine its offering of value-added advisory services designed to improve the competitiveness of SMEs ▸ page 20	> In the second year of this three-year initiative, results have been significant: developed more than 20 effective consulting methodologies, enhanced internal operational capabilities, focused and strengthened its network of subject matter experts, and raised awareness of BDC-created intellectual capital
Open new business centres and optimize partnerships and marketing to ensure its financing, investment and advisory services are accessible and visible to entrepreneurs in Canada ▸ page 12	> In the second year of this four-year initiative, on target to meet objectives > Opened two new business centres, added nine new shared offices, relocated nine centres and hired 69 new employees
Increase its equity offering to address the needs of growth-oriented firms ▸ page 29	> Accelerating the deployment of its growth equity offering to position itself as an entrepreneur-friendly growth partner, sharing in the entrepreneur's vision as a long-term partner and investor
Invest and co-invest in a variety of promising Canadian technology companies from early to late stage while continuing to invest in its three internal direct investment funds ▸ page 23	> Created a second internal fund to support technology firms > Developed and is rolling out a co-investment initiative to address the need for increased funding for emerging sectors
Help support emerging fund models, while ensuring that all types of funds are well capitalized and able to support the growth of Canadian champions ▸ pages 23-24	> VC's indirect investing strategy support emerging fund models and emerging fund managers operating in both traditional and emerging technology sectors
Provide increased assistance to women-owned firms ▸ page 17	> Developed a strategy to support the growth of majority women-owned businesses > Committed $700 million in term lending over three years to these firms > Supports programs, events and initiatives focused on women entrepreneurs
At the request of the government, explore options for strategies related to intellectual properties	> Developed a three-pronged approach: partnering with the Canadian Intellectual Property Office to train BDC client-facing personnel most likely to have clients needing IP strategies; disseminating relevant IP information on the BDC website; and targeting/marketing existing BDC financing products to firms developing or exploiting IP

BDC is well positioned to address government priorities

BDC's current activities are very much in line with the government's priorities. In addition to the current suite of activities listed below, BDC is working with officials across government to ensure that its contribution is timely and relevant. Examples of work underway include: leading a project to support high-growth Canadian firms in collaboration with ISED, GAC, EDC, IRAP, RDAs; participation with SDTC, EDC, and others in a cleantech working group with objective to develop better financing options for commercialization of new technologies; participation in Toronto's Global Diversity Exchange which is taking the lead in addressing the issue of employment for Syrian refugees.

Priorities	What BDC does
Innovation	> Supports innovative firms from early to more mature stages through BDC Capital offering ▸ pages 22-25 – Provides direct investments through three internal funds, indirect investments through Funds of Funds (including VCAP), equity, quasi-equity and subordinated debt – Reinforces the early stage ecosystem and supports innovative start-ups with its strategic investments, initiatives and partnerships (SIP and VCSIP), which provides both direct investments and indirect investments to incubators and accelerators and through convertible notes – Partnership with Canadian Technology Accelerator program (San Francisco, Boston, New York) > Provides customized financing and advisory services for innovative businesses – Special focus on automotive, aerospace, technology, shipbuilding and oil & gas industries ▸ pages 15-17 – Provides consulting services to help firms adopt ICT, determine the best opportunities for innovation and develop a customized plan for implementing their innovation project > Is a partner in the National Research Council's Concierge service, a single access point to help entrepreneurs access support for innovation and growth
Clean technologies ▸ page 25	> Participates in syndicated transactions for renewable energy (wind, solar and biomass) projects with clean technology components > Supports innovative companies through its internal VC fund in the area of industrial, clean and energy technologies > Nurtures strategic relationships with two accelerators supporting cleantech start-ups and directly invests in their top graduates through a secured convertible note > Sponsors CIX Cleantech, an event showcasing Canada's most promising cleantech ventures and connecting them with investors, policy-makers, strategic partners and advisors > Collaborates with Sustainable Development Technology Canada to provide financial and non-financial support to businesses operating in the clean technology industry

Priorities	What BDC does
Infrastructure	> Participates in transactions to provide syndicated financing commitments to support project bids ▸ page 16 > Is gearing up its support to entrepreneurs doing business in the North, including through financing infrastructure projects ▸ page 20
Manufacturing	> Provides customized advisory services and financing to the manufacturing sector, which represents 23% of BDC's commitments – Special focus on automotive, aerospace, technology, shipbuilding and oil & gas industries ▸ pages 15-17
Trade ▸ page 29	> Through advisory services, helps SMEs determine whether they are ready to internationalize, identify the markets that would best suit them, and find opportunities to export > Supports internationalization projects through financing > Reaches out to domestic and international networks and contacts to better understand certain markets and the products and services available to SMEs, particularly in large, nearby markets to which Canada enjoys privileged access > Is ready to make loans and disburse funds to enterprises located in the U.S. that are totally or partially owned by Canadians
First Nations ▸ page 19	> Provides customized financing and advisory services > Offers flexible term loans that allow clients to donate a percentage of the annual interest to a charitable organization of their choice > Has established Aboriginal Business Development Funds
Gender equality ▸ page 17	> Carries out the Women Entrepreneurs strategy, which supports the growth of majority women-owned businesses through financing and consulting services – Raises general awareness among BDC employees of the needs, opportunities and challenges faced by women-owned businesses
Reduction of SMEs' administrative burden	> Provides simplified and faster ways to access funding through its Virtual Business Centre, streamlined due diligence processes such as for Xpansion loans and pre-authorized loans for some existing clients.

Performance Measures

BDC's performance measure targets are based on the business environment in which Canadian SMEs operate as well as BDC's previous and expected performance. The measures support BDC's aspiration to be a leader in making Canadian entrepreneurs the most competitive in the world.

BDC's core mandate measures		Actual F2015	YTD[1] F2016	Estimate F2016	Target F2017
Provide financing and advisory services to small businesses	# of acceptances[2]	8,966	8,150	10,100	11,000
	# of one-to-one Consulting mandates[3]	1,323	1,231	1,540	1,600
Provide "asset-light" financing	$ of acceptances, G&TC and Financing unsecured loans ($ millions)	952	831	1,085	1,210
Help restore the venture capital asset class to profitability to attract private sector investors	Overall BDC GPs total value to paid-in capital (TVPI)[4]	1.13	1.37	1.32	1.24
Make it easy for clients to do business with BDC	% of very satisfied clients[5]	56	65	65	65
Work in partnership to extend reach and provide support to entrepreneurs	# of transactions done through partnerships[6]	1,842	1,541	1,925	2,200
	# of indirect clients[7]	7,112	6,846	8,000	8,000
Support Canada's most promising firms and enable them to contribute fully to the economy	% of $ of acceptances for high-growth firms, G&TC	26	38	36	35
	Total revenue of high-impact firms that participate in the Acceleration program ($ millions)	n/a	320	500	1,500
BDC's specific initiatives					
Help entrepreneurs apply ICT to their business and support firms that create ICT	$200 million Financing/G&TC annually to 2017	277	259	280	200
	$300 million Venture Capital, cumulative to 2017	133	261	300	300
Support women entrepreneurs	$700 million financing for majority women-owned businesses, cumulative to fiscal 2018	n/a	175	225	460
Impact on entrepreneurs					
Provide financing and advisory services that enable clients to grow and succeed	% of clients who reported a positive impact on their business following the services they received from BDC	81	89	89	89
Help entrepreneurs take advantage of global opportunities	# of clients who export	5,553	5,638	5,650	5,750

[1]Unless otherwise specified, year-to-date figures are as at December 31, 2015

[2]Financing and Growth & Transition Capital loans with a commitment size of ≤ $750,000

[3]For clients with revenues of $15 million or less

[4] TVPI is a fund's investment multiple; it is calculated by dividing the fund's cumulative distributions and residual value by the paid-in capital. BDC's GP funds are IT, Healthcare (HVF), and Industrial, clean and energy technology (ICE), all 3 excluding Legacy, and IT II, HVF II, and ICE II

[5]"Very satisfied" clients gave a score of 9 or 10 out of 10 for overall satisfaction pertaining to BDC services

[6]Includes transactions done in collaboration with chartered banks, other lenders, governments agencies and other crown corporations, community futures and other economic development agencies, and specific agreements

[7]Excluding VCAP

Index of Partners/Business Relationships

PARTNERSHIPS		
Accelerators	Various	BDC Capital signed MOUs with Accel-RX and Creative Destruction Lab to enable the growth of new Canadian technology start-ups
Bpifrance		Bpifrance provides financing for business development with a focus on SMEs, mid-sized businesses and innovative enterprises. BDC and Bpifrance signed an MOU in March 2015 to share knowledge and best practices and to assist entrepreneurs in both countries with global expansion
C100		Under its global connectivity strategic objective, BDC Capital works with C100 to help connect Canadian high-growth, high-technology start-ups to key players in Silicon Valley
Canadian Manufacturers and Exporters	SMART Program	BDC is a qualified service provider for this CME's SMART Program which, in partnership with FedNor and FedDev Ontario, helps provide consulting services for manufacturers in Ontario
Canadian Technology Accelerators	CTAs	Under its global connectivity strategic objective, BDC Capital partnered with the CTAs in San Francisco, Boston and New York to support the growth and access to global markets of top Canadian high-growth, high-technology start-ups
Community Futures Network of Canada	CFDC/SADC	Community Futures Development Corporations support community economic development. By working closely with CFDCs across Canada, BDC reaches entrepreneurs in areas where it does not have a physical location
Consulate General of Canada	CTAs -San Francisco, New York, and Boston	BDC Capital has partnered with Canadian Consulates General to support their CTA programs to help top Canadian high-growth, high-technology start-ups achieve growth and gain access to global markets
Economic Developers Council of Ontario	EDCO	BDC is a sponsor of this independent, non-profit association which is engaged in economic development to foster economic prosperity in rural Ontario municipalities
Export Development Canada	EDC	BDC and EDC share an important relationship, including a two-way referral system that ensures Canadian companies access the services of the organization whose competencies best meet their needs. An MOU between BDC and EDC was finalized in late 2011
Futurpreneur Canada		Futurpreneur is a national, non-profit organization that supports business owners aged 18 to 39. Futurpreneur and BDC collaborate to offer financing to young entrepreneurs. BDC provides complementarity financing to start-ups, existing businesses, firms going through changes of ownership, and newcomers to Canada
Global Affairs Canada	GAC	In 2011, BDC signed an agreement with GAC to share business intelligence about global markets and collaborate on marketing. Seven GAC trade commissioners are co-located in BDC business centres across Canada. In addition, BDC Capital and GAC signed a strategic partnership agreement in 2013 to support the expansion of the Canadian Technology Accelerators (CTAs)
ICT Council	Digital Adoption Compass	This website is designed to assist SMEs adopt technology. BDC invested in the launch and the website features links directing visitors to www.BDC.ca
Laurentian Bank	Portfolio Guarantee Program	Provides $300 million in financing with flexible terms to manufacturers across Canada for equipment purchases
Manitoba Entrepreneurship, Training and Trade	Manitoba Business Start Program	This loan guarantee program for new entrepreneurs has an educational component. BDC provides five-year term loans of up to $30,000, which are guaranteed by the Manitoba government
National Angel Capital Organization	NACO	Under its key player development mandate, BDC Capital works with NACO to strengthen Canada's angel investing community, particularly in regards to angel professional development

National Research Council—Industrial Research Assistance Program	NRC/IRAP	BDC is a partner in NRC/IRAP's Concierge Service, which is a single access point to help entrepreneurs access support for growth
Ontario Centres of Excellence	OCE	These centres help drive entrepreneurial growth in Ontario. BDC signed an MOU with OCE to assist their clients through OCE's Voucher for Innovation and Productivity program
RiSE Asset Management	Rotman School of Management	BDC has partnered with this institution to provide funding through the RiSE mentorship and coaching program. BDC is supporting people with mental health challenges who are using entrepreneurial projects to succeed
Southern Interior Development Initiative Trust	SIDIT	SIDIT supports strategic investment in economic development projects in British Columbia. BDC is an alternative funding and risk-sharing resource
TAO Asset Management	TAO	BDC partners with TAO in the securitization market to deliver the Funding Platform for Independent Lenders

STRATEGIC RELATIONSHIPS		
Aéro Montréal		This strategic think tank for Quebec's aerospace cluster was created in 2006. It comprises all the major decision-makers in Quebec's aerospace sector, including companies, educational and research institutions, associations and unions
Caisse de dépôt et placement du Québec	CDP	The Caisse is a long-term institutional investor that manages funds, primarily for public and para-public pension and insurance plans. As one of Canada's leading institutional fund managers, the Caisse invests globally in major financial markets, private equity, infrastructure and real estate
Canadian accelerators	Various	BDC Capital has close ties with select accelerators across Canada (▸page 24) to enable the growth of new Canadian technology start-ups. BDC Capital issues convertible notes to some of the graduates of these programs
Canadian Bankers Association	CBA	BDC maintains a sound working relationship with the CBA, which contributes to the development of public policy on issues that affect financial institutions. There is now a dedicated resource to manage the relationship
Communitech Hub		BDC is a sponsor of this industry-led innovation centre, which supports and fosters a community of nearly 1,000 tech companies in the Waterloo region
Credit Union Central of Canada	BDC–CUCC Liaison Committee	BDC maintains a sound working relationship with Canadian Central, the national forum for the Canadian credit union system. This liaison committee was formed to encourage complementarity and increase communication between senior leaders of BDC and the credit union system
MaRS Centre for Impact Investing	MaRS	BDC is a sponsor of this Ontario social financing hub and incubator for projects that deliver both a social or environmental benefit and an economic return
Michelin Tire	Michelin Development Nova Scotia	Michelin Development is a community development program which assists in the creation of new jobs in the small business sector by providing low-interest business loans and small business expertise to eligible applicants
National Research Council of Canada	NRC	BDC works with NRC and NSERC to increase opportunities for joint funding; improve access to complementary federal funding; improve access to investment capital; and, increase awareness of partnership opportunities and available funding programs
Natural Sciences and Engineering Research Council of Canada	NSERC	
Ontario Aerospace Council		This organization enhances recognition of Ontario's capabilities as a leader in global aerospace markets. BDC is working with the council to build greater expertise to assure continued growth and prosperity
Financial institutions		Collaboration with Scotiabank, BMO Bank of Montreal, National Bank of Canada, TD Bank, Scotiabank, Royal Bank of Canada, and several credit unions
Whitehorse Chamber of Commerce		BDC provides webinars, meetings and seminars and offers advisory services to chamber members

MEMBERSHIPS		
Association of Development Financing Institutions in Asia and the Pacific	ADFIAP	BDC partners with associations around the world, such as ADFIAP and ALIDE, to gain insight into foreign markets and assist Canadian businesses with their global expansion plans
Latin American Association of Development Financing Institutions	ALIDE	
Canadian Venture Capital & Private Equity Association	CVCA	BDC maintains a sound working relationship with the CVCA, which is a leading source of advocacy and professional development for venture capital and private equity professionals
Centre for Business Innovation	CBI	Part of the Conference Board of Canada, the CBI conducts research on how Canadian companies incorporate innovation into their operations. BDC is a member of the CBI
Global Commerce Centre	GCC	Part of the Conference Board of Canada, the GCC examines issues related to trade and international business. BDC is a member of the GCC
Lending Practitioners Forum		BDC participates in this initiative, spearheaded by the Canadian Bankers Association, which also involves the major chartered banks and EDC
The Montreal Group	TMG	Initiated by BDC, TMG is a global forum for state-supported financial development institutions. The goal is to encourage the exchange of ideas and best practices with the aim of assisting micro, small and medium-sized enterprises with their business challenges. Members include: Banco Nacional De Desenvolvimento Economico E Social (BNDES–Brazil), Banque Publique d'Investissement (Bpifrance–France), China Development Bank (CDB–China), Nacional Financiera Banca de Desarollo (Nafinsa–Mexico), Small Industrial Development Bank of India (SIDBI–India), Vnesheconombank (VEB–Russia) and Finnvera (Finland)
QG100		BDC participates in this private group of chief executive officers from Quebec, which supports the development of global leaders
OG100		BDC participates in this newly created private group of chief executive officers from Ontario, which supports the development of global leaders

Appendix A to the Corporate Plan: Governance

The Corporate Plan is the centerpiece of the accountability process adopted by the Parliament for Crown corporations and is an important element of BDC's governance structure. As a federal Crown corporation, BDC uses its Corporate Plan to keep ministers and government officials abreast of its activities. BDC also interacts on a regular basis with government officials to ensure alignment with government priorities and to provide updates on BDC's work.

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 Innovation, Science and Economic Development.

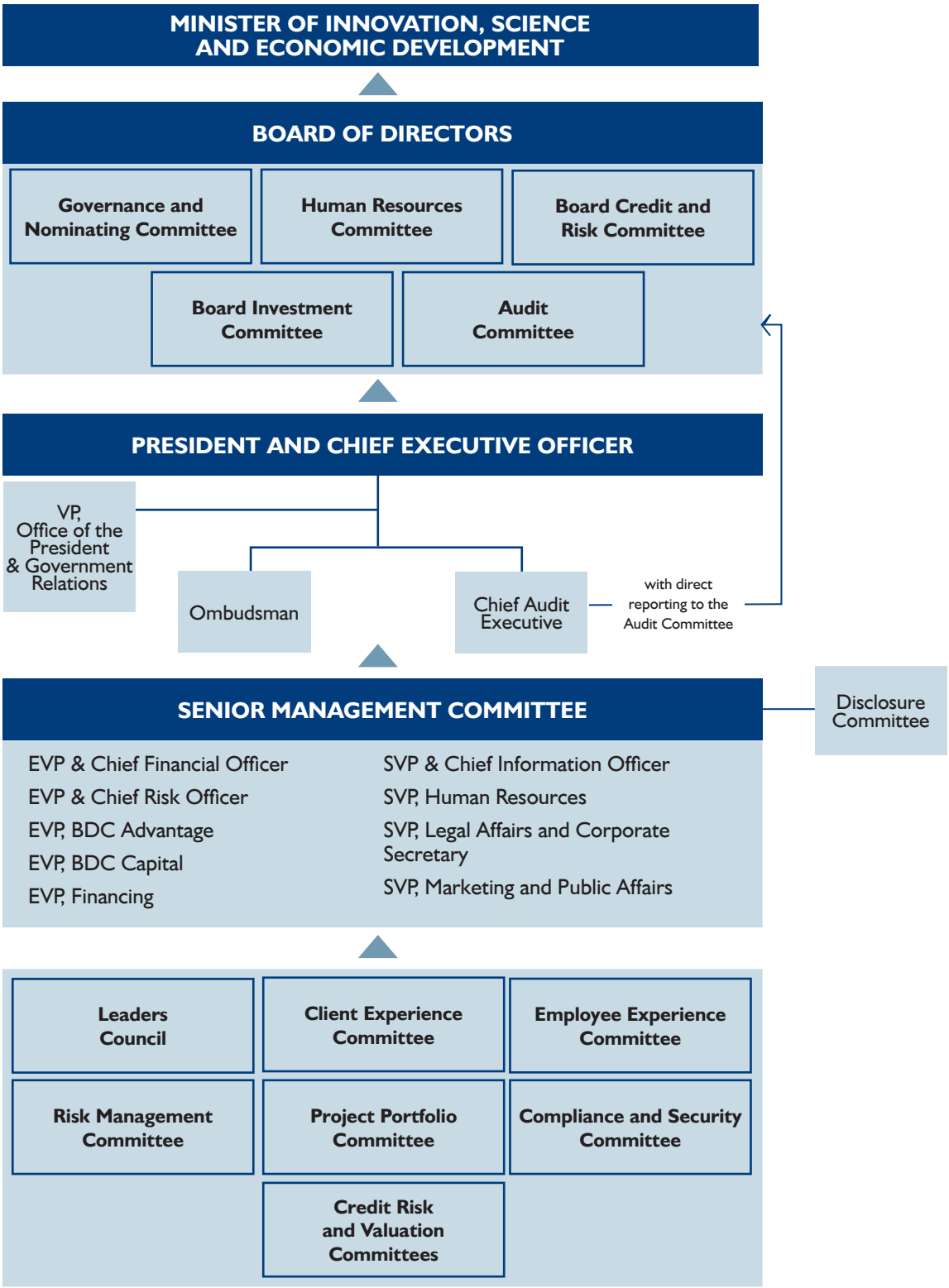
An independent Board of Directors, supported by various committees, ensures a high standard of corporate governance. BDC's president and CEO sits on and reports to the Board. The Board's duties are to:

- 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 and evaluate 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
- ensure that BDC is meeting the provisions of the *BDC Act*.

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, recommending to the Board for approval 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
- reporting and making recommendations to the Board

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 reporting and disclosures
- review the adequacy and effectiveness of internal controls, and, in particular, major accounting and financial reporting systems
- oversee BDC's standards of integrity and conduct
- oversee the process for disclosing wrongdoing
- review the adequacy of internal and external auditors
- give advice and recommendations about the appointments and terms of auditors and special examiners
- oversee the corporate compliance function, which reports directly to it
- review the scope and 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 and work of the Chief Audit Executive, who reports directly to the Committee and administratively to the President and CEO
- oversee capital management and adequacy
- review directors' and officers' expenses

Credit and Risk

This committee's main duties are to:

- identify and manage BDC's principal risks
- recommend the Risk Appetite Framework to the Board
- monitor compliance with and assess the effectiveness of BDC's Risk Appetite Statement and the stress-testing models and limits contained in it
- oversee the work of the Chief Risk Officer and the Risk Oversight Functions
- regularly review the Enterprise Risk Management Policy and other policies concerning key risks such as credit, market, strategic, reputational, operational, legal and other principal risks
- approve the framework for the approval of new products and services, except those related to VC
- approve an operational risk framework
- review reports and indicators related to enterprise risk management, portfolio risk management, capital adequacy, treasury operations risks and IT security
- approve new business activities, products and services, except those related to VC
- periodically review the business continuity plan
- approve loans and transactions that exceed the delegated authorities of senior management
- review policies and guidelines related to the delegation of authority for all financial products, except VC 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 in Canada and, if necessary, recommend changes to BDC's approach
- annually 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
- monitor procedures established to detect and manage potential conflicts of interest
- regularly review the mandates, structures and memberships of the Board and its committees
- develop selection criteria for the President and CEO position
- recommend to the Board, for the consideration of the Minister of Innovation, Science and Economic Development, the appointment of members
- provide a description of the needs and oversee the process to identify the best candidates for the positions of the President and CEO and members
- review and annually approve the list of skills and competencies directors require
- develop processes to assess the performance of the Board, its committees and its individual members
- ensure that comprehensive director orientation and continuous training programs are in place

Human Resources

This committee's main duties are to:

- oversee the management of human capital to ensure BDC delivers on its mandate
- assess the "tone at the top" established by senior management with respect to integrity and ethics
- recommend to the Board the human resources strategy
- 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, the Chief Risk Officer and the Ombudsman, as well as any CEO proposal for major changes to the organization's structure
- monitor risk associated with the Senior Management Committee who is responsible for the day to day operation of the Bank
- assess the CEO's objectives and performance
- review compensation for the Senior Management Committee and the Chief Audit Executive
- review and approve the design of compensation programs and material payments taking into consideration the risks to which BDC is exposed
- 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
- ensure there is a valid succession plan in place
- review the recommendations from management on asset allocation and investment policies and strategies regarding pension funds
- ensure that pension funds investments comply with established policies
- review the pension funds' actuarial valuation reports and financial statements
- monitor the performance of the funds and the managers

Investment

This committee's duties are to:

- review all strategies, guardrails and capital allocations for all material investment activities, including venture capital and private equity
- review strategic initiatives aimed at improving the venture capital ecosystem
- assess all risks associated with investments and the management thereof
- regularly review the Investment Policy, and other policies and processes for investment activities and related risks
- approve the business plan of the three venture capital internal funds, as well as investment strategies, the capital allocation and guardrails
- review and recommend delegations of authority
- monitor portfolio performance
- 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 a Board-approved risk appetite statement, risk policies and delegated authorities and limits.

The risk appetite statement enables BDC to articulate and monitor its risk profile against defined risk appetite limits, taking action as needed to maintain a balance of risk and return. The statement is based on qualitative and quantitative measures that demonstrate the Board's vision for managing the risks that BDC is willing to accept in the execution of its mandate.

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 providing advice and training and ensuring compliance to various legal obligations including policies and corporate directives.

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

- ensure that BDC applies sound risk management principles, appropriate policies and corporate directives to manage significant and emerging risks, according to risk thresholds outlined in the risk appetite statement
- develop tools to measure, monitor and report on these risks
- provide timely and complete reports on these risks to the organization's risk management committees, the senior management committee and the Board

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 through a governance framework of Board and senior management committees, and 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.

DEFINE RISK APPETITE

BDC articulates in written form, and communicates in qualitative statements and quantitative measures, its risk appetite statement which outlines the board and management's vision for managing significant risks that BDC is willing to accept or wants to avoid in the execution of its strategy.

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
- quality reviews and audits to ensure that BDC is using appropriate and sound risk management practices (every quarter, the Internal Audit Department presents the results of the audits to the Audit Committee)

Appendix C to the Corporate Plan: Response to the Office of the Superintendent of Financial Institutions' Recommendations

In an effort to monitor evolving financial risks to which the government may be exposed and to ascertain whether those risks are adequately managed, the Office of the Superintendent of Financial Institutions (OSFI) was mandated by the government to review BDC's operations, management and oversight of risks.

OSFI's report acknowledges that BDC's practices are in evolution and that numerous enhancements to its risk management and control framework have been introduced in recent years. The report also provides guidance on areas for enhancement, notably associated with clarifying elements within the governance framework and expanding the risk management infrastructure into a more integrated function.

In response, BDC has prepared an action plan to address the recommendations noted in OSFI's report, grouped around five themes:

1. Governance—ensure clear delineation of roles and responsibilities, as well as oversight accountability, for the Board and senior management
2. Integrated risk framework—continue the evolution and implementation of BDC's risk governance framework to ensure all risks facing BDC are captured on an aggregate basis in order to provide an accurate, timely and holistic assessment of its risk profile
3. Management information systems and reporting—assess data collection and reporting capabilities to assess risk
4. Processes—ensure that standardized, regular and repeatable processes are in place to ensure consistent application of policies
5. Documentation—ensure proper documentation of policies, processes and practices

BDC is committed to investing in further enhancing its risk governance framework and will continue working to successfully implement OSFI's recommendations in a timely and successful manner, in a way that does not hinder its ability to deliver on its core mandate of providing support to Canadian SMEs.

Appendix D to the Corporate Plan: Update on new amendments to the *BDC Act*

As a result of the 10-year legislative review, amendments to the *BDC Act* received Royal Assent on December 16, 2014. Since then, BDC has made progress on leveraging these new amendments to have greater impact on Canadian entrepreneurs.

Amendments	What BDC is doing
Allow BDC to make loans or give guarantees to enterprises located abroad that are totally or partially owned by Canadians, under limited circumstances	To support clients that wish to expand abroad, BDC is reaching out to its domestic and international networks and contacts in large, nearby markets to which Canada enjoys privileged access. In this way, BDC will take an informed and complementary approach to international markets that leverages Canadian and global partners. Moreover, BDC is now ready to make loans and disburse funds to enterprises located in the U.S. which are totally or partially owned by Canadians. It has created a set of standard documentation that can be used with clients operating in the U.S. market and opened a bank account in the U.S. to avoid unnecessary delays in the disbursements of funds to clients.
Allow BDC to invest in non-Canadian investment funds as long as a majority of the fund managers are residing in Canada and that the fund has an investment strategy that reflects an ongoing commitment to invest in Canada	BDC Capital is actively looking for opportunities to use this expanded power.
Allow BDC to provide financial services directly or indirectly to not-for-profit organizations	BDC has had a longstanding relationship with Futurpreneur, a not-for-profit organization. In addition to matching financing offered to aspiring business owners, BDC further increases support to young entrepreneurs by guaranteeing Futurpreneur's loan portfolio.
Modernize the scope of management services and require that these services be complementary to those offered by the private sector	As a development bank, BDC's advisory services are complementary to the market in that they: > support the development of small consulting firms by partnering with them to offer services to SMEs > complement other consulting firms by offering a range of services aligned to the reality and price point of SMEs > are offered to all types of entrepreneurs in every region, including rural Canada BDC will continue to refine and develop its non-financial service offering to further complement BDC and private sector offerings, to better serve Canadian SMEs.
Modernize certain governance provisions	BDC is fully aligned with these new provisions.

The following amendments are subject to new regulations. So far, BDC has not seen a need for new regulations, but it is continuing to monitor SME needs:

> Allow BDC to extend credit or provide liquidity to SMEs with additional financing tools, in keeping with its complementary role

> Allow BDC to provide additional management services, in keeping with its complementary role

> Allow BDC to make direct investments in a corporation, trust, partnership or joint venture outside Canada, under limited circumstances

Financial Plan

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

- global economic growth is expected to be moderate in the years ahead while U.S. economic growth should continue
- Canada's annual GDP growth is expected to be modest, between 1% and 2%
- the stimulating effects on the Canadian economy of the growing U.S. economy and expected spending on infrastructure will be diminished by low commodity prices, slow productivity growth and an aging population
- the price of crude oil should remain low, with global demand continuing its upward trend, leading to a negative effect on support services and investment in the energy sector
- the Canadian dollar is expected to remain weak against the American currency, which will benefit exporters but could continue to curtail imports of machinery and equipment
- credit conditions should remain favourable to Canadian businesses; however some gaps still exist in the market

Financing

Financing plays an important role in facilitating access to funding for entrepreneurs and supporting the competitiveness of SMEs, including those that have difficulty accessing financing due to location, sector or demographic. With high liquidity in the market, BDC anticipates that acceptances, measured in dollars, in fiscal 2017 will not be as high as expected in last year's plan as shown in table 2. However, BDC will continue to play its complementary role by focusing on the following:

- BDC is intensifying its efforts to help SMEs affected by the drop in the price of oil. Following a successful first relief program, it announced in November 2015 additional support to help a greater number of entrepreneurs who present higher risk profiles. It is also offering a unique financing and consulting bundle to better address entrepreneurs' needs as well as developing an approach to act as a financing intermediary between suppliers and oil and gas producers
- Financing is maintaining a focus on small loans to help small entrepreneurs buy equipment to increase productivity, innovate through ICT, and upgrade production capacity to respond to increase demand or competition. Financing's commitment to small loans is paying off, with 8,940 small loans authorized in fiscal 2015, a 10% increase compared to the previous year, and are expected to continue to increase
- BDC will continue to deploy its initiative to increase its reach and visibility, specifically in Western Canada and Ontario where it feels that its geographic presence should be better aligned with market realities. BDC will be repositioning its brand, investing in marketing, in communications and advertising over the planning period, while continuing to open new business centres and shared offices with partners, relocate offices, and strengthen relationships with stakeholders and partners. BDC is on target to meet its four-year objectives. As at December 31, 2015, BDC had opened two new business centres, added nine shared offices, relocated nine centres and hired 69 new employees across the country.

To reflect all these efforts, Financing expects the number of acceptances to increase to 14,650 in fiscal 2017. In dollars, the increase will be to $5.2 billion in fiscal 2017.

BDC also offers indirect support to Canadian SMEs through its Portfolio guarantee program. This increases the risk appetite of other lenders by guaranteeing and "de-risking" finance transactions. With $320 million in guarantees to the Laurentian Bank of Canada and Futurpreneur Canada in fiscal 2016, BDC forecasts guarantees of $350 million in fiscal 2017, as reflected in table 2.

As shown in table 3, Financing's portfolio is forecast to grow to $21.4 billion in fiscal 2017. Compared to last year's plan, portfolio growth has slowed due to an increase in prepayments, reflecting strong credit conditions. This is in line with BDC's countercyclical role: as financial institutions limit credit in trying times, SMEs turn to BDC to finance their projects. On the other hand, when credit conditions are strong as is currently the case, SMEs are able to access funding at lower interest rates from other financial institutions.

Credit quality of the Financing portfolio is expected to decrease slightly in fiscal 2017, reflecting uncertainty in the economy and increased efforts to support firms impacted by the drop in the price of oil, especially those that have a higher risk profile. As such, provisions for credit losses as a percentage of the average portfolio outstanding are expected to increase from historical low levels to 0.8% in fiscal 2016, to 0.9% in fiscal 2017. This should cause Financing's net income to decrease slightly in fiscal 2017 to $422 million but will then increase in the following years.

As a result of BDC's investment in marketing to increase its visibility and expenses related to the implementation of recommendations from the Office of the Superintendent of Financial Institutions' report on BDC's operations, management and oversight of risks, operating expenses as a percentage of the average portfolio outstanding are forecast to increase slightly in fiscal 2017.

Table 1: Financing Net Planned Acceptances (#)	Actual 2015	Estimate 2016	Proposed 2017
CP 2016-17 to 2020-21	12,011	13,700	14,650

Table 2: Financing Net Planned Acceptances ($ millions)	Actual 2015	Estimate 2016	Proposed 2017
CP 2016-17 to 2020-21 without Portfolio guarantee program	4,692	4,800	5,150
CP 2016-17 to 2020-21 with Portfolio guarantee program		5,120	5,500

Table 3: Financing Portfolio Outstanding ($ millions)	Actual 2015	Estimate 2016	Proposed 2017
CP 2016-17 to 2020-21	18,990	20,301	21,419

Table 4: Financing Net Income ($ millions)	Actual 2015	Estimate 2016	Proposed 2017
Net interest income	**885**	**958**	**1,013**
Fee and other income	15	17	18
Net realized gains (losses) on other financial instruments	1	–	–
Net revenue	**901**	**975**	**1,031**
Provision for credit losses	(96)	(148)	(198)
Net unrealized gains (losses) on other financial instruments	(4)	4	(1)
Income before operating and administrative expenses	**801**	**831**	**832**
Operating and administrative expenses	347	377	410
Net income	**453**	**454**	**422**
As a % of average outstanding			
Net interest income	4.8	4.9	4.8
Fee and other income	0.1	0.1	0.1
Net revenue	**4.9**	**5.0**	**4.9**
Provision for credit losses	(0.5)	(0.8)	(0.9)
Income before operating and administrative expenses	**4.4**	**4.2**	**4.0**
Operating and administrative expenses	1.9	1.9	2.0
Net income	**2.5**	**2.3**	**2.0**
Average portfolio outstanding	**18,351**	**19,611**	**20,909**

Securitization

By partnering with the private-sector through securitization, BDC ensures that smaller financing companies can remain active in the market and able to provide financing for the vehicle and equipment needs of businesses and consumers, ultimately helping SMEs improve their productivity.

BDC partners with TAO Asset Management to offer the Funding Platform for Independent Lenders (F-PIL). Since F-PIL involves fewer deals for larger amounts, authorizations can fluctuate and be difficult to forecast. As at March 31, 2015, 9,115 SMEs had benefited indirectly from this program. Activity in fiscal 2016 surpassed expectations, with new issuers and higher disbursements. As table 5 shows, Securitization forecasts disbursements of $198 million in fiscal 2017. Net income is forecast to be in line with last year's plan at $3 million. Operating and administrative expenses should remain stable throughout the planning period.

Table 5: Securitization ($ millions)	Actual 2015	Estimate 2016	Proposed 2017
Authorizations	150	670	150
Disbursements	214	296	198
Portfolio at cost	407	495	483
Fair value allowance	4	1	2
Portfolio at fair value	**411**	**496**	**485**
Net revenue	**6**	**5**	**6**
Operating and administrative expenses	2	2	3
Net income	**4**	**3**	**3**

Growth & Transition Capital

Growth & Transition Capital offers cash flow, mezzanine, quasi-equity and equity solutions to growing firms with strong management and sound financial reporting. These types of higher-risk solutions can be a powerful fuel for firms that are poised to pursue growth opportunities that demand a substantial injection of capital, and useful for entrepreneurs planning management succession. They are suited to businesses with few tangible assets and entrepreneurs who don't want to dilute their ownership of the business.

Growth & Transition Capital also provides patient capital to companies that can no longer secure traditional financing, allowing them to focus on growth projects, despite difficult circumstances. As such, Growth & Transition Capital is playing an important role in BDC's strategy to support firms affected by the drop in the price of oil.

In addition to its focus on the oil and gas sector, over the course of the planning period, BDC will be accelerating the deployment of its growth equity solution to further address the needs of entrepreneurs for higher-risk growth capital. It is positioning itself as a management-friendly growth partner, sharing in the entrepreneur's vision as a long-term minority investor and tailoring solutions to the entrepreneur's needs with the goal to create more mid-sized companies capable of becoming Canadian champions.

BDC's initiative to increase reach and visibility is also expected to result in higher demand for Growth & Transition Capital products.

Acceptances are therefore expected to increase to $270 million in fiscal 2017, reflecting the focus on the oil on gas sector. This should bring the portfolio at fair value to $808 million. Operating and administrative expenses as a percentage of the average outstanding portfolio are expected to decrease to 4.1%, reflecting improved efficiency. As a result, net income for Growth & Transition Capital is expected to increase to $36 million in fiscal 2017.

Table 6: Growth & Transition Capital – Financial Forecasts ($ millions)	Actual 2015	Estimate 2016	Proposed 2017
Acceptances (#)	177	170	180
Acceptances ($)	232	250	270
Growth % — Acceptances ($)	24.1%	7.8%	8.0%
Portfolio at fair value	**643**	**712**	**808**
Net interest income	**53**	**57**	**63**
Net realized gains (losses) on investments and write-offs	(23)	(9)	(22)
Fee and other income	27	26	28
Net revenue	**57**	**74**	**69**
Net fair value change	(9)	(17)	(24)
Fair value adjustments due to realized gains (losses) and write-offs	18	9	23
Income before operating and administrative expenses	**66**	**66**	**68**
Operating and administrative expenses	27	30	32
Net income	**39**	**36**	**36**
Net income attributable to:			
BDC's shareholder	37	35	36
Non-controlling interests*	2	1	–
Net income	**39**	**36**	**36**
As a % of average outstanding			
Net interest income	**8.5**	**8.2**	**8.1**
Net realized gains (losses) on investments and write-offs	(3.7)	(1.3)	(2.8)
Fee and other income	4.3	3.7	3.6
Net revenue	**9.1**	**10.6**	**8.9**
Net fair value change	(1.4)	(2.4)	(3.1)
Fair value adjustments due to realized gains (losses) and write-offs	2.9	1.3	3.0
Income before operating and administrative expenses	**10.6**	**9.5**	**8.8**
Operating and administrative expenses	4.3	4.3	4.1
Net income	**6.3**	**5.2**	**4.7**

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

Venture Capital

BDC's strategy for direct and indirect VC investing, complemented by innovative work in the VC ecosystem to support Canadian technology companies and return the VC market to health, has yielded positive results. Canadian VC investments have increased since 2010 and company valuations have improved across all sectors and stages. Canada has climbed from 13th place in 2009 to 2nd place in 2014 in terms of VC investments as a percentage of gross domestic product relative to 15 peer countries, according to the Conference Board of Canada.

BDC's indirect VC, 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 to private-sector funds that have a clear sector focus and recognized expertise. The indirect investing strategy is generating positive results, with the Fund of Funds portfolio performing at all-time highs. BDC intends to increase the scale of its indirect investing to further complement those made by the Venture Capital Action Plan with the goal of sustaining market momentum.

With its direct VC investing strategy, BDC manages three internal investment funds that emulate the best practices of the private sector and are focused on building leading Canadian technology businesses in the IT, healthcare, and industrial/clean/energy technology sectors. BDC is also helping to restore VC as an attractive asset class for institutional investors, with two of the funds (IT and healthcare) outperforming industry benchmarks. In response to market demand, BDC has allocated an additional $150 million to create a second IT fund while the other two funds are developing strategies to secure additional capital to meet investment demand.

BDC also has direct VC investments via the Diversified Portfolio and Go Capital, whose main objectives are to maximize the proceeds of their maturing investments. Go Capital is a fund that supports the creation of companies in all sectors of science and technology in Quebec. The Diversified Portfolio and Go Capital no longer invest in new companies but will do follow-on investing in their existing portfolios.

BDC is rolling out its co-investment initiative to invest in companies alongside its indirect fund partners. This approach is addressing the need for: increased funding for emerging sectors; the need to help Canada's best technology companies access additional capital necessary to reach scale; and the need to balance early stage capital with greater late-stage domestic VC funding.

To help rebuild the VC ecosystem, BDC also relies on its Strategic initiatives and partnerships (SIP) team. It is developing innovative initiatives to reinforce key areas of the ecosystem and making direct and indirect investments that fill financing gaps, focusing on early stage investments, angels and accelerators. Building off SIP, the government asked BDC to invest $100 million of its own capital in these areas through the Venture Capital Strategic Investment Plan (VCSIP). While VCSIP will end in fiscal 2018, BDC will continue to provide this type of support through SIP. Going forward, indirect support formerly undertaken under SIP will be integrated into VC's indirect investing strategy.

Due to increased projected activity in indirect investing and the allocation of additional capital to its internal funds, authorizations forecast are higher than last year's plan. In fiscal 2017, BDC expects to authorize $250 million in direct and indirect VC investments.

As shown in table 8, BDC's VC portfolio performance has improved due to increased company valuations. As the portfolio matures over the planning period, BDC expects a higher level of exits which may occur through acquisitions or initial public offerings (IPOs). There is uncertainty over BDC's expected VC returns due to a recent slowdown in U.S. exit activity, potential volatility of public markets

and that in general, exits are difficult to predict. In fiscal 2017, BDC is expected to disburse $158 million in VC and receive exit proceeds of $100 million. The portfolio fair value is expected to increase to $995 million.

Net income (table 9) was positive in fiscal 2015 for the first time since fiscal 2001 and profits are expected over most of the planning period. Net income is expected to be $70 million in fiscal 2016 which is higher than last year's forecast. This is due to increased valuations of direct and indirect investments and the positive effect of foreign exchange. In fiscal 2017, BDC expects a net loss of $20 million due to increasingly uncertain market conditions.

While BDC is optimistic about the direction of its strategy over the planning period, VC is a risky asset class that is subject to volatility of market conditions.

Table 7: Venture Capital – Authorizations ($ millions)	Actual 2015	Estimate 2016	Proposed 2017
IT	17	20	15
Healthcare	37	40	18
Industrial, Clean and Energy Technology	26	16	10
IT II	5	38	14
Healthcare II	–	–	8
Industrial, Clean and Energy Technology II	–	–	5
Co-investment	–	4	15
Diversified	10	8	1
Go Capital	3	4	4
SIP	–	–	–
VCSIP	7	10	10
Direct investments	**105**	**140**	**100**
Fund of Funds	56	95	125
SIP	11	15	15
VCSIP	13	10	10
Indirect investments	**80**	**120**	**150**
Total authorizations	**185**	**260**	**250**

Table 8: Venture Capital – Net Investing Activity and Portfolio ($ millions)	Actual 2015	Estimate 2016	Proposed 2017
Proceeds	23	90	100
Disbursements (excludes operating and administrative expenses)	(190)	(223)	(158)
Net investing activity	**(167)**	**(134)**	**(58)**
Portfolio at cost	690	816	861
Portfolio at fair value	710	934	995
Fair value / cost	103%	114%	116%

Table 9: Venture Capital – Net Income ($ millions)	Actual 2015	Estimate 2016	Proposed 2017
Net realized gains (losses) on investments	1	21	(2)
Write-offs	(13)	(30)	(11)
Net realized gains (losses) on investments and write-offs	**(12)**	**(9)**	**(13)**
Fee and other income	2	3	–
Net realized gains (losses) on other financial instruments	(6)	–	–
Net revenue (loss)	**(16)**	**(6)**	**(13)**
Net fair value change	20	48	(23)
Fair value adjustments due to realized gains (losses) and write-offs	11	18	40
Net unrealized foreign exchange gains (losses) on investments	28	32	–
Net unrealized gains (losses) on financial instruments	2	–	–
Income before operating and administrative expenses	**45**	**92**	**4**
Operating and administrative expenses	22	22	24
Net income (loss)	**23**	**70**	**(20)**
Net income (loss) attributable to:			
BDC's shareholder	25	73	(17)
Non-controlling interests*	(2)	(3)	(3)
Net income (loss)	**23**	**70**	**(20)**

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

Table 10: Venture Capital – Net Income by Fund ($ millions)	Actual 2015	Estimate 2016	Proposed 2017
Net income (loss) by funds			
IT	–	(5)	(7)
Healthcare	4	44	(4)
Industrial, Clean and Energy Technology	9	9	–
IT II	–	1	–
Healthcare II	–	–	–
Industrial, Clean and Energy Technology II	–	–	–
Co-investment	–	–	–
Direct internal investments	**13**	**49**	**(11)**
Diversified	(10)	1	15
GO Capital	(5)	(6)	(5)
Direct legacy investments	**(15)**	**(5)**	**10**
Total direct investments	**(2)**	**44**	**(1)**
Fund of Funds	29	29	(11)
SIP	(1)	(1)	(5)
VCSIP	(3)	(2)	(3)
Net income (loss) by funds	**23**	**70**	**(20)**

BDC Advantage

BDC Advantage, a new business line that builds on its approach to non-financial services. It encompasses BDC's existing consulting business and other non-financial services including new offerings for Canada's high-impact firms, an enhanced offering to help businesses globalize as well as other services that will be developed in the coming years. Most of what BDC Advantage does is considered an investment in helping Canadian firm competitiveness. BDC takes on a great proportion of the costs associated with these activities and initiatives to ensure that firms can reap maximum benefits. As such, a net loss is forecast over the planning period, with $54 million in fiscal 2017 (table 11).

Table 11: BDC Advantage (Consulting + Other non-financial services) – Financial Forecasts ($ millions)	Actual 2015	Estimate 2016	Proposed 2017
Revenue from activities	17	17	20
Operating and administrative expenses including delivery and transition costs	41	52	74
Net income (loss)	**(24)**	**(35)**	**(54)**

Consulting

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, it 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.

To address this market gap and to improve access, efficiency and affordability, BDC initiated in fiscal 2015 a three-year initiative to transform the content, methodologies and processes of its consulting services. Results have been significant so far, and the initiative is on track to deliver on its objectives.

As shown in table 12, revenues for BDC Consulting are expected to be $18 million in fiscal 2017, reflecting increased reach in the marketplace.

In its role as a development bank, BDC assumes a portion of costs associated with the provision of its services, which often entails working with external firms to provide services to entrepreneurs. In fact, 75% of consulting projects are delivered through third-party consultants to whom BDC pays a market rate. In this way, BDC leverages the private sector, helping to ensure the complementarity of its approach.

In addition to its client facing activity, Consulting also develops seminars and online educational material that help entrepreneurs solve business challenges. These costs, in addition to those related to the management of its network of external consultants, are not transferred to clients. As a result, the consulting practice incurs net losses expected at $32 million in fiscal 2017.

Table 12: Consulting – Financial Forecasts ($ millions)	Actual 2015	Estimate 2016	Proposed 2017
Revenue from activities	17	17	18
Delivery costs	8	10	10
Margin	9	7	8
Operating and administrative expenses	31	34	38
Net income (loss) before transition costs	**(22)**	**(27)**	**(30)**
Transition costs	2	3	2
Net income (loss)	**(24)**	**(30)**	**(32)**
Cost recovery ratio (%)*	51	45	45

*Revenue from activities / operating and administrative expenses (excluding transition costs and corporate allocation)

Other non-financial services

To help some of Canada's most promising firms contribute fully to the economy, BDC has begun implementing a new approach to facilitate access by high-impact firms to the best solutions available at each stage of their development. The High-impact firm program is composed of two elements:

- The Accelerator program (internal working title) focuses on an in depth and long term strategic advisory relationship with executives of selected companies, with services being offered for a fee to ensure full engagement of participating companies. The program is being deployed gradually, with a Beta phase launched in fiscal 2016 and a national launch planned for fiscal 2017.
- The Impact Exchange program (internal working title) offers a platform for skill-building, learning and peer-to-peer networking to a greater number of entrepreneurs and mid-sized firms. A pilot is expected in Ontario in fiscal 2017.

BDC's non-financial services also include its approach to international expansion and other elements that will be developed over the next years, such as a suite of tailored educational materials and classes for entrepreneurs.

Funded from within BDC's overall operating budget, BDC Advantage's other non-financial services are investments in SME competitiveness and as such are expected to incur a net loss of $22 million in fiscal 2017. This loss is higher than in last year's plan as non-financial services were expanded to include, in addition to the Accelerator program, the Impact Exchange program, international expansion activities as well as other products and solutions to be developed. In addition to standard operating costs and overhead, the loss is also driven by increased operating expenses related to hiring of staff, investments in systems and tools and in the development and strengthening of new partnerships required to support these activities.

Table 13: Other non-financial services ($ millions)	Actual 2015	Estimate 2016	Proposed 2017
Net Revenue	–	–	2
Operating and administrative expenses	–	5	20
Net income (loss) before implementation & development external costs	**–**	**(5)**	**(18)**
Implementation & development external costs	–	–	4
Net income (loss)	**–**	**(5)**	**(22)**

Venture Capital Action Plan

BDC is playing a leadership role in strengthening the Canadian VC ecosystem. Recognizing the importance of VC to Canada's economic prosperity, the government asked BDC to manage the $400 million Venture Capital Action Plan (VCAP) 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. Under VCAP, $350 million from the government is being used to leverage up to $1 billion in private sector capital to establish or recapitalize large private sector Funds of Funds. VCAP also includes $50 million for high-performing VC funds.

The four private sector Funds of Funds created under VCAP are now operational and the program is well on its way to reach its target size of $1.4 billion. As at December 31, 2015, more than $1.2 billion was raised under VCAP and 16 Canadian VC funds had received funds. As at March 31, 2015, 62 Canadian companies had received $95 million in investments.

VCAP's success in attracting significant private sector capital back into the VC ecosystem has helped increase both the depth and breadth of VC activity in Canada. With VCAP Funds of Funds active in the market, emerging VC managers are finding new sources of capital to raise their funds while Canada's more established VC managers have been able to scale their funds to better support Canada's best in class technology companies while they grow and expand into international markets.

VCAP Funds of Funds will continue disbursements over the planning period. As these exceed capital available, BDC expects an additional capital injection of $200 million in fiscal 2017. Through the issuance of common shares which are not included in the calculation of dividends, BDC already received a capital injection of $50 million in fiscal 2014 and of $150 million in fiscal 2016.

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

Table 14: VCAP – Financial Forecasts ($ millions)	Actual 2015	Estimate 2016	Proposed 2017
Authorizations	**115**	**63**	**–**
Disbursements	**46**	**117**	**119**
Proceeds	**–**	**–**	**–**
Portfolio at cost	**52**	**169**	**287**
Portfolio at fair value	**47**	**150**	**250**
Net realized gains (losses) on investments	–	–	–
Fee and other income	–	–	1
Net revenue	**–**	**–**	**1**
Net fair value changes	(3)	(15)	(19)
Income before operating and admin. expenses	**(3)**	**(15)**	**(18)**
Operating and admin. expenses	1	1	1
Net income (loss)	**(4)**	**(16)**	**(19)**

Consolidated Portfolio and Net Income

Table 15 shows the composition and growth of BDC's consolidated outstanding portfolio in dollars. From fiscal 2015 through the planning period, the portfolio is expected to increase, reflecting the impact of the initiative to improve reach and visibility.

BDC consolidated net income, shown in table 16, is expected to remain at a financially sustainable level. From $512 million in fiscal 2016, it should decrease to $368 million in fiscal 2017, in part due to costs linked with increasing reach and visibility, helping firms impacted by the price of oil, and the deployment of the high-impact firm approach.

Table 15: Consolidated BDC Portfolio – as at March 31, in $ millions, growth in % (right axis)

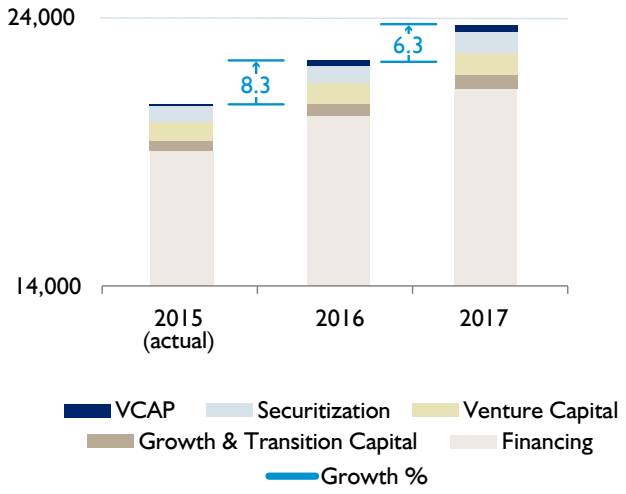


Table 16: Consolidated Net Income ($ millions)	Actual 2015	Estimate 2016	Proposed 2017
Financing	453	454	422
Securitization	4	3	3
Growth & Transition Capital	39	36	36
Venture Capital	23	70	(20)
BDC Advantage	(24)	(35)	(54)
Venture Capital Action Plan	(4)	(16)	(19)
Net income	**491**	**512**	**368**
Net income (loss) attributable to:	–	–	–
BDC's shareholder	491	514	371
Non-controlling interests	–	(2)	(3)
Net income	**491**	**512**	**368**

Table 17: Consolidated Comprehensive Income ($ millions)	Actual 2015	Estimate 2016	Proposed 2017
Net income	**491**	**512**	**368**
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	–	(3)	1
Net change in unrealized gains (losses) on cash flow hedges	2	–	–
Total items that may be reclassified subsequently to net income	**2**	**(3)**	**1**
Items that will not be reclassified to OCI			
Remeasurements of net post-employment benefit liability	(33)	14	–
Other comprehensive income (loss)	**(31)**	**11**	**1**
Total comprehensive income	**460**	**523**	**369**
Total comprehensive income (loss) attributable to:			
BDC's shareholder	460	525	372
Non-controlling interests	–	(2)	(3)
Total comprehensive income	**460**	**523**	**369**

Efficiency Measures

Over the years, BDC has made a concerted effort to achieve efficiencies while fulfilling its role as a development bank and implementing government priorities. In fiscal 2016, Financing expects its reported efficiency ratio to be in line with last year's plan.

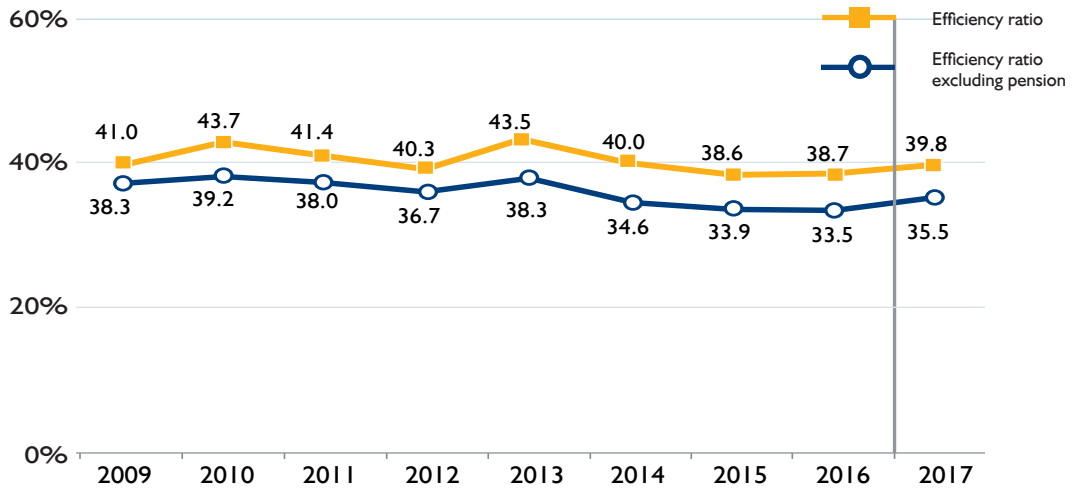
While it remains committed to ongoing improvements in efficiency, over the planning period BDC expects to incur increased operating expenses related to initiatives such as its efforts to improve reach and visibility, including increased investments in marketing.

Implementation of this initiative will result in an increase in the efficiency ratio for Financing to 39.8% in fiscal 2017, meaning that Financing will incur 39.8 cents of expense to earn one dollar of revenue.

Following the directive to Crown Corporations, BDC reviewed its pension plan to ensure that all employees hired after January 1, 2015 share pension costs with their employer at 50:50. For existing employees, contributions will increase progressively to reach 50:50 by 2017. Consequently, pension expenses on a per employee basis should decrease over the planning period. It should also be noted that, for employees hired on or after January 1, 2015, the age of retirement has been raised to 65.

Table 18: Financing Operating Expenses ($ millions)	Actual 2015	Estimate 2016	Proposed 2017
Total operating expenses	**347**	**377**	**410**
Less:			
Pension expense	42	50	44
Adjusted operating expenses (excluding pension)	**305**	**327**	**366**
Reported efficiency ratio (%)	38.6	38.7	39.8
Adjusted efficiency ratio, excluding pension (%)	33.9	33.5	35.5

Table 19: Historical Financing Efficiency Ratio – as at March 31 (%)



Capital Budget

In an effort to remain efficient and responsive to client needs, BDC invests in information technology (IT) and in its business facilities across Canada.

Facilities expenditures are expected to increase in the first years of the plan with the opening and relocation of business centres in line with BDC's initiative to increase its reach and visibility. In fiscal 2016, BDC renewed its lease for the head office and leasehold improvements will be undertaken, further raising facilities expenditures.

Capital expenditures in IT are expected to be lower than anticipated with the adoption of cloud solutions as opposed to in-house application development. Starting in fiscal 2017, an increase in the threshold of capitalizing property and equipment from $1,000 to $5,000, will also decrease IT's capital budget.

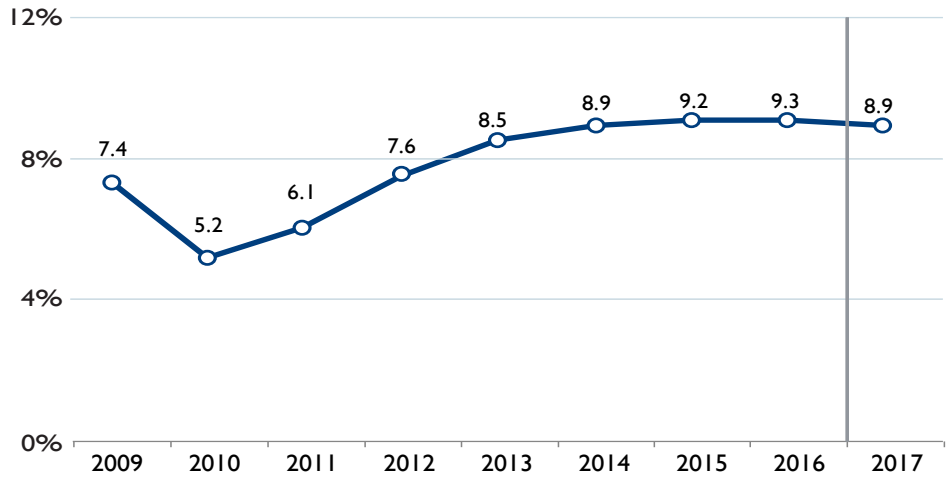
Projected Return on Common Equity

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 1.7%.

In fiscal 2017, the deployment of BDC's reach and visibility strategy and higher provisions for credit losses will have a slight negative impact of BDC's 10-year moving average return on equity, expected to be 8.9%.

Table 20: Capital Budget ($ millions)	Actual 2015	Estimate 2016	Proposed 2017
Facilities	3	5	18
Information technology	3	3	1
Total	**6**	**8**	**19**

Table 21: ROE 10-year Moving Average (%)



Statutory Limitations and Capital Adequacy

Dividend Policy

Common dividends are payable annually and fluctuate based on BDC performance. As shown in table 22, BDC is forecasting dividend payments of $66 million in fiscal 2017. BDC has paid $291 million in dividends in the past five years 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 3.2:1 in fiscal 2016 and should gradually decrease over the planning period, remaining well below the statutory limit. The total equity of BDC should increase to $5.4 billion in fiscal 2016 to $5.9 billion by the end of fiscal 2017.

BDC's paid-in capital limit was raised by the Budget 2009 Implementation Act to $3 billion from $1.5 billion, as originally set out in the BDC Act. BDC's paid-in capital is currently at $2.3 billion, but will increase to $2.5 billion following the capital injection required for VCAP.

Capital Status

To safeguard its financial sustainability, BDC ensures that it operates with an appropriate level of capital in order to support the demand for its current and future activities, in accordance with the level of risks taken and in alignment with its strategic objectives. BDC efficiently manages its capital using its internal capital adequacy assessment process (ICAAP), which is aligned with industry and regulators' practices.

BDC's ICAAP is based on economic capital models and forward-looking stress testing that identifies possible events or changes in market conditions that could adversely impact BDC. The philosophy behind BDC's ICAAP is to balance the requirements to fulfill its public policy mandate with the necessity to remain financially self-sufficient.

BDC employs rigorous models to assess demand for capital arising from credit, business, pension plan, interest rate and operational risks. Credit risk is by far the most important, representing 75% of BDC's economic capital required. Models are based on advanced quantification methods and internal risk-based assumptions. They consider both disbursed and undisbursed commitments. A key principle behind the economic capital models is the establishment of a target solvency level that is set at a credit rating of A.

In addition, BDC reserves capital for the investments it expects to make in its VC portfolio, through its internal direct investment funds and VCSIP for which the government requested that BDC set aside $100 million in capital.

Table 22: Dividends ($ millions)	Actual 2015	Estimate 2016	Proposed 2017
Dividends*	55	63	66

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

Stress Testing

In keeping with industry practices and the core tenets of sound financial and risk management, BDC conducts enterprise-wide stress tests on its significant risks and portfolios to determine an appropriate level of capital to withstand a sustained economic downturn. Specific scenarios are selected based on plausible but unlikely events considering BDC's idiosyncratic risks and vulnerabilities.

BDC is continuously enhancing its capital adequacy assessment and stress testing framework to reflect best industry practices, while considering both BDC's size and complexity as well as its public policy and sustainability mandates.

Treasury Board guidelines

Per the Treasury Board guidelines dated March 28, 1996, "the Bank (must) maintain capital and loss provisions sufficient to ensure that BDC can withstand unfavourable economic circumstances without requiring additional government funding."

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 VC investments (including VCAP)
- 10% of the fair value of F-PIL assets

BDC has also internally established a capital adequacy ratio of 10% for guarantees to reflect their relative risks. Guarantees include portfolio guarantees, loan guarantees and letters of credit. BDC's capital status under Treasury Board guidelines is expected to be $1.7 billion in fiscal 2016.

Appendix A to the Financial Plan: Financial highlights

Table 23 presents BDC's financial highlights. In fiscal 2017, BDC expects total revenues of $1.1 billion and a net income of $368 million, of which $371 million is attributable to BDC's shareholder.

Table 23: Consolidated Statement of Income ($ millions)	Actual 2015	Estimate 2016	Proposed 2017
Interest income	1,070	1,098	1,164
Interest expense	127	78	82
Net interest income	**943**	**1,020**	**1,082**
Net realized gains (losses) on investments	(35)	(18)	(35)
BDC Advantage revenue	17	17	20
Fee and other income	45	46	47
Net realized gains (losses) on other financial instruments	(5)	–	–
Net revenue	**965**	**1,065**	**1,114**
Provision for credit losses	(96)	(148)	(198)
Net change in unrealized appreciation (depreciation) of investments*	36	43	(3)
Net unrealized foreign exchange gains (losses) on investments	28	32	–
Net unrealized gains (losses) on other financial instruments	(2)	4	(1)
Income before operating and administrative expenses	**931**	**996**	**912**
Operating and administrative expenses	440	484	544
Net income	**491**	**512**	**368**
Net income (loss) attributable to:			
BDC's shareholder	491	514	371
Non-controlling interests	–	(2)	(3)
Net income	**491**	**512**	**368**

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

Table 24: Total Revenues by Business Line ($ millions)	Actual 2015	Estimate 2016	Proposed 2017
Financing	901	975	1,031
Securitization	6	5	6
Growth & Transition Capital	57	74	69
Venture Capital	(16)	(6)	(13)
BDC Advantage	17	17	20
Venture Capital Action Plan	–	–	1
Net revenues	**965**	**1,065**	**1,114**

Table 25 Operating Budget – Expenses ($ millions)	Actual 2015	Estimate 2016	Proposed 2017
Financing	347	377	410
Securitization	2	2	3
Growth & Transition Capital	27	30	32
Venture Capital	22	22	24
BDC Advantange	41	52	74
Venture Capital Action Plan	1	1	1
Total operating budget	**440**	**484**	**544**

Table 26: Projected Statement of Cash Flows ($ millions)	Actual 2015	Estimate 2016	Proposed 2017
Net cash flows provided by operating activities	(722)	(874)	(649)
Net cash flows used in investing activities	(367)	(424)	(281)
Net cash flows provided by financing activities	1,079	1,332	1,071
Net increase (decrease) in cash & cash equivalents	**(10)**	**34**	**141**
Cash & cash equivalents at beginning of year	677	667	701
Cash & cash equivalents at end of year	**667**	**701**	**842**

Table 27: Consolidated Statement of Financial Position (unaudited, in $ millions)	Actual 2015	Estimate 2016	Proposed 2017
ASSETS			
Cash and cash equivalents	667	701	842
Asset-backed securities	408	496	449
Loan Portfolio	18,944	20,326	21,498
Allowance for credit losses	(530)	(581)	(653)
Loan Portfolio (net)	18,414	19,745	20,845
Growth & Transition Capital investments	643	712	808
Venture Capital investments	710	934	995
Venture Capital Action Plan	48	150	250
	20,223	**22,037**	**23,347**
Post-employment benefit asset	100	114	12 0
Other assets	139	136	130
Total assets	**21,129**	**22,988**	**24,439**
LIABILITIES AND EQUITY			
Liabilities			
Accounts payable and accrued liabilities	102	111	118
Short-term notes	15,436	16,871	17,901
Long-term notes	549	370	270
Borrowings	15,985	17,241	18,171
Post-employment benefit liability	220	222	229
Other liabilities	43	47	50
Total liabilities	**16,350**	**17,621**	**18,568**
Equity			
Share capital	2,138	2,288	2,488
Contributed surplus	28	28	28
Retained earnings at beginning of year	2,167	2,570	3,035
Net income	491	514	371
Remeasurements of net post-employment benefit liability	(33)	14	–
Dividends on common shares	(55)	(63)	(66)
Retained earnings	2,570	3,035	3,340
Accumulated other comprehensive income	8	5	6
Equity attributable to BDC's shareholder	**4,744**	**5,356**	**5,862**
Non-controlling interests	35	11	9
Total equity	4,779	5,367	5,871
Total liabilities and equity	**21,129**	**22,988**	**24,439**
Debt/Equity ratio	3.4	3.2	3.1

Appendix B to the Financial Plan: Future accounting changes

Future accounting changes

Information is provided below on new standards, amendments and interpretations to existing standards that are not yet effective but that are expected to impact BDC's financial results. BDC is currently assessing the impact of these changes on its consolidated financial statements.

IFRS 9—Financial Instruments

On July 24, 2014, the International Accounting Standards Board (IASB) issued the final version of *IFRS 9—Financial Instruments*, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace *IAS 39 Financial Instruments: Recognition and measurement* and all previous versions of IFRS 9. The final version amends classification and measurement of financial assets and introduces a new expected loss impairment model. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 and will be applied retroactively subject to certain exceptions.

Since 2008, the IASB has been working to replace IAS 39 and structured the project in three phases:

1. Classification and measurement of financial assets and financial liabilities
2. Impairment
3. Hedge accounting

The new standard introduces new presentation and extensive new disclosure requirements.

1. Classification and measurement of financial assets and financial liabilities

IFRS 9 applies one classification approach for all types of financial assets to determine whether the financial asset is measured at amortized cost or at fair value, based on both the entity's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. IFRS 9 contains three principle classification categories for financial assets: amortized cost, fair value through other comprehensive income (FVOCI), and fair value through profit or loss (FVTPL). The existing IAS 39 categories of held-to-maturity, loans and receivables, and available-for-sale are removed.

2. Impairment

IFRS 9 replaces the current "incurred loss" model in IAS 39 with an "expected credit loss" model. The new model applies to financial assets that are measured at amortized cost or FVOCI, such as loans, lease and trade receivables, debt securities, contract assets and most loan commitments and financial guarantee contracts. The model uses a dual measurement approach under which the loss allowance will be for either 12-month expected credit losses or lifetime expected credit losses, the latter applicable if credit risk has increased significantly since initial recognition. A simplified approach is available for trade and lease receivables and contract assets, allowing the recognition of lifetime expected credit losses at all times.

3. Hedge accounting

The new standard carries forward the general hedge accounting requirements originally published in 2013. The objective is to more closely align the accounting with risk management activities. The IASB is continuing to work on its macro hedge accounting project.

IFRS 15—Revenue from contracts with customers

On May 28, 2014, the IASB issued a new standard, *IFRS 15—Revenue from contracts with customers*, replacing *IAS 18—Revenue*. The new standard is effective for annual periods beginning on or after January 1, 2017.

The new revenue model applies to all contracts with customers except those that are within the scope of other IFRS standards, such as leases and financial instruments. The core principle of the standard is that an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods and services.

The new standard establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. Extensive disclosures will be required, both qualitative and quantitative. The objective is to disclose sufficient information to enable the users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.