



# Corporate Plan Amendment Summary

2020-21 to 2024-25

The Corporate Plan Amendment Summary of the Business Development of Canada is based on the 2020-21 to 2024-25 BDC Corporate Plan Amendment as approved by the Governor General in Council on August 20, 2020, on the recommendation of the Minister of Small Business, Export Promotion and International Trade and the Minister of Finance.

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## Executive summary

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As Canada's bank for entrepreneurs, BDC is playing a critical role in supporting entrepreneurs as they navigate through the COVID-19 pandemic. By swiftly putting in place a series of special measures, we are helping to ensure viable small and medium-sized businesses (SMEs) have access to the capital they need in these difficult times.

This amendment to our Corporate Plan has been drafted amid a high degree of economic and market uncertainty, which will inevitably lead to variations from our forecasts. Our current assumption is that the recovery will begin in the third quarter of calendar 2020 but will be long and slow. We expect economic activity to return to pre-recession levels sometime between the second half of calendar 2021 and the third quarter of calendar 2023.

In the face of a sudden and large increase in demand for financing, we responded quickly, adapting our processes and making operational changes to accelerate the deployment of capital. With the support of our sole shareholder, the Government of Canada, we launched a series of measures to support Canadian businesses during the COVID-19 crisis. We combine these measures under what we are calling our Credit Availability Program (CAP). The initiatives extend eligibility criteria to ensure we are meeting the urgent needs of as many viable businesses as possible. They include the Business Credit Availability Program which is delivered in collaboration with EDC and private sector lenders, and measures delivered directly by BDC.

In the months ahead, we will work in a "whole of government" approach to set our priorities with respect to how best we can support the post-COVID economic recovery. As these are not yet defined, they will be included in our Corporate Plan for fiscal 2021-22 to 2025-26.

### Financial highlights

We have made CAP a new segment in our financial plan to distinguish COVID-related measures from our core activities. The CAP measures make available up to \$35 billion to SMEs negatively impacted by the pandemic. The high level of uncertainty on the amount to be committed should be noted, as deployment will depend upon many factors external to BDC's control.

To support the rapid deployment of our pandemic-related measures, we forecast nearly \$400 million in operating expense to manage this portfolio, mostly from the reassignment of resources. We anticipate these expenses to peak in fiscal 2021 and steadily decrease thereafter as the portfolio is decreasing.

For our core activities, we expect decreased demand in the early years of the plan, as entrepreneur needs are met mostly through CAP. We then expect demand for our core products to pick up in line with the economic recovery.

BDC's consolidated portfolio is expected to increase by 9% annualized from fiscal 2020 to the end of the planning period, reaching \$49 billion in fiscal 2025. We project the core portfolio to be profitable throughout the planning period and the overall Bank's profitability to be positive starting in fiscal 2022. This will provide the Bank with financial flexibility to support the long-term success of Canadian entrepreneurs.

BDC's capital management methodology is aligned between the CAP portfolio and BDC's core portfolio, with available capital and required capital calculated on the same basis. As returns generated by core activities surpass the required capital to support core portfolio growth, we expect to have excess capital available for dividends and/or enhance our support for entrepreneurs throughout the planning period. As for the CAP portfolio, a total of \$8.4 billion in capital was requested from the shareholder. Under the program's assumptions, excess capital over the planning period is expected, with dividends payable resuming in fiscal 2023.

## Context and rationale

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**This amendment to BDC's 2020-21 to 2024-25 Corporate Plan describes our response to the COVID-19 crisis and its impact on our operating budget, capital budget and borrowing plan. As we focus our efforts on helping Canadian entrepreneurs weather these difficult times in the short term, activity volumes for core business lines outlined in our Corporate Plan for 2020-21 to 2024-25, approved by the Treasury Board on March 20, 2020, have been adjusted and shifted to later years of the planning period. Considering the high degree of economic and market uncertainty, we expect that significant variations from the amended plan projections are inevitable.**

As Canada's bank for entrepreneurs, BDC's mandate is to support entrepreneurs in their efforts to create and grow businesses for the benefit of all Canadians. The COVID-19 pandemic has caused extraordinary disruption and hardship for business owners and their employees across the country. Efforts to stem the spread of the virus, and the associated impacts, have forced many companies to discontinue operations while others are dealing with sharply reduced business activity and/or supply chain difficulties. These developments have led, in turn, to widespread layoffs, discontinued investment projects and important financial challenges for many entrepreneurs. As a result, there has been substantial demand for relief measures, including business credit.

A critical part of BDC's mission as a development bank is to ensure viable SMEs have access to the credit they need in difficult times. We do this in a way that is complementary to the private sector so as to fill gaps in the commercial financing market. The importance of this role has been demonstrated on many occasions. For example, in fiscal 2004, we offered more than 6,000 capital payment postponements to some 4,600 clients and authorized a total of \$37 million under special initiatives to help entrepreneurs hit by a rare combination of natural disasters, disease and economic slowdown. In the context of the 2008-09 financial crisis and recession, we also acted as a shock absorber by increasing our lending by an extraordinary 53% in fiscal 2010 compared to the previous year. In response to a collapse of oil prices in 2014-16, we announced incremental financing totalling \$850 million for the oil and gas industry, contributing to a 21% increase in our credit portfolio in 2016. We followed up with an additional envelope of \$500 million in December 2018.

In the current difficult period, BDC is taking swift and decisive action to provide significant additional support to help SMEs weather the crisis. Our wide-ranging response to the COVID-19 outbreak will extend the Bank's reach to thousands of entrepreneurs beyond those we already serve, fulfilling once again our mission of sustaining the economy in difficult times.

## Economic observations and assumptions

The BDC Corporate Plan for 2020-21 to 2024-25 was premised on a stable economic environment. We now expect a severe recession in Canada, the U.S. and other countries around the world as a result of the COVID-19 pandemic. In Canada, we anticipate a contraction that began in the first quarter of calendar 2020 will deepen in the second quarter, leading to business failures and historic levels of unemployment. Expert opinions differ on how fast the economy will recover. While we have modelled a series of different recovery scenarios, this plan assumes the recovery will begin in the third quarter of calendar 2020 but should be long and slow. We expect economic activity to return to pre-recession levels sometime between the second half of calendar 2021 and the third quarter of calendar 2023.

Certain sectors of the economy are more affected by the crisis than others. The hardest hit sectors include travel, tourism and hospitality, and retail. The oil and gas industry has suffered from both a collapse in demand and global inventory build-ups that will keep prices low well into the future. Some seasonal resource industries such as fishing and agriculture are also facing difficulties.

BDC's forecasting assumes that containment measures will continue through the spring of 2020 before being progressively lifted, with social distancing measures staying in place longer and continuing to affect businesses where customers are in close physical proximity. Consumer spending should start to improve as the economy reopens. However, China's experience suggests that consumers will remain cautious after the end of confinement for health and financial reasons. We therefore expect a slow ramp-up in consumption.

The economic recovery and future business investments will depend not only on the effectiveness of responses from governments and central banks but also on medical progress in treating COVID-19 and developing a vaccine. If no treatment or vaccine is available in the coming months, social distancing measures may be kept in place longer than many currently anticipate, preventing the economy from returning to full speed.

Many entrepreneurs will delay their investment plans while they focus on stabilizing their business and ramping up operations after the crisis ends. On the trade front, a recovery will be slowed by several factors, including a lag in the spread of the virus from one continent to another. Asia was the first region to be hit, and now China and other countries are in a recovery phase. We expect this pattern to be repeated in Europe and then North America, leading to an uneven recovery in global trade. At the same time, developing countries have fewer resources to combat virus outbreaks and implement aid measures for individuals and businesses. This will also dampen trade. Additionally, a continuation of the crisis in parts of the world could delay the reopening of borders and further discourage tourism and business travel. In sum, we expect the global economy to remain in difficult waters for many months to come and for the impact to be felt on Canadian exports.

## **Access to capital and advice**

Since the beginning of the crisis in Canada, requests for financing have increased significantly as entrepreneurs work to ensure the survival of their businesses and retain employees. We expect pandemic-related financing needs to generate high demand in fiscal 2021. However, demand for other types of financing is expected to decrease due to a drop in business confidence and lower corporate earnings leading to postponed or cancelled investment plans.

We expect private sector financial institutions to increase their lending to SMEs in the short term, because government initiatives have been designed to limit their risk in doing so. Beyond government initiatives, it is likely that credit conditions will remain tight for SMEs over the planning period.

In the venture capital (VC) industry, many players had already been anticipating a recession before the onset of the crisis and had started adjusting their portfolios. We now anticipate many VC investors will have more difficulty making their next round of planned investments. Post-COVID, we expect to see a more conservative valuation environment, with investors having a greater focus on finding high-quality businesses that can achieve earlier success. We also expect Canadian VC investment levels to be more moderate, and that it will take several years to return to pre-COVID investment levels.

In the small business advisory services industry, we also anticipate a slowdown in fiscal 2021. A decrease in profits will mean entrepreneurs will be less able to afford management consultants. Nevertheless, we expect entrepreneurs to need advice more than ever to help them manage through the crisis, stabilize their businesses, and seize growth opportunities as the economy recovers.

## BDC's response to the COVID-19 crisis

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In response to the COVID-19 crisis, BDC acted swiftly to offer reduced interest loans to businesses experiencing financial difficulty due to lockdowns throughout the country. The wave of loan applications was enormous. To rapidly deliver urgently needed support to SMEs, we implemented operational changes to deploy capital faster and reassigned employees to accelerate application processing and to respond to entrepreneurs' queries. We also strengthened our IT infrastructure to support our employees in meeting the extraordinary demands generated by the crisis from the safety of their homes.

We also modified our eligibility criteria to address the needs of a greater number of entrepreneurs in these difficult times. For existing qualified clients, we are providing principal payment postponements of up to six months to give entrepreneurs financial breathing room.

### Credit Availability Program

The following section describes a series of measures launched with the support of our shareholder under our Credit Availability Program (CAP). CAP initiatives include the Government of Canada's Business Credit Availability Program which is delivered in collaboration with EDC and private sector lenders, and measures delivered directly by BDC. CAP measures are included in a new reporting segment to distinguish them from our core activities.

#### Business Credit Availability Program

The Business Credit Availability Program takes a whole-of-government approach to supporting the financing needs of entrepreneurs during this period of distress and uncertainty. BDC builds on our well-established relationships with EDC and private sector financial institutions to collaboratively provide support to financially viable Canadian businesses in all sectors and regions. Our efforts, together with those of EDC and a series of other federal government relief measures, will fill market gaps in access to financing for entrepreneurs hit by the COVID-19 crisis. The Business Credit Availability Program includes the following initiatives.

##### Co-Lending Program for SMEs

Through the Co-Lending Program, BDC supports the operational cash flow needs of SMEs by co-lending with private sector financial institutions. All legal Canadian companies that were financially viable and in good standing before the crisis and have seen their operations impacted directly or indirectly by the COVID-19 pandemic are eligible to receive credit under this program.

Under the Co-Lending Program, eligible businesses can obtain incremental credit amounts of up to \$12.5 million, 80% of which is provided by BDC, with the remaining 20% provided by the entrepreneur's primary financial institution. The financial institution is responsible for loan authorization and administration. Loans carry the institution's standard pricing, an interest-only period for a maximum of 12 months and a ten-year maximum term.

##### Mid-Market Financing Program

For medium-sized businesses whose financing needs exceed loan amounts available through other Business Credit Availability Program and BDC direct measures, we have launched the Mid-Market Financing Program. The program will provide additional credit to complement businesses' existing debt facilities, working closely with their primary lenders. The Bank anticipates that qualifying companies will have annual revenues in excess of approximately \$100 million. These commercial loans, which take the form of a junior loan, range in size between \$12.5 million and \$60 million each. Of the total amount, 90% is provided by BDC and 10% by the entrepreneur's primary financial institution. To be eligible, companies must have been financially stable and viable before the crisis.

### **Other BDC COVID-related initiatives under the Credit Availability Program**

Alongside the deployment of Business Credit Availability Program initiatives, we are adapting and enhancing our products and services to respond to entrepreneurs' urgent needs.

- For online loan requests, we have increased our credit threshold and reduced pricing. While BDC has traditionally applied variable pricing on loans based on risk, we are applying a uniform reduced interest rate for this initiative.
- For qualifying businesses, we are offering working capital loans with flexible terms, such as principal payment postponements, to help entrepreneurs bridge their business to a more stable time. We applied a reduced interest rate for this initiative as well.
- To support Canada's venture capital market, BDC launched a Bridge Financing Program. This is a matching convertible note program to increase VC funding to companies that have suffered significant setbacks related to the COVID-19 pandemic, such as lost revenue, supply chain issues and aborted financing or merger and acquisition deals. Under this program, BDC will match up to 100% the contribution of private investor syndicates that have arranged funding rounds of at least \$250,000 since February 1, 2020. BDC's contribution will be in the form of a convertible note with standard market terms. However, BDC reserves the right to match the investor syndicate's terms when appropriate.

In addition to these CAP initiatives, BDC Advisory Services has introduced a new Access program. It offers eligible clients the opportunity to benefit from a free consultation with a BDC expert to get advice on how to address challenges related to the COVID-19 crisis, including cash flow management and business recovery strategies. We also plan to increase our free online advice for small business owners, including webinars, online events and other content on our website. For example, we have created a new COVID-19 advice hub on [bdc.ca](https://www.bdc.ca) that is specially designed for small business owners. A separate tool kit helps entrepreneurs plan their next steps, identify new opportunities, mitigate risks and create a more resilient company.

BDC's response to the pandemic will lead to an unprecedented level of activity over the planning period as we respond to the immediate needs of entrepreneurs.



## Overview of key risks

The COVID-19 pandemic has caused extreme hardship for many SMEs and cast a cloud over the economic outlook. BDC continues to ensure the support for its clients during this challenging time while maintaining the application of effective due diligence and a robust internal control environment. BDC's core portfolio is operating within a heightened risk profile but remains within its risk appetite.

In response to the urgent pandemic-related needs of entrepreneurs and shareholder expectations and the deployment of CAP, we are accepting a higher level of credit risk through, for example, changes to our eligibility criteria, lowering our credit threshold and pricing below risk. We are also accepting higher operational risk related to, for example, process changes, remote operations, and potential exposure to cyber risk and fraudulent activity. The unavoidable consequence of these changes is to increase the Bank's overall risk profile. As such, we are operating outside of our risk appetite due to these extraordinary and unprecedented circumstances, with the support of our shareholder, including a specific capital injection to reflect the higher level of risk, and the approval of our Board of Directors. Nevertheless, we remain dedicated to maintaining the highest standards of good governance, due diligence, internal risk controls and professional judgment in carrying out our activities. The following table presents some of the key COVID-related risks BDC is monitoring.

	Mitigation
<b>Portfolio risks</b> The risk that business disruption, market uncertainty and global recession will lead to higher loan defaults, pricing that is not aligned to client risk profiles and a higher number of clients who are vulnerable to financial difficulty.	<ul style="list-style-type: none"> <li>Implementation of special COVID-19 initiatives, including BCAP, subject to specialized processes as well as specific monitoring and reporting.</li> <li>Maintenance of BDC's due diligence criteria and credit adjudication procedures.</li> <li>Continuous portfolio monitoring.</li> <li>Maintenance of internal capital requirements through prudent capital management and stress testing.</li> </ul>
<b>Security risks</b> BDC's exposure to illegal/fraudulent activity, cyber security risks and internal threats.	<ul style="list-style-type: none"> <li>Ensuring secure IT infrastructure and control environment.</li> <li>Monitoring infrastructure, systems and applications for anomalies, issues or potential security vulnerabilities.</li> <li>Addressing potential threats to networks associated with increased remote connectivity by employees and suppliers.</li> <li>Third party monitoring and reporting of dark web activity, cyber activity and threat intelligence.</li> </ul>
<b>Operational risk</b> The risk associated with operational failure due to human, process or technology faults in the context of physical distancing (displacement of employees and remote interaction with clients) and remote connectivity.	<ul style="list-style-type: none"> <li>Application of the business continuity plan and related controls.</li> <li>Use of second line of defence oversight, continuous monitoring, portfolio testing and reporting.</li> <li>Ensuring secure IT infrastructure and control environment.</li> <li>Use of documented processes, automated controls and segregation of duties.</li> </ul>
<b>Reputational risk</b> The risks to BDC's public image related to the perception we are unable or unwilling to provide financial support to some Canadian entrepreneurs, including those with poor risk profiles before the COVID-19 crisis and the perception we are not delivering solutions in a timely manner due to high demand volumes.	<ul style="list-style-type: none"> <li>Dedicated corporate communications team managing media requests, issues and social media commentary.</li> <li>Continuous monitoring and reporting to identify and address key trends and ensure a uniform response from BDC management.</li> <li>Coordination of positions and responses with the Government of Canada.</li> <li>Proactive outreach to key stakeholders and influencers.</li> <li>Enhanced procedures and activities, including process streamlining, reassigning employees and tech solutions to manage higher volumes.</li> </ul>



## Financial overview

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The amended financial plan projections for BDC's operations for fiscal 2021 to fiscal 2025 are based on the economic observations and assumptions presented on page 4 and the access to capital and advice section on page 5. This amendment to the Corporate Plan is based on revised assumptions for fiscal 2020 and a highly volatile business environment, where economic and market uncertainties remain an important concern. This may result in significant variations from plan projections. Variations could also arise if the Government of Canada were to alter existing programs or announce new initiatives to further increase credit availability. It should be noted that the Credit Availability Program's portfolio will henceforth be presented under a new Credit Availability Program segment.

As BDC supports entrepreneurs through these trying times, we are forecasting an unprecedented level of activity for the planning period, as shown in Table 1. In the short term, most entrepreneurs' needs will be met through CAP initiatives and, therefore, we expect demand for core products to decrease. In the longer term, demand for core products should increase in line with the economic recovery.

### **Credit Availability Program portfolio**

- The Credit Availability Program makes available up to \$35 billion to entrepreneurs to help alleviate their short-term financial needs. The actual activity level will, however, depend on many factors external to BDC's control. Demand for CAP credits may vary depending on the needs of entrepreneurs and private sector lenders' activities. Please refer to the section entitled BDC's response on page 6 for more information on CAP initiatives.

### **Core portfolio**

- While short-term financing needs are great, but should mostly met through CAP initiatives, Financing's activity level in fiscal 2021 and 2022 is expected to be lower than in fiscal 2020, as resources are used to deploy CAP initiatives and as businesses postpone or cancel investment plans to focus on rebuilding their finances and ramping up operations after the crisis. Starting in fiscal 2023, we expect Financing's level of activity to grow, spurred by the economic recovery and efficiency gains from process improvements and continued investments in technology. This is expected to lead to an annualized growth of 8% for the rest of the planning period.
- Growth & Transition Capital's activity level should be lower in fiscal 2021 compared to fiscal 2020, due to reduced demand for growth equity and business transition financing as entrepreneurs focus on rebuilding their working capital, notably with financing available through CAP. As the economy recovers and businesses resume their growth trajectories, GTC activity is forecast to grow by 9% annualized starting in fiscal 2023. This growth is primarily due to the following factors: increased demand for growth equity and business transition financing; a focus on supporting growing companies, leading to higher deal sizes; and the implementation of a strategy to increase financing to IP-rich companies.
- Venture Capital is projected to invest from \$250 million to \$270 million per year over the planning period, despite the recession, to stimulate and strengthen Canada's venture capital ecosystem. Over \$100 million per year is projected to be direct investments, fuelled by the Industrial Innovation Venture Fund, Women in Technology Venture Fund and co-investments. Indirect investments are expected to stabilize at \$150 million per year.

- Advisory Services' activity level is expected to be lower in fiscal 2021 and 2022 compared to fiscal 2020 due to the postponement or cancellation of mandates by businesses during the recession. Beginning in fiscal 2023, the economic recovery should lead to increased investments in advisory services to help businesses grow, innovate and become more competitive, resulting in expected 7% annualized growth in activity for the remainder of the planning period.
- The venture capital incentive programs (VCIP) include the Venture Capital Action Plan (VCAP), the Venture Capital Catalyst Initiative (VCCI) and the new Indigenous Growth Fund (IGF). By the end of fiscal 2021, \$371 million will be committed under VCCI. It is projected that the full IGF envelope will be disbursed over the duration of the plan.
- As planned, the \$600 million Cleantech Practice envelope will be fully committed by the end of fiscal 2022, reflecting increasing market awareness and ramped up investment activity.

**Table 1—Activity level summary**  
(\$ in millions)

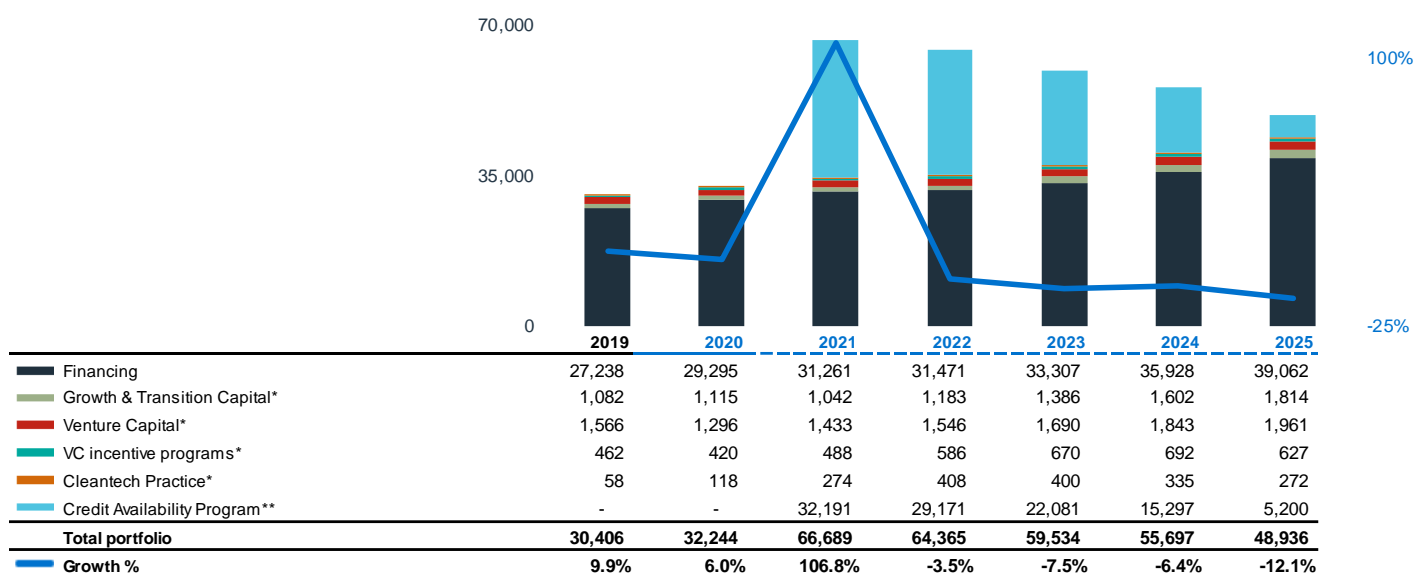
	2019	2020	2021	2022	2023	2024	2025
Loans acceptances	7,223	7,410	4,000	6,500	8,350	8,985	9,665
<i>Growth</i>	6%	3%	-46%	63%	28%	8%	8%
Asset-backed securities acceptances	290	40	50	200	100	70	270
<b>Financing</b>	<b>7,513</b>	<b>7,450</b>	<b>4,050</b>	<b>6,700</b>	<b>8,450</b>	<b>9,055</b>	<b>9,935</b>
<b>Growth &amp; Transition Capital acceptances*</b>	<b>388</b>	<b>425</b>	<b>190</b>	<b>435</b>	<b>535</b>	<b>585</b>	<b>635</b>
<i>Growth</i>	-4%	10%	-55%	129%	23%	9%	8%
<b>Venture Capital authorizations</b>	<b>247</b>	<b>244</b>	<b>265</b>	<b>265</b>	<b>270</b>	<b>265</b>	<b>250</b>
<b>Advisory Services revenue</b>	<b>25</b>	<b>29</b>	<b>12</b>	<b>28</b>	<b>34</b>	<b>36</b>	<b>39</b>
<i>Growth</i>	27%	16%	-59%	133%	21%	6%	8%
<b>VC Incentive Programs authorizations</b>	<b>301</b>	<b>65</b>	<b>108</b>	-	-	-	-
<b>Cleantech Practice acceptances</b>	<b>113</b>	<b>91</b>	<b>176</b>	<b>181</b>	-	-	-
<b>Credit Availability Program acceptances/authorizations</b>	-	-	<b>35,000</b>	-	-	-	<b>3,750</b>

\*Uni-tranche senior debt component is excluded as it is volatile and difficult to forecast

The size of the consolidated portfolio is expected to double in size in fiscal 2021 assuming the full deployment of CAP. CAP's portfolio is forecast to peak in fiscal 2021 at \$32 billion and reduce to \$5.2 billion in fiscal 2025 given that initiatives under CAP focus on supporting entrepreneurs in the short term.

Even though the size of the CAP portfolio will decrease rapidly over the planning period, BDC's annualized consolidated portfolio growth is expected to be at 9% from fiscal 2020 to the end of the period. Annualized portfolio growth is expected to outpace annualized expense growth over the duration of the plan, reflecting BDC's constant focus on cost control and efficiency gains, even in these challenging times.

**Table 2—Consolidated portfolio**  
(\$ in millions)



\*At fair value

\*\* Credit Availability Program portfolio is at cost except for Venture Capital Bridge Financing Program investments that are at fair value

BDC's net revenue, as shown in Table 3, is forecast to increase in fiscal 2021 and peak in fiscal 2022, driven by the high level of activity related to COVID initiatives. Net revenue will then slowly decrease as the CAP portfolio is repaid. However, the annualized growth from fiscal 2020 to 2025 will stay strong at 7%, reflecting steady growth in BDC's core portfolio over the planning period.

Operating and administrative expenses growth is expected to be 7% in fiscal 2021, due to the implementation of CAP initiatives, investments in our digital evolution and the launch of new initiatives, notably GTC's IP-rich financing offering. However, expense growth should fall steadily during the balance of the planning period as BDC benefits from efficiency gains from its investments in improved processes and technology.

The difficult economic environment significantly affected BDC's overall profitability in fiscal 2020, resulting in an estimated net loss of \$218 million due to higher provisions for expected credit losses on performing loans and significant fair value depreciation of Venture Capital and GTC investments. However, we expect the core portfolio to be profitable throughout the planning period, and the overall Bank to return to profitability beginning in fiscal 2022. BDC's consolidated net income is forecast to reach \$1.3 billion in fiscal 2025. This will provide the Bank with increased financial flexibility to support the long-term success of Canadian entrepreneurs. Expected increases in annual net income from fiscal 2022 to fiscal 2025 will be mainly due to reductions in provisions for expected credit losses and an improved profitability for Venture Capital over the planning period. Limited growth in operating expenses will also contribute to rising net income as will CAP's profitability starting in fiscal 2024.

**Table 3—Summary of BDC consolidated net income and capital expenditures**

(\$ in millions)	2019	2020	2021	2022	2023	2024	2025
Net revenue	1,423	1,747	2,090	2,780	2,747	2,614	2,416
Growth	10%	23%	20%	33%	-1%	-5%	-8%
Provision for expected credit losses	(180)	(773)	(1,320)	(1,991)	(1,422)	(973)	(349)
Net change in unrealized appreciation (depreciation) of investments and other	244	(505)	(72)	(1)	3	79	62
Operating and administrative expenses	601	687	736	760	776	787	804
Growth	8%	14%	7%	3%	2%	1%	2%
<b>Net income (loss)</b>	<b>886</b>	<b>(218)</b>	<b>(38)</b>	<b>28</b>	<b>552</b>	<b>933</b>	<b>1,325</b>
Capital expenditures	30	25	34	22	22	19	17

As income generated by activities surpasses the required capital to support portfolio growth, BDC expects to have excess capital available for supporting SME growth and/or dividend payments over the planning period.

To remain efficient and responsive to clients, BDC invests in information technology and its business facilities. These investments are not expected to be affected by market turbulence. Following a spike in fiscal 2021, capital expenditures are forecast to fall as leasehold expenditures decrease. For more information, please refer to the capital budget on page 26.

## Key financial indicators

Table 4 presents financial indicators related to BDC's financial sustainability and capital adequacy, as required by the *Capital and Dividend Policy Framework for Financial Crown Corporations*.

### Adjusted annual return on equity<sup>1</sup>

Adjusted annual return on equity measures efficiency in generating income relative to equity. This is a key indicator measuring BDC's financial sustainability and capital management efficiency. BDC compares this ratio against its historical and projected financial performance to ensure financial sustainability objectives are met. Following the introduction of the VCIP and the Cleantech Practice, BDC introduced an adjusted return on equity measure, which excludes all initiatives requested and fully capitalized by the shareholder. Starting in fiscal 2021, the adjusted annual return on equity also excludes the Credit Availability Program.

After an estimated drop to negative 1.4% in fiscal 2020 due to the severe economic contraction, adjusted annual return on equity is expected to increase to 10% in fiscal 2021, mainly due to the reversal of provisions for expected credit losses. The ratio should then decrease to 8.3% in fiscal 2022 and stabilize close to this level until fiscal 2025.

### Ten-year moving average for adjusted return on equity

The 10-year moving average for adjusted return on equity is expected to slowly decrease over the planning period. This is mainly due to the expected net loss in fiscal 2020 and fiscal 2021 and increased provisions for expected credit losses compared to historically low levels from fiscal 2012 to fiscal 2015. As a result, from fiscal 2022 to 2025, the ratio is forecast to be lower than BDC's long-term average of 9.0%.

### BDC's efficiency ratio

BDC's efficiency ratio is a measure of the efficiency with which BDC incurs expenses to generate revenue on its operations. It is calculated as operating and administrative expenses as a percentage of net revenue. It excludes VC incentive programs, the Cleantech Practice, the Credit Availability Program, pension expenses and VC net revenue. A lower ratio indicates improved efficiency.

The estimated efficiency ratio for fiscal 2020 erodes mainly due to investments in technology, before improving in following years. In fiscal 2021, the efficiency ratio improves due to a significant decrease in operating expenses included in the ratio calculation as employees from BDC's core business lines are reassigned to the CAP segment to deploy COVID related initiatives. Given that the CAP envelope is expected to be committed in fiscal 2021, reassigned employees will return to their original business lines by fiscal 2022 causing BDC's efficiency ratio to return close to normal levels. The ratio should then improve over the remainder of the planning period, reflecting efficiency gains from investments in improved processes and technology, combined with strong net revenue growth from a higher level of activity. As shown in Table 4, the ratio is forecast to improve from 40.9% in fiscal 2022 to 37.6% in fiscal 2025, meaning BDC will incur 37.6 cents of expense to earn one dollar of revenue.

<sup>1</sup> Adjusted return on equity is net income expressed as a percentage of average common equity. It excludes other comprehensive income or loss; accumulated other comprehensive income or loss and remeasurement of net defined benefit asset or liability; and non-controlling interest. It also excludes VC incentive programs, the Cleantech Practice and the Credit Availability Program.

### Internal capital ratio

BDC assesses the adequacy of its capital status with its internal capital ratio. It is expressed as the level of capital available over the economic capital required. Since the growth of available capital outpaces the growth in capital demand, the ratio is expected to be equal or exceed BDC's target of 110% over the planning period. The internal capital ratio target was revised with the introduction of the new capital framework. The ratios shown for fiscal 2019 and fiscal 2020 are based on the previous capital framework (approved in BDC's Corporate Plan for 2019-20 to 2023-24) for which the target was 134%.

Table 4—Key financial indicators

	2019	2020	2021	2022	2023	2024	2025
Adjusted return on equity (annual)	12.1%	-1.4%	10.0%	8.3%	8.1%	8.2%	8.6%
Adjusted return on equity (10-year moving average)	10.5%	9.3%	9.3%	8.9%	8.6%	8.5%	8.3%
BDC efficiency ratio	38.0%	41.2%	33.3%	40.9%	40.5%	39.1%	37.6%
Internal capital ratio based on the previous capital framework	136%	131%					
Internal capital ratio based on the new capital framework			119%	115%	111%	110%	111%

## Expected results and performance indicators

BDC will continue to track the expected results and performance indicators included in our approved Corporate Plan for 2020-21 to 2024-25. However, we will not use these measures to judge our performance in fiscal 2021, given the extraordinary circumstances and our change of focus to deploy CAP initiatives. We will revise measures and targets in BDC's Corporate Plan for 2021-22 to 2025-26.

For CAP, we will report regularly to the shareholder on our deployment progress. Financial results will be reflected in our regular quarterly reports and our Annual Report.

# Financial statements and notes

The following tables present amended financial statements.

**Table 5—Consolidated statement of financial position**

(\$ in millions)	2019	2020	2021	2022	2023	2024	2025
<b>ASSETS</b>							
Cash and cash equivalents	704	1,821	728	817	912	969	1,018
Derivative assets	10	12	7	8	-	-	-
Loans							
Loans, gross carrying amount	26,546	28,472	61,850	59,025	53,842	49,796	42,801
Less: allowance for expected credit losses	(629)	(1,199)	(2,194)	(3,072)	(2,051)	(1,113)	(185)
Loans, net of allowance for expected credit losses	25,917	27,273	59,656	55,953	51,791	48,683	42,616
Asset-backed securities	700	778	1,193	1,282	1,291	1,251	1,360
Subordinate financing investments	1,152	1,241	1,428	1,647	1,789	1,916	2,070
Venture capital investments	2,028	1,721	2,218	2,411	2,612	2,734	2,705
Total investments	3,880	3,740	4,839	5,340	5,692	5,901	6,135
Right-of-use asset	-	128	114	114	88	76	64
Net defined benefit asset	20	42	21	5	-	-	-
Other assets	126	137	171	158	145	132	115
<b>Total assets</b>	<b>30,657</b>	<b>33,153</b>	<b>65,536</b>	<b>62,395</b>	<b>58,628</b>	<b>55,761</b>	<b>49,948</b>
<b>LIABILITIES AND EQUITY</b>							
<b>Liabilities</b>							
Accounts payable and accrued liabilities	141	158	346	325	301	283	248
Derivative liabilities	6	16	-	-	-	-	-
Borrowings							
Short-term notes	20,952	19,362	36,747	36,593	34,622	32,886	26,984
Long-term notes	1,443	4,207	11,209	8,688	7,662	6,957	7,471
Total borrowings	22,395	23,569	47,956	45,281	42,284	39,843	34,455
Lease Liabilities							
Short-term lease liabilities	-	12	12	12	13	13	12
Long-term lease liabilities	-	125	115	103	90	77	64
Total lease liabilities	-	137	127	115	103	90	76
Net defined benefit liability	282	246	252	259	279	304	331
Other liabilities	77	124	240	210	187	173	150
<b>Total liabilities</b>	<b>22,901</b>	<b>24,250</b>	<b>48,921</b>	<b>46,190</b>	<b>43,154</b>	<b>40,693</b>	<b>35,260</b>
<b>Equity</b>							
Share capital	2,603	4,009	11,760	11,910	11,820	11,865	11,805
Contributed surplus	28	28	28	28	28	28	28
Retained earnings	5,076	4,846	4,808	4,250	3,610	3,160	2,841
Accumulated other comprehensive income	7	9	8	6	5	4	3
<b>Equity attributable to BDC's shareholder</b>	<b>7,714</b>	<b>8,892</b>	<b>16,604</b>	<b>16,194</b>	<b>15,463</b>	<b>15,057</b>	<b>14,677</b>
Non-controlling interests	42	11	11	11	11	11	11
<b>Total equity</b>	<b>7,756</b>	<b>8,903</b>	<b>16,615</b>	<b>16,205</b>	<b>15,474</b>	<b>15,068</b>	<b>14,688</b>
<b>Total liabilities and equity</b>	<b>30,657</b>	<b>33,153</b>	<b>65,536</b>	<b>62,395</b>	<b>58,628</b>	<b>55,761</b>	<b>49,948</b>
<b>Debt-to-equity ratio</b>	<b>2.9</b>	<b>2.7</b>	<b>2.9</b>	<b>2.8</b>	<b>2.7</b>	<b>2.6</b>	<b>2.3</b>



**Table 6—Consolidated statement of income**

(\$ in millions)	2019	2020	2021	2022	2023	2024	2025
Interest income	1,607	1,763	2,256	2,975	2,868	2,718	2,441
Interest expense	290	367	166	213	188	158	122
<b>Net interest income</b>	<b>1,317</b>	<b>1,396</b>	<b>2,090</b>	<b>2,762</b>	<b>2,680</b>	<b>2,560</b>	<b>2,319</b>
Net realized gains (losses) on investments*	37	248	(63)	(73)	(34)	(53)	(15)
Revenue from Advisory Services	25	29	12	28	34	36	39
Fee and other income	44	74	51	63	67	71	73
<b>Net revenue</b>	<b>1,423</b>	<b>1,747</b>	<b>2,090</b>	<b>2,780</b>	<b>2,747</b>	<b>2,614</b>	<b>2,416</b>
Provision for expected credit losses	(180)	(773)	(1,320)	(1,991)	(1,422)	(973)	(349)
Net change in unrealized appreciation (depreciation) of investments**	226	(540)	(74)	(3)	1	76	59
Net foreign exchange gains (losses)	17	34	2	2	2	3	3
Net gains (losses) on other financial instruments	1	1	-	-	-	-	-
<b>Income before operating and administrative expenses</b>	<b>1,487</b>	<b>469</b>	<b>698</b>	<b>788</b>	<b>1,328</b>	<b>1,720</b>	<b>2,129</b>
Salaries and benefits	410	452	456	464	484	501	521
Premises and equipment	44	46	47	46	46	47	48
Other expenses	147	189	233	250	246	239	235
<b>Operating and administrative expenses</b>	<b>601</b>	<b>687</b>	<b>736</b>	<b>760</b>	<b>776</b>	<b>787</b>	<b>804</b>
<i>Operating and administrative expenses growth</i>	8%	14%	7%	3%	2%	1%	2%
<b>Net income (loss)</b>	<b>886</b>	<b>(218)</b>	<b>(38)</b>	<b>28</b>	<b>552</b>	<b>933</b>	<b>1,325</b>
<b>Net income attributable to:</b>							
BDC's shareholder	879	(193)	(38)	28	552	933	1,325
Non-controlling interests	7	(25)	-	-	-	-	-
<b>Net income (loss)</b>	<b>886</b>	<b>(218)</b>	<b>(38)</b>	<b>28</b>	<b>552</b>	<b>933</b>	<b>1,325</b>

\*Includes write-offs

\*\*Includes net fair value appreciation (depreciation) and reversal of fair value depreciation (appreciation) on divested investments and write-offs

**Table 7—Consolidated statement of comprehensive income**

(\$ in millions)	2019	2020	2021	2022	2023	2024	2025
<b>Net income</b>	<b>886</b>	<b>(218)</b>	<b>(38)</b>	<b>28</b>	<b>552</b>	<b>933</b>	<b>1,325</b>
<b>Other comprehensive income (loss)</b>							
<i>Items that may be reclassified subsequently to net income</i>							
Net change in unrealized gains (losses) on fair value through other comprehensive income assets	7	2	-	-	-	-	-
Net change in unrealized gains (losses) on cash flow hedges	1	(1)	(1)	(2)	(1)	(1)	(1)
<b>Total items that may be reclassified subsequently to net income</b>	<b>8</b>	<b>1</b>	<b>(1)</b>	<b>(2)</b>	<b>(1)</b>	<b>(1)</b>	<b>(1)</b>
<i>Items that will not be reclassified to net income</i>							
Remeasurements of net defined benefit asset or liability	(76)	92	-	-	-	-	-
<b>Other comprehensive income (loss)</b>	<b>(68)</b>	<b>93</b>	<b>(1)</b>	<b>(2)</b>	<b>(1)</b>	<b>(1)</b>	<b>(1)</b>
<b>Total comprehensive income</b>	<b>818</b>	<b>(125)</b>	<b>(39)</b>	<b>26</b>	<b>551</b>	<b>932</b>	<b>1,324</b>
<b>Total comprehensive income attributable to:</b>							
BDC's shareholder	810	(100)	(39)	26	551	932	1,324
Non-controlling interests	8	(25)	-	-	-	-	-
<b>Total comprehensive income</b>	<b>818</b>	<b>(125)</b>	<b>(39)</b>	<b>26</b>	<b>551</b>	<b>932</b>	<b>1,324</b>

**Table 8—Consolidated Statement of changes in equity**  
(\$ in millions)

	2019	2020	2021	2022	2023	2024	2025
<b>Opening balance</b>	<b>6,891</b>	<b>7,756</b>	<b>8,903</b>	<b>16,615</b>	<b>16,205</b>	<b>15,474</b>	<b>15,068</b>
Net Income	886	(218)	(38)	28	552	933	1,325
Other comprehensive income (loss)	(68)	93	(1)	(2)	(1)	(1)	(1)
<b>Total comprehensive income</b>	<b>818</b>	<b>(125)</b>	<b>(39)</b>	<b>26</b>	<b>551</b>	<b>932</b>	<b>1,324</b>
Dividends on common shares	(70)	(128)	-	(586)	(1,192)	(1,383)	(1,644)
Distributions to non-controlling interests	(11)	(6)	-	-	-	-	-
Capital injections from non-controlling interests	3	-	-	-	-	-	-
Issuance (repurchase) of common shares	125	1,406	7,751	150	(90)	45	(60)
<b>Closing balance</b>	<b>7,756</b>	<b>8,903</b>	<b>16,615</b>	<b>16,205</b>	<b>15,474</b>	<b>15,068</b>	<b>14,688</b>

**Table 9—Consolidated Statement of cash flows**  
(\$ in millions)

	2019	2020	2021	2022	2023	2024	2025
Net cash flows provided by operating activities	(1,351)	(1,181)	(31,928)	3,814	4,796	4,057	7,363
Net cash flows used in investing activities	(430)	(134)	(1,289)	(600)	(408)	(206)	(207)
Net cash flows provided by financing activities	1,812	2,432	32,124	(3,125)	(4,293)	(3,794)	(7,107)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>31</b>	<b>1,117</b>	<b>(1,093)</b>	<b>89</b>	<b>95</b>	<b>57</b>	<b>49</b>
Cash and cash equivalents at beginning of year	673	704	1,821	728	817	912	969
<b>Cash and cash equivalents at end of year</b>	<b>704</b>	<b>1,821</b>	<b>728</b>	<b>817</b>	<b>912</b>	<b>969</b>	<b>1,018</b>

# Operating budget

## Credit Availability Program

The Credit Availability Program includes BDC's wide-ranging initiatives to respond to the COVID-19 pandemic, making available up to \$35 billion to serve more entrepreneurs at a time when they are experiencing their greatest needs. Demand for CAP credits may vary depending on the needs of entrepreneurs and private sector lenders' activities. The following initiatives are included under CAP: the Co-Lending Program, the Mid-Market Financing Program, online financing loans with reduced pricing, working capital loans with reduced pricing and the Bridge Financing Program for venture capital-backed companies. Please refer to the section entitled BDC's response on page 6 for more information on CAP initiatives. To implement the program, BDC expects capital injections totalling \$8.4 billion by the end of fiscal 2021, of which \$944 million was received in March 2020.

Because CAP initiatives are designed to respond to entrepreneurs' short-term financial needs to help them weather the recession, BDC expects the portfolio to reduce to \$5.2 billion in fiscal 2025.

CAP operating expenses are expected to peak in fiscal 2021, due to operational changes implemented to ensure we can rapidly deploy our response to the pandemic, including the reassignment of employees from core business lines to deploy CAP initiatives. In the following years, operating expenses are projected to decrease steadily due to the diminishing cost of managing the program, as the portfolio shrinks.

With important provisions for expected credit losses due to the riskier profile of the portfolio and the negative impact of reduced pricing on net revenues, CAP's portfolio should generate a net loss of \$647 million over the duration of the plan. Considering the high degree of economic and market uncertainty, we expect significant variations from plan projections.

Since this is a new program, BDC is currently reviewing how it will report its results. As such, the presentation of this segment in this amendment to the Corporate Plan may differ from future annual reports required under IFRS.

**Table 10—Credit Availability Program: Activity and statement of income**

(\$ in millions)

	2021	2022	2023	2024	2025
<b>Acceptances/authorizations</b>	<b>35,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,750</b>
<b>Net interest income</b>	<b>658</b>	<b>1,291</b>	<b>1,157</b>	<b>932</b>	<b>552</b>
Net realized gains (losses) on investments*	-	(7)	(17)	(29)	(20)
Fee and other income	11	13	8	4	1
<b>Net revenue</b>	<b>669</b>	<b>1,297</b>	<b>1,148</b>	<b>907</b>	<b>533</b>
Provision for expected credit losses	(1,192)	(1,793)	(1,162)	(643)	17
Net change in unrealized appreciation (depreciation) of investments**	(20)	(24)	(10)	12	5
<b>Income before operating and administrative expenses</b>	<b>(543)</b>	<b>(520)</b>	<b>(24)</b>	<b>276</b>	<b>555</b>
Operating and administrative expenses	201	74	57	39	20
<b>Net income (loss)</b>	<b>(744)</b>	<b>(594)</b>	<b>(81)</b>	<b>237</b>	<b>535</b>
<b>Portfolio</b>	<b>32,191</b>	<b>29,171</b>	<b>22,081</b>	<b>15,297</b>	<b>5,200</b>

\*Includes write-offs

\*\*Includes net fair value appreciation (depreciation) and reversal of fair value depreciation (appreciation) on divested investments and write-offs

## Financing

Short-term financing needs are great but should mostly be met through CAP initiatives. Therefore, Financing's loans acceptances are projected to decrease from fiscal 2020 to 2022 as entrepreneurs postpone or cancel investment projects in light of the COVID-19 pandemic and the difficult economic conditions and outlook.

From fiscal 2023, Financing's loan acceptances are projected to grow by 8% annually, reaching \$9.7 billion in fiscal 2025, thereby increasing access to financing for entrepreneurs. BDC expects to achieve this growth by improving processes and investing in technology, as well as by continuing to benefit from the enhancement of its delivery model, including online and Express loans. This will result in an increase in productivity starting in fiscal 2023 through the end of the planning period. Acceptances for asset-backed securities fluctuate and are difficult to forecast as they involve a small number of deals for large amounts.

While acceptances are expected to increase from fiscal 2021 to fiscal 2022, the portfolio outstanding should increase at lower pace. This is because a campaign to grant principal payment postponements in response to the crisis will have ended by fiscal 2022, resulting in higher principal payments on loans that year compared to fiscal 2021. From fiscal 2022, the portfolio is projected to grow 7% annualized and reach \$39 billion in fiscal 2025.

Financing's estimated fiscal 2020 net income was negatively affected by exceptionally high provisions for expected credit losses, reflecting the dire economic circumstances. As provisions are expected to diminish in the following year, signalling a forthcoming economic recovery, and operating expenses decrease due the reassignment of employees to the CAP segment, net income is forecast to reach \$829 million in fiscal 2021. It is projected to decrease in fiscal 2022 due to higher operating expenses associated with the movement of employees from CAP back to Financing.

In fiscal 2023, net income is projected to further decrease due to higher provisions for expected credit losses as they return to historical levels. It is then expected to increase from fiscal 2024 due to the higher growth rate of net revenues compared to operational expenses, reflecting efficiency gains from investments in technology and digital evolution initiatives.

**Table 11—Financing: Activity and statement of income**

(\$ in millions)	2019	2020	2021	2022	2023	2024	2025
<b>Loans acceptances</b>	<b>7,223</b>	<b>7,410</b>	<b>4,000</b>	<b>6,500</b>	<b>8,350</b>	<b>8,985</b>	<b>9,665</b>
<b>Asset-backed securities acceptances</b>	<b>290</b>	<b>40</b>	<b>50</b>	<b>200</b>	<b>100</b>	<b>70</b>	<b>270</b>
<b>Net interest income</b>	<b>1,229</b>	<b>1,300</b>	<b>1,339</b>	<b>1,373</b>	<b>1,415</b>	<b>1,513</b>	<b>1,647</b>
Fee and other income	21	23	12	19	24	26	28
<b>Net revenue</b>	<b>1,250</b>	<b>1,323</b>	<b>1,351</b>	<b>1,392</b>	<b>1,439</b>	<b>1,539</b>	<b>1,675</b>
Provision for expected credit losses	(180)	(773)	(128)	(198)	(260)	(330)	(366)
Net change in unrealized appreciation (depreciation) of investments	2	2	-	-	-	-	-
Net foreign exchange gains (losses)	(6)	(3)	2	2	2	3	3
Net gains (losses) on other financial instruments	1	1	-	-	-	-	-
<b>Income before operating and administrative expenses</b>	<b>1,067</b>	<b>550</b>	<b>1,225</b>	<b>1,196</b>	<b>1,181</b>	<b>1,212</b>	<b>1,312</b>
Operating and administrative expenses	446	518	396	510	535	559	586
<b>Net income</b>	<b>621</b>	<b>32</b>	<b>829</b>	<b>686</b>	<b>646</b>	<b>653</b>	<b>726</b>
<b>Portfolio outstanding</b>	<b>27,238</b>	<b>29,295</b>	<b>31,261</b>	<b>31,471</b>	<b>33,307</b>	<b>35,928</b>	<b>39,062</b>

## Growth & Transition Capital

Market demand for Growth & Transition Capital's offerings is expected to decrease in fiscal 2021 due to the recession, especially for financing business transitions. During this time, most entrepreneur needs will be met through CAP initiatives. As the economy recovers, stronger demand for growth equity and business transition financing is expected, coupled with opportunities to finance IP-rich companies. This should result in a 9% annual increase in acceptances, from \$535 million in fiscal 2023 to \$635 million in fiscal 2025. Portfolio at fair value is expected to reach \$1.8 billion in fiscal 2025, representing 10% annualized growth over the planning period.

As GTC's activities grow with the economic recovery, efficiency will remain a focus. In the short term, operating and administrative expenses are expected to decrease in fiscal 2021 and increase in 2022 as GTC employees are temporarily reassigned to the deployment on CAP initiatives in fiscal 2021. Operating and administrative expenses as a percentage of the average portfolio outstanding at cost are projected to decrease from 4.1% in fiscal 2023 to 3.7% in fiscal 2025.

The adverse market conditions brought on by the COVID-19 crisis in the final month of fiscal 2020 led to significant fair value depreciation on GTC's investments, resulting in a net loss. However, a focus on efficiency, coupled with portfolio growth and a reduction in fair value depreciation, should result in a steady increase in net income over the duration of the plan, reaching \$86 million in fiscal 2025. It should be noted that due to high volatility in fair value, which translates into portfolio volatility, it is difficult to make a reliable net income forecast.

**Table 12—Growth & Transition Capital: Activity and statement of income**

(\$ in millions)	2019	2020	2021	2022	2023	2024	2025
<b>Acceptances*</b>	<b>388</b>	<b>425</b>	<b>190</b>	<b>435</b>	<b>535</b>	<b>585</b>	<b>635</b>
<b>Net interest income</b>	<b>85</b>	<b>91</b>	<b>82</b>	<b>78</b>	<b>84</b>	<b>93</b>	<b>103</b>
Net realized gains (losses) on investments**	15	(5)	(30)	(26)	2	1	6
Fee and other income	20	33	26	28	32	38	42
<b>Net revenue</b>	<b>120</b>	<b>119</b>	<b>78</b>	<b>80</b>	<b>118</b>	<b>132</b>	<b>151</b>
Net fair value appreciation (depreciation)	(9)	(104)	(43)	(11)	(4)	(4)	(4)
Reversal of fair value depreciation (appreciation) on divested investments and write-offs	4	13	31	29	7	8	7
<b>Income before operating and administrative expenses</b>	<b>115</b>	<b>28</b>	<b>66</b>	<b>98</b>	<b>121</b>	<b>136</b>	<b>154</b>
Operating and administrative expenses	42	46	39	52	58	62	68
<b>Net income (loss)</b>	<b>73</b>	<b>(18)</b>	<b>27</b>	<b>46</b>	<b>63</b>	<b>74</b>	<b>86</b>
<b>Portfolio at fair value</b>	<b>1,082</b>	<b>1,115</b>	<b>1,042</b>	<b>1,183</b>	<b>1,386</b>	<b>1,602</b>	<b>1,814</b>

\*Uni-tranche senior debt component is excluded as it is volatile and difficult to forecast

\*\*Includes write-offs

## Venture Capital

Venture Capital will play a catalyst role in the Canadian VC ecosystem during the recession and as the economy slowly recovers. Over the planning period, direct authorizations are forecast to remain strong at over \$100 million annually. This will be partly driven by the deployment of the Industrial Innovation Venture Fund and capital deployment by the co-investment team to ensure the scale-up businesses in Canada have the liquidity they need to weather the crisis and resume growth as soon as possible.

To help VC fund managers close funding rounds in a timely fashion, indirect authorizations are expected to rise from \$115 million in fiscal 2020 to \$150 million annually for the duration of the plan.

VC proceeds are expected to total \$590 million over the planning period as legacy investments exit the portfolio and a growing number of indirect investments provide a steady stream of distributions. Meanwhile, disbursements are forecast to total \$1.2 billion, lifting the portfolio to \$2 billion by the end of the planning period.

Venture capital is a risky asset class that is subject to volatile market conditions. With favourable market conditions in fiscal 2019, VC's investments experienced significant fair value appreciation, which resulted in \$194 million of net income. However, with the adverse market conditions brought on by the COVID-19 crisis in the final month of fiscal 2020, VC's investments experienced significant fair value depreciation resulting in a net loss.

In fiscal 2021 and 2022, we expect the VC ecosystem to continue to be negatively impacted by the economic downturn, and as a result, we project net realized losses on investments. Investments should begin to produce limited fair value appreciation in fiscal 2023. Consequently, a net loss is forecast for the next three fiscal years.

Due to the risky nature of the VC asset class, which translates into portfolio volatility, it is difficult to make a reliable net income forecast. As the economic environment becomes more stable starting in fiscal 2024, we project neutral profitability.

**Table 13—Venture Capital: Activity and statement of income**  
(\$ in millions)

	2019	2020	2021	2022	2023	2024	2025
<b>Direct authorizations</b>	<b>93</b>	<b>129</b>	<b>115</b>	<b>115</b>	<b>120</b>	<b>115</b>	<b>100</b>
<b>Indirect authorizations</b>	<b>154</b>	<b>115</b>	<b>150</b>	<b>150</b>	<b>150</b>	<b>150</b>	<b>150</b>
<b>Proceeds</b>	<b>128</b>	<b>431</b>	<b>40</b>	<b>100</b>	<b>125</b>	<b>150</b>	<b>175</b>
<b>Disbursements</b>	<b>202</b>	<b>223</b>	<b>213</b>	<b>224</b>	<b>255</b>	<b>254</b>	<b>242</b>
Net realized gains (losses) on investments	30	256	18	30	80	52	52
Write-offs	(8)	(3)	(40)	(46)	(60)	(43)	(23)
<b>Net realized gains (losses) on investments and write-offs</b>	<b>22</b>	<b>253</b>	<b>(22)</b>	<b>(16)</b>	<b>20</b>	<b>9</b>	<b>29</b>
Fee and other income	2	11	-	-	-	-	-
<b>Net revenue (loss)</b>	<b>24</b>	<b>264</b>	<b>(22)</b>	<b>(16)</b>	<b>20</b>	<b>9</b>	<b>29</b>
Net fair value appreciation (depreciation)	177	(134)	(28)	(14)	6	49	50
Reversal of fair value depreciation (appreciation) on divested investments and write-offs	2	(228)	14	19	(12)	(9)	(29)
Net foreign exchange gains (losses) on investments	23	37	-	-	-	-	-
<b>Income before operating and administrative expenses</b>	<b>226</b>	<b>(61)</b>	<b>(36)</b>	<b>(11)</b>	<b>14</b>	<b>49</b>	<b>50</b>
Operating and administrative expenses	32	41	34	39	39	39	40
<b>Net income (loss)</b>	<b>194</b>	<b>(102)</b>	<b>(70)</b>	<b>(50)</b>	<b>(25)</b>	<b>10</b>	<b>10</b>
<b>Portfolio at fair value</b>	<b>1,566</b>	<b>1,296</b>	<b>1,433</b>	<b>1,546</b>	<b>1,690</b>	<b>1,843</b>	<b>1,961</b>

## Advisory Services

Due to the economic downturn, many businesses have had to postpone or cancel consulting mandates. To help guide Canadian entrepreneurs through these severe economic conditions, Advisory Services has adjusted its strategy and is offering a free program called Access. It allows eligible clients to benefit from a free consultation with a BDC expert to get advice on how to address challenges related to the COVID-19 crisis, such as cash flow management and business recovery strategies. Advisory Services revenue from activities is forecast to decrease in fiscal 2021 to \$12 million, resulting in a net investment (net loss) of \$48 million.

As the economic recovery gathers steam and entrepreneurs can focus again on growth, Advisory Services revenues should increase steadily from fiscal 2022 and reach \$39 million in fiscal 2025.

Net investment (net loss) is expected to decrease in fiscal 2023, primarily reflecting productivity improvements from process enhancements. The cost-recovery ratio should increase from 47% in fiscal 2020 to 60% in fiscal 2025, while we sustain or improve our impact on client businesses.

**Table 14—Advisory Services: Statement of income**  
(\$ in millions)

	2019	2020	2021	2022	2023	2024	2025
Revenue from activities	25	29	12	28	34	36	39
Operating and administrative expenses including delivery costs	75	76	60	78	79	80	82
<b>Net income (loss)</b>	<b>(50)</b>	<b>(47)</b>	<b>(48)</b>	<b>(50)</b>	<b>(45)</b>	<b>(44)</b>	<b>(43)</b>
Cost-recovery ratio*	41%	47%	23%	45%	54%	58%	60%

\* The cost-recovery ratio is calculated as revenue from activities as a percentage of operating and administrative expenses minus shared-costs



## Venture capital incentive programs

The venture capital incentive programs (VCIP) include the Venture Capital Action Plan (VCAP), the Venture Capital Catalyst Initiative (VCCI) and the Indigenous Growth Fund (IGF).

In fiscal 2020 and 2021, VCAP investments are projected to experience significant fair value depreciation due primarily to the economic downturn. This will result in a preliminary net loss of \$58 million in fiscal 2020 and a projected net loss \$4 million in fiscal 2021. Despite the economic crisis, VCAP is expected to earn a return of capital of 1.4x over the life of the program. Over the planning period, this translates into anticipated proceeds of \$203 million and net income of \$66 million as the program benefits from its investments.

VCCI disbursements should total \$288 million over the planning period. Due to the J-curve effect, net losses are projected to total \$12 million over the planning period.

BDC expects to initiate the IGF fund in fiscal 2021. It will provide capital to the Aboriginal Financial Institutions to offer loans to new and expanding Indigenous businesses. The capital is planned to be fully disbursed over the planning period and we intend to recover the capital over the life of the fund, which extends beyond the planning period. The financial projections may differ from results as the fund structure is finalized.

As this is a new fund, BDC is currently reviewing how it will report on its activities. As such, presentation of this segment in this Corporate Plan may differ from future annual reports required under IFRS.

Overall, the incentive programs are forecast to generate \$38 million of net income over the planning period.

**Table 15—VCIP: Activity and statement of income**

(\$ in millions)

	2019	2020	2021	2022	2023	2024	2025
<b>Authorizations</b>	<b>301</b>	<b>65</b>	<b>108</b>	-	-	-	-
<b>Disbursements</b>	<b>8</b>	<b>40</b>	<b>85</b>	<b>95</b>	<b>87</b>	<b>76</b>	<b>59</b>
<b>Proceeds</b>	<b>2</b>	<b>10</b>	<b>8</b>	<b>7</b>	<b>14</b>	<b>65</b>	<b>137</b>
Net revenue	-	3	-	-	-	-	-
Net fair value appreciation (depreciation)	56	(73)	(13)	13	14	18	20
<b>Income before operating and administrative expenses</b>	<b>56</b>	<b>(70)</b>	<b>(13)</b>	<b>13</b>	<b>14</b>	<b>18</b>	<b>20</b>
Operating and administrative expenses	3	2	2	3	3	3	3
<b>Net income (loss)</b>	<b>53</b>	<b>(72)</b>	<b>(15)</b>	<b>10</b>	<b>11</b>	<b>15</b>	<b>17</b>
<b>Portfolio at fair value</b>	<b>462</b>	<b>420</b>	<b>488</b>	<b>586</b>	<b>670</b>	<b>692</b>	<b>627</b>

**Table 16—VCAP: Activity and statement of income**

(\$ in millions)	2019	2020	2021	2022	2023	2024	2025
<b>Authorizations</b>	3	-	-	-	-	-	-
<b>Disbursements</b>	8	6	5	4	2	2	1
<b>Proceeds</b>	2	10	8	5	9	56	125
Net revenue	-	1	-	-	-	-	-
Net fair value appreciation (depreciation)	56	(58)	(3)	18	18	19	19
<b>Income before operating and administrative expenses</b>	<b>56</b>	<b>(57)</b>	<b>(3)</b>	<b>18</b>	<b>18</b>	<b>19</b>	<b>19</b>
Operating and administrative expenses	1	1	1	1	1	1	1
<b>Net income</b>	<b>55</b>	<b>(58)</b>	<b>(4)</b>	<b>17</b>	<b>17</b>	<b>18</b>	<b>18</b>
<b>Portfolio at fair value</b>	<b>462</b>	<b>400</b>	<b>398</b>	<b>414</b>	<b>426</b>	<b>390</b>	<b>285</b>

**Table 17—VCCI: Activity and statement of income**

(\$ in millions)	2019	2020	2021	2022	2023	2024	2025
<b>Authorizations</b>	298	65	8	-	-	-	-
<b>Disbursements</b>	-	34	60	71	65	54	38
<b>Proceeds</b>	-	-	-	2	5	9	12
Net revenue	-	2	-	-	-	-	-
Net fair value appreciation (depreciation)	-	(15)	(9)	(3)	(2)	2	5
<b>Income before operating and administrative expenses</b>	<b>-</b>	<b>(13)</b>	<b>(9)</b>	<b>(3)</b>	<b>(2)</b>	<b>2</b>	<b>5</b>
Operating and administrative expenses	2	1	1	1	1	1	1
<b>Net income (loss)</b>	<b>(2)</b>	<b>(14)</b>	<b>(10)</b>	<b>(4)</b>	<b>(3)</b>	<b>1</b>	<b>4</b>
<b>Portfolio at fair value</b>	<b>-</b>	<b>20</b>	<b>70</b>	<b>136</b>	<b>193</b>	<b>240</b>	<b>270</b>

**Table 18—IGF: Activity and statement of income**

(\$ in millions)	2021	2022	2023	2024	2025
<b>Authorizations</b>	100	-	-	-	-
<b>Disbursements</b>	20	20	20	20	20
<b>Net revenue</b>	-	-	-	-	-
Net fair value appreciation (depreciation)	(1)	(2)	(2)	(3)	(4)
<b>Income before operating and administrative expenses</b>	<b>(1)</b>	<b>(2)</b>	<b>(2)</b>	<b>(3)</b>	<b>(4)</b>
Operating and administrative expenses	-	1	1	1	1
<b>Net income (loss)</b>	<b>(1)</b>	<b>(3)</b>	<b>(3)</b>	<b>(4)</b>	<b>(5)</b>
<b>Portfolio at fair value</b>	<b>20</b>	<b>36</b>	<b>51</b>	<b>62</b>	<b>72</b>

## Cleantech Practice

BDC projects its Cleantech Practice will deploy \$600 million in debt and equity transactions by fiscal 2022. To implement the program, BDC expects capital injections totalling \$600 million by fiscal 2021. With this level of activity, BDC expects the Cleantech Practice portfolio at fair value to peak in fiscal 2022 at \$408 million. Given the risky nature and long lifespan of cleantech transactions, a net loss of \$72 million is forecast between fiscal 2021 and fiscal 2025. Financial results are expected to be subject to significant volatility.

**Table 19—Cleantech Practice: Activity and statement of income**

(\$ in millions)	2019	2020	2021	2022	2023	2024	2025
<b>Acceptances (\$)</b>	113	91	176	181	-	-	-
<b>Acceptances (#)</b>	11	16	23	25	-	-	-
<b>Net interest income</b>	2	5	11	20	24	22	17
Net realized gains (losses) on investments*	-	-	(11)	(24)	(39)	(34)	(30)
Fee and other income	1	4	2	3	3	3	2
<b>Net revenue</b>	3	9	2	(1)	(12)	(9)	(11)
Net fair value appreciation (depreciation)	(6)	(21)	(26)	(39)	(39)	(36)	(24)
Reversal of fair value depreciation (appreciation) on divested investments and write-offs	-	5	11	24	39	38	34
<b>Income before operating and administrative expenses</b>	(3)	(7)	(13)	(16)	(12)	(7)	(1)
Operating and administrative expenses	4	4	4	4	5	5	5
<b>Net income (loss)</b>	(7)	(11)	(17)	(20)	(17)	(12)	(6)
<b>Portfolio at fair value</b>	58	118	274	408	400	335	272

\*Includes write-offs

## Capital budget

To remain efficient and responsive to clients' needs, BDC invests in technology. IT expenditures are forecast to peak in fiscal 2021 as BDC plans for the next phase of its digital evolution. It should be noted that most IT-related investments are expensed and therefore excluded from the capital budget.

We also invest in business facilities across Canada. Facilities expenditures are expected to decrease over the planning period, as leasehold expenditures for the head office and relocation of the Toronto business centre will be completed by the end of fiscal 2021.

**Table 20—Capital budget**  
(\$ in millions)

	2019	2020	2021	2022	2023	2024	2025
Facilities	13	12	17	7	7	5	5
Information technology	17	13	17	15	15	14	12
<b>Total</b>	<b>30</b>	<b>25</b>	<b>34</b>	<b>22</b>	<b>22</b>	<b>19</b>	<b>17</b>

# Capital plan

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## Capital management methodology

Capital planning is a key component of BDC's internal capital adequacy assessment process (ICAAP). For planning purposes, BDC allocates capital by business line. This allocation includes all risk types. BDC's capital management is aligned between the Credit Availability Program (CAP) portfolio and BDC's core portfolio, with both available capital and required capital calculated on the same basis.

Capital injection is set to be \$8.4 billion for CAP, of which \$944 million was received in March 2020. BDC has established an internal structure where CAP will be maintained as a separate segment with all related capital and any excess capital independently from BDC's core portfolio.

## Capital projections

Treatment of excess capital will be calculated on the same basis for both the CAP portfolio and BDC's core portfolio. Deployment of the capital as a dividend may differ in keeping with BDC's Capital Management and Dividend Policy and the agreement with the shareholder as outlined below.

### Core portfolio

With returns generated by activities forecast to surpass the required capital to support portfolio growth, BDC expects to have excess capital available for additional operational needs and/or dividend payments from fiscal 2022 to fiscal 2025. These efforts include improving access to BDC's offerings for key entrepreneur segments, updating its strategy for supporting technology firms, investigating new ways to help businesses scale up and continuing to use technology to enhance client experience.

### Credit Availability Program portfolio

Under the CAP assumptions and the shareholder's expectations, it is anticipated that no dividends would be paid before fiscal 2023.

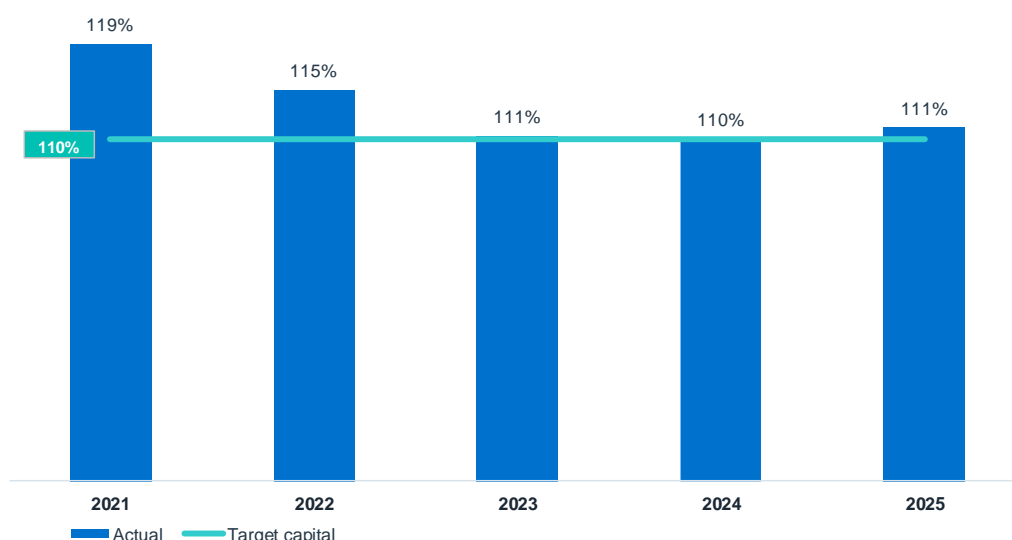
## Internal capital ratio (applicable to BDC's core portfolio)

BDC's key measure for determining and assessing its capital adequacy is its internal capital ratio, which is expressed as the level of available capital over the required capital.

The internal capital ratio is used to set BDC's target capital level as well as measure its capital adequacy risk appetite measures. BDC's target capital is revised annually based on BDC's Corporate Plan forecasts for internal capital requirements and the management operating range, as well as any capital required by a potential stress testing capital shortfall identified as part of the enterprise-wide stress testing program.

**Table 21—Internal capital ratio**

(available capital as a percentage of economic capital required)



## Statutory limitations

The *Business Development Bank of Canada Act* requires that the aggregate of borrowings and contingent liabilities in the form of guarantees provided by BDC may not exceed 12 times its equity. The debt-to-equity ratio is projected to be 2.7:1 in fiscal 2020, meaning that for every \$2.70 of debt, BDC has \$1 of equity. The ratio is expected to be within the statutory limit of 12.0:1 over the planning period (Table 5).

As shown in Table 22, BDC's paid-in capital is expected to reach \$4 billion in fiscal 2020, increasing to \$11.9 billion in fiscal 2022 following the capital injections required for CAP, VCIP and Cleantech Practice. Paid-in capital, contributed surplus and any proceeds that have been prescribed as equity (such as hybrid capital instruments) must at no time exceed the new ceiling of \$15 billion determined by the shareholder in April 2020.

**Table 22—Paid-in capital**

(\$ in millions)

	2019	2020	2021	2022	2023	2024	2025
<b>Opening paid-in capital</b>	<b>2,478</b>	<b>2,603</b>	<b>4,009</b>	<b>11,760</b>	<b>11,910</b>	<b>11,820</b>	<b>11,865</b>
<b>Capital injections (repurchase of shares)</b>							
VC incentive programs	-	185	50	150	-	115	-
Cleantech Practice	125	277	198	-	(90)	(70)	(60)
Credit Availability Program		944	7,503	-	-	-	-
<b>Closing paid-in capital</b>	<b>2,603</b>	<b>4,009</b>	<b>11,760</b>	<b>11,910</b>	<b>11,820</b>	<b>11,865</b>	<b>11,805</b>

# Borrowing plan

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## Legislative authorities

BDC's funding activities are governed by section 18 of the *Business Development Bank of Canada Act* and section 127 of the *Financial Administration Act*. The activities must also comply with the Minister of Finance's Financial Risk Management Guidelines for Crown Corporations.

Under section 30 of the *Business Development Bank of Canada Act*, BDC is subject to a statutory borrowing authority constraint that limits the direct and contingent liabilities of the corporation to 12 times its equity.

Since 2008, BDC's Canadian dollar borrowings have been consolidated with the borrowing program of the Government of Canada. The Department of Finance, through the Crown Borrowing Program, provides this funding on a timely basis, at the government's estimated cost of funds and under flexible terms. This arrangement is consistent with section 19 of the *Business Development Bank of Canada Act*, which allows BDC to request that the Minister of Finance lend money out of the Consolidated Revenue Fund to BDC on such terms and conditions as the Minister may fix. BDC also has the option to borrow in U.S. dollars on the open market.

## Overview of borrowing plan

BDC's borrowing activities are an integral part of its operations and an important element of its risk management strategies. Requirements for new debt reflect the business needs for new financing of its clients and the borrowing portfolio is closely matched against the asset portfolio to ensure sound asset and liability management.

BDC closely manages the mix of fixed and variable rate borrowings daily, in accordance with BDC's Treasury Risk Policy, which requires matching of debt cash flow streams to the maturity profiles of client loan repayments. Through borrowing activities and first-hand knowledge of financial markets, BDC's Treasury plays an important role in the pricing strategy to reflect market conditions and avoid volatility in BDC's operating margin.

BDC's Asset Liability Committee meets at least quarterly to evaluate market trends, movements in interest rates, borrowing strategies and operating margins, as well as the compliance of BDC's treasury activities with its Treasury Risk Policy. Such compliance is reported quarterly to BDC's Board of Directors.

The assumptions and estimates used in this borrowing plan are highly sensitive to the economic environment, the interest rate environment and customer preferences. BDC routinely updates the Department of Finance on borrowing requirements.

### Short-term borrowing

By the end of fiscal 2021, short-term borrowings will make up over 77% of total debt outstanding. BDC is projecting the proportion of short-term to long-term debt outstanding will increase to 78% over the planning period. External economic factors may drive changes in customer preferences for long-term fixed-rate borrowing versus short-term borrowing, which could impact the projected proportion.

### Long-term borrowing

As shown in Table 25 long-term borrowings are projected at \$11.2 billion in fiscal 2021. An increase in long-term borrowing is forecast in fiscal 2021 due to the level of activity from CAP. As CAP's portfolio is forecast to peak in fiscal 2021, long-term borrowings are expected to decrease until fiscal 2024. The increase in fiscal 2025 is due to BDC's core portfolio growth.



**Table 23—Projected outstanding borrowings at year end**

(\$ in millions)	2019	2020	2021	2022	2023	2024	2025
Short-term borrowings	20,952	19,362	36,747	36,593	34,622	32,886	26,984
Long-term borrowings	1,443	4,207	11,209	8,688	7,662	6,957	7,471
<b>Total</b>	<b>22,395</b>	<b>23,569</b>	<b>47,956</b>	<b>45,281</b>	<b>42,284</b>	<b>39,843</b>	<b>34,455</b>

**Table 24—Short-term borrowings**

(\$ in millions)	2019	2020	2021	2022	2023	2024	2025
Canadian dollar borrowings	20,952	19,362	36,747	36,593	34,622	32,886	26,984
US dollar borrowings	-	-	-	-	-	-	-
<b>Total</b>	<b>20,952</b>	<b>19,362</b>	<b>36,747</b>	<b>36,593</b>	<b>34,622</b>	<b>32,886</b>	<b>26,984</b>

**Table 25—Outstanding long-term borrowings**

(\$ in millions)	2019	2020	2021	2022	2023	2024	2025
Opening balance	1,443	1,443	4,207	11,209	8,688	7,662	6,957
Maturities	-	-	(3)	(3,459)	(2,396)	(2,566)	(1,982)
New issuances	-	2,764	7,005	938	1,370	1,861	2,496
<b>Total</b>	<b>1,443</b>	<b>4,207</b>	<b>11,209</b>	<b>8,688</b>	<b>7,662</b>	<b>6,957</b>	<b>7,471</b>
Fixed rate	1,307	4,071	11,081	8,688	7,662	6,957	7,471
Floating rate	136	136	128	-	-	-	-
<b>Total</b>	<b>1,443</b>	<b>4,207</b>	<b>11,209</b>	<b>8,688</b>	<b>7,662</b>	<b>6,957</b>	<b>7,471</b>

**Appendix: Corporate Plan Summary for 2020-21 to 2024-25**

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# Corporate Plan Summary

2020-21 to 2024-25

Operating budget  
Capital budget  
Borrowing plan

Canada



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The Corporate Plan Summary of the Business Development of Canada is based on the 2020-21 to 2024-25 BDC Corporate Plan as approved by the Governor General in Council on March 20, 2020, on the recommendation of the Minister of Small Business, Export Promotion and International Trade and the Minister of Finance.

**Note:** BDC's fiscal year runs from April 1 to March 31.  
For example, fiscal 2021 runs from April 1, 2020 to March 31, 2021.

Entrepreneurs make an essential and irreplaceable contribution to Canada's prosperity through their efforts to create strong, growing businesses. Small and medium-sized businesses are the engine of the economy, generating growth, innovation and opportunities to enhance the quality of life for millions of Canadians.

Entrepreneurs benefit from Canada's robust financial system, stable political environment and high standard of living. However, they face a challenging competitive landscape marked by rapid technological change, tight labour markets and heightened levels of uncertainty.

As the only bank devoted exclusively to entrepreneurs, BDC is keenly aware of the competitive challenges facing Canadian small and medium-sized businesses. In response, we are evolving to better meet the needs of entrepreneurs and keep pace with change sweeping the economy and the financial services industry. We are undertaking our evolution from a position of strength, having achieved record-setting results in number of clients served, portfolio size and income growth. Fully 94% of our clients say they are satisfied with us.

Acting in a complementary manner to the private sector, our vision for BDC in the coming years focuses on the following aspects:

- ➔ **Create better business journeys for entrepreneurs**—The path to business success isn't a straight line. That's why we are committed to accompanying entrepreneurs at every step of their business journey by providing loans, investment capital and advice that are appropriate for their size, development stage and growth ambitions. We will continue to invest in technology and our people to deliver the products and services they want, when and how they want them.
- ➔ **Improving client experience**—BDC understands change is essential if we are to remain relevant to entrepreneurs and have a greater impact on more of them. We will make it simpler, easier and faster for them to do business with us. Building on progress already made, we will make investments to simplify our processes and enhance our use of mobile and digital technologies.
- ➔ **Filling key market gaps**—In partnership with public and private sector players, we will fill key market gaps, notably, by providing targeted financing and advice to underserved groups of business owners, including women, Indigenous, and purpose-driven entrepreneurs. Our tailored support also addresses regional challenges and seeks to help provincial economies transition. Our support for Alberta's oil and gas industry and its technology ecosystem are examples of this.

- ➔ **Helping businesses to scale up and innovate**—We will support the ambitions of our clients to scale up their businesses, expand internationally and execute ownership changes through financing, advisory services and Growth & Transition Capital solutions. We will also continue to play a leading role in encouraging Canada's innovation ecosystem through lending and investments to tech firms and other asset-light businesses rich in intellectual property.

Climate change poses fundamental risks to countries, economies and businesses. In the next year, we will continue to support companies that are pioneering innovative solutions to combat climate change and pollution through our Cleantech Practice. We will also assess the impact of climate change on the economy, including what it means for our portfolio. Additionally, we will help Canadian SMEs understand how to decrease their carbon footprint through various initiatives and by supporting the movement of certified Beneficial corporation (B Corp) entrepreneurs.

As always, BDC will be there for entrepreneurs when external developments, market uncertainty or natural forces create unexpected turbulence for them.

## Financial highlights

The term lending market, after expanding at an average rate of 9% a year between 2011 and 2018, is projected to grow at a slower pace over the planning period amid less favourable economic conditions.

Following strong results in fiscal 2020, BDC's consolidated net income is expected to decrease in fiscal 2021 due to an increase in provisions for expected credit losses, lower Venture Capital income and an increase in expenses to support BDC's technological investments. Over the duration of the plan, BDC's consolidated net income is forecast to increase by 5% annualized, reaching \$981 million by fiscal 2025. This will provide the Bank with financial flexibility to support the long-term success of Canadian entrepreneurs. As returns generated by activities surpass the required capital to support portfolio growth, BDC expects to have excess capital available for dividends and/or to enhance our support for entrepreneurs.

Through to fiscal 2025, BDC's financial plan is premised on a stable economy but recognizes that factors such as trade tensions, labour shortages and technological change could affect what entrepreneurs need from BDC. This may result in significant variation from plan projections. BDC's profitability may fluctuate significantly due to fair value volatility, especially in BDC Capital and the venture capital incentive programs. For example, a 10% net change in unrealized appreciation or depreciation of BDC's venture capital investments would have an impact ranging from \$168 million in fiscal 2021 to \$204 million in fiscal 2025. In fiscal 2021, this fluctuation would represent 31% of BDC's net income.



## Our mission and purpose<sup>1</sup>

To support Canadian entrepreneurs by providing financing, advisory services and capital with a focus on small and medium-sized enterprises (SMEs).

## Our aspiration

To make Canadian entrepreneurs the most competitive in the world.

## Our public policy role

To serve entrepreneurs in a way that is complementary to services offered by the private sector.

## Our approach

Through our independent credit decisions, we take more risk in supporting entrepreneurs, but do so in a way that ensures our financial sustainability without government appropriations.

	B.C. & North	Prairies	Ontario	Quebec	Atlantic	Total
% of direct clients <sup>2</sup>	12%	17%	27%	34%	10%	100%
Commitment <sup>3</sup> in \$ billions	\$4.6	\$6.4	\$10.6	\$10.5	\$2.4	\$34.5
Business centres	18	24	34	33	14	123

● Direct clients ● Business centres

## A different kind of bank

- We are the only Canadian bank devoted exclusively to entrepreneurs.
- We are the first bank in Canada to obtain B Corp certification<sup>4</sup> and be named a “Best for the World 2019” honouree for achievements as one of the world’s top-performing B Corps.<sup>5</sup>

## A national Crown corporation with extensive reach

- The number of BDC clients continues to increase year-over-year to now more than **48,000** direct and **12,000** indirect clients.
- Our clients employ nearly **one million** people and generate over **\$350 billion** in annual revenues.
- We have **123** business centres across Canada.
- We have a significant web presence with **7.5 million** visits to BDC.ca, **29,000+** eBook downloads, **21,000+** website assessments, a ratio and benchmarking tool usage of **65,000+** and online publications that now reach **295,000** unique subscribers.

## A champion for all entrepreneurs

- **\$564M** lent to majority women-owned businesses.
- **15%** of our direct clients are exporters compared to **12%** of Canadian SMEs.<sup>6</sup>

## A provider of outstanding customer service

- **94%** of our clients are satisfied.

## An architect of business innovation and growth

- We are the largest VC investor in Canada. We invest directly or indirectly in close to **800** Canadian companies through our venture capital investments.
- BDC is also a limited partner in funds and funds of funds representing **71%** of active VC investments in Canada.
- We provide critical funding through our Growth & Transition Capital team to grow innovative companies and enable business transition.
- We support high-growth firms to reach new heights in Canada and abroad through our Growth Driver Program.

## A proud employer of choice

- Over the years, we have received many corporate awards and certifications such as Canada’s Top 100 Employers, Best Workplaces for Canadians over 40, A Great Place to Work™ and parity certification from Women in Governance.

## A complementary player with the private sector

- We fill prevailing market gaps:
- **13%** of our loans (in acceptances) are made alongside other financial institutions.
- **89%** of BDC’s portfolio is sub-investment grade<sup>7</sup> compared to 32% for chartered banks.
- We play an important role during economic downturns.
- Our Special Accounts group and Business Restructuring Unit offer dedicated attention to help clients experiencing difficulty.
- We invest in non-financial services that help SMEs improve their management capabilities.
- Our advisory services are delivered in collaboration with private sector consultants.

## BDC business lines

BDC's mandate, aspiration and public policy role are reflected in our core business lines — Financing, BDC Capital (comprising Venture Capital and Growth & Transition Capital) and Advisory Services. Together with the Cleantech Practice, the Venture Capital Action Plan (VCAP), and the Venture Capital Catalyst Initiative (VCCI) initiatives, they represent a total commitment of nearly \$35 billion to Canadian SMEs.

### Financing

Financing provides **term lending** to SMEs and also collaborates with other financial institutions through co-lending, syndicated loans and indirect financing to increase credit availability in the market.

Commitment to  
Canadian SMEs

**\$29.9 billion**

### BDC Capital

**Growth & Transition Capital** provides cash flow, mezzanine, quasi-equity and equity financing to support the growth and transition projects of SMEs.

**\$1.3 billion**

**Venture Capital** invests directly in companies in multiple sectors and is also Canada's largest indirect investor in private funds.

**\$2.1 billion**

■ Direct 29%  
■ Indirect 38%  
■ VCAP and VCCI 33%



### Advisory Services

BDC invests to provide entrepreneurs with high-value advisory services at a price they can afford. We offer a variety of solutions for both smaller and larger companies, free online educational content and a program targeting high-growth firms.<sup>8</sup>

Total  
mandates  
**1,600+**

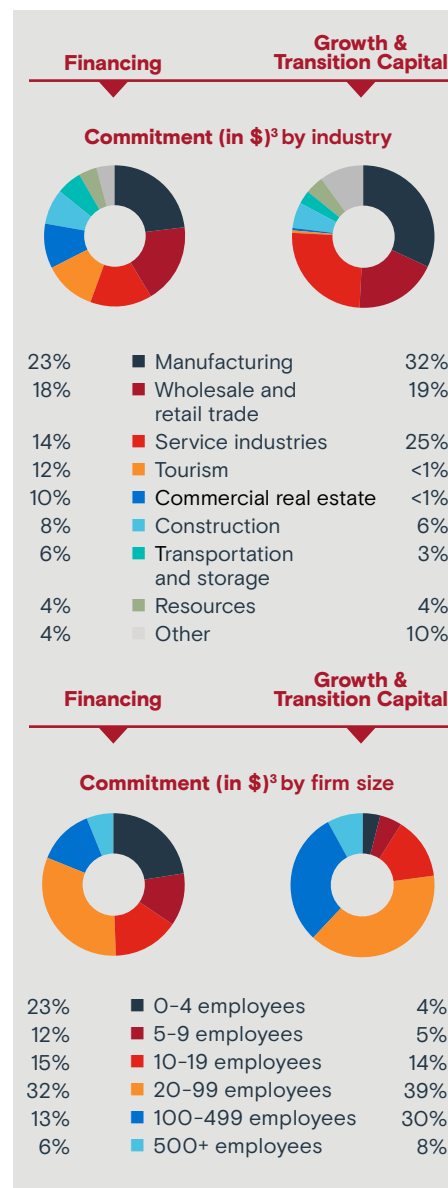
Growth Driver  
Program clients  
**120+**

Online studies, articles, eBooks,  
videos, training material, etc.  
**1,100+**

### Initiatives

Announced in the 2017 Budget, the **Cleantech Practice** is designed to help build globally competitive Canadian cleantech firms through subordinated debt and equity transactions that exceed BDC's normal risk appetite. More than \$150 million of the \$600 million envelope has been deployed.

On behalf of the government, BDC manages \$390 million allocated to the **Venture Capital Action Plan (VCAP)** to support promising Canadian start-ups and \$450 million allocated to the **Venture Capital Catalyst Initiative (VCCI)** to support late-stage and underrepresented groups.



### Unless otherwise noted, all data are for fiscal 2019

<sup>1</sup> *Business Development Bank of Canada Act*, SC 1995, c 28, s 4: "The purpose of the Bank is to support Canadian entrepreneurship by providing financial and management services, by issuing securities, or by raising funds or capital in support of those services."

<sup>2</sup> Only direct clients are shown. Clients receiving services from more than one business line have been counted only once.

<sup>3</sup> Commitment refers to portfolio outstanding and amounts undisbursed at cost of BDC's loans or capital investment portfolio. BDC also reports the number of current loans (reported as "in #"), the number of clients, amounts authorized and amounts disbursed and undisbursed.

<sup>4</sup> B Corps (beneficial corporations) are businesses that profitably fulfill a broader purpose and meet rigorous environmental, social, governance and workplace standards

<sup>5</sup> BDC Media room News releases September 5, 2019, Montreal

<sup>6</sup> ISED, Survey on Financing and Growth of Small and Medium Enterprises 2017, November 2018. Revised on March 21, 2019.

<sup>7</sup> Refers to BDC Financing's outstanding loans portfolio. Sub-investment grade loans are rated BB+ or less.

<sup>8</sup> High-growth firms have a disproportionate impact on the Canadian economy. See High-growth firms, page 14 for more details.



## Governance

BDC is governed by an independent Board of Directors composed of the Chairperson, the President and CEO and eleven directors. The Board of Directors is responsible for the stewardship of BDC, is accountable to the shareholder and reports to Parliament through the Minister of Small Business, Export Promotion and International Trade.

## Partnerships

To help bolster the SME ecosystem, BDC collaborates with private and public sector organizations that provide services for SMEs, such as Export Development Canada (EDC), Global Affairs Canada (GAC), regional development agencies, tech accelerators, Futurpreneur, Start-Up Canada, and Women's Enterprise Organizations of Canada. (See Appendix 4, page 35 for more details.)

## Risk management

BDC uses sound financial and risk management practices to be self-sustaining and profitable so that it can do more to propel SME competitiveness. BDC's latest financial information, including management discussion and analysis, can be found in the fiscal 2019 annual report.

## Special examination

BDC's joint auditors — the Office of the Auditor General of Canada and Deloitte — completed a special examination in December 2018 of BDC in accordance with the *Financial Administration Act*. No significant deficiencies were identified in BDC's systems and practices. There were recommendations following the examination and these recommendations are being actively addressed.

## What's new

- We've articulated a focus on creating better business journeys for entrepreneurs and better client experiences with BDC to become an increasingly responsive and customer-centric financial institution.
- We've outlined a strategy to become the Canadian leader in customer experience, engagement and satisfaction. Investments in our digital evolution and employees will help us achieve our strategic objectives.
- We intend to evolve BDC's capabilities with the help of advanced analytics, artificial intelligence and process automation to better support entrepreneurs.
- We've formalized a pan-Canadian tech team and developed tech financing solutions to enable easier access to funds needed by entrepreneurs to scale-up.
- Our Growth & Transition Capital team now provides a full range of solutions and will pay specific attention to companies that are rich in intellectual property.
- We are expanding support for Indigenous entrepreneurs, notably by partnering with the National Aboriginal Capital Corporations Association to launch the Indigenous Growth Fund.
- Our Advisory Services team offers a new operational efficiency solution for smaller companies, while mid-sized and larger businesses now have access to our Business Performance Builder Program, a 360-degree approach to building strong management capabilities.
- We are strengthening ongoing partnerships as well as exploring new ones to enhance our joint intervention. Our renewed partnerships with EDC and GAC will strengthen our continued support to Canadian exporters and provides a whole-of-government approach.
- We are working to assess the impact of climate change on our organization and on our portfolio and how best to support Canadian entrepreneurs and SMEs in their efforts to meet this challenge.
- We have revised our capital management framework. The new framework incorporates changes to both the available capital definition as well as the required capital quantification. The updated framework will be effective April 1, 2020.

## 1. External environment

As a complementary lender, BDC considers economic and market factors when planning activities and investments. BDC's Corporate Plan is based on the following observations and assumptions.

### Economic conditions

Global economic activity, measured by GDP, slowed in the second half of 2018 and is expected to have grown by 3.2% in 2019—the weakest since 2009. Growth is expected to improve to 3.4% in 2020, still below the 20-year historical average of 3.7%.<sup>9</sup> Growth in Europe and China has weakened as the U.S. instigated protectionist measures that have created uncertainty. This uncertainty, in turn, has weakened confidence, slowing trade and investment. Central banks have responded to slower growth by lowering interest rates, leading to looser global financial conditions.

In Canada, GDP growth slowed in 2018 and 2019 and is expected to hover around 2% over the next two years. Canada's economic growth will continue to be affected by the following factors:

- an aging population that, in addition to lowering growth, is also resulting in labour shortages in some parts of the country
- weaker global growth, which is reducing demand for Canadian exports
- weaker oil prices, which are hurting the oil and gas sector as well as the wider economy in the Prairies
- a decline in investments over the short term amid weaker business confidence due to uncertainty

Despite these developments, Canada's robust financial system, stable political environment and high standard of living remain key advantages for small and medium-sized businesses. Moreover, Canada's efforts to attract highly skilled international worker is another positive factor for businesses, especially as the world shifts to a knowledge-based economy.

### Access to capital and advice

Entrepreneurs continue to have good access to financing with high levels of liquidity in the market. Total credit for businesses grew at an average annual pace of over 5% in 2019.

Overall, credit conditions remain favourable for businesses despite a 1.25-percentage-point increase in the Bank of Canada's policy interest rate since July 2017. While the Bank of Canada's rate should remain stable, effective interest rates for businesses have been declining. This is because the global economic slowdown has forced many central banks to adopt expansionary monetary policies that have driven down rates globally.

Traditional financial institutions remain the main providers of credit to Canadian small and medium-sized businesses. However, entrepreneurs also have a variety of alternative financing options available to them, mainly from smaller private players. BDC believes digital disruption continues to have a positive effect on access to capital. Incumbent financial institutions are experimenting with and adopting new technologies to attract and serve clients, while non-traditional entrants are capitalizing on digital technologies to address short-term, small loan needs. Despite this wider variety of financing options available, access to financing remains a challenge for some SMEs.

Access to venture capital has improved in recent years as the Canadian VC market matures. That said, investment gaps remain, including for the following:

- later stage technology firms to help them reach scale
- the commercialization of research
- women-led technology firms
- key sectors such as manufacturing, oil and gas, mining and agriculture
- regions outside key VC hubs in Toronto, Vancouver and Montreal

Meanwhile, the market for SME advisory services is mixed. Large consulting firms continue to cater primarily to the needs of larger businesses. The rest of the market is highly fragmented with many smaller firms and independent practitioners typically offering regional or industry focused consulting services. Because of this fragmentation, many entrepreneurs do not have access to the expert advice they need.

<sup>9</sup> International Monetary Fund, World Economic Outlook, October 2019. <https://www.imf.org/en/Publications/WEO/Issues/2019/10/01/world-economic-outlook-october-2019>

## Challenges and opportunities for entrepreneurs

Throughout the developed world, economies are confronted by disruptive forces that are challenging entrepreneurs to rapidly adapt their businesses to remain competitive. Canada is no different. Canadian entrepreneurs have little choice but to embrace change and seek out new opportunities if their businesses are to survive and thrive in this new context. The following three trends have major implications for Canadian SMEs.

- **Rapid technological change:** Emerging technologies are disrupting business models and the nature of work. These transformative, often interconnected technologies include artificial intelligence, machine learning, big data analytics, robotics and automation, the Internet of things and custom manufacturing. While they hold the promise of making businesses more agile, productive and innovative, they are also increasing uncertainty and leading to significant disruption in many industries.
- **An aging population:** The share of the Canadian population aged 65 and over is expected to reach 22% by 2035, and by that year some five million Canadians who are now in the workforce are expected to retire. As a result, the growth of the Canadian workforce is stagnating, creating shortages of skilled labour in parts of the country that are hampering business productivity and economic growth.
- **Growing uncertainty:** Disruptive events around the world have been occurring more frequently in recent years—from Brexit to a rising tide of protectionism to political upheaval in many countries. The greater uncertainty created by these developments is contributing to slower economic growth and undermining business confidence. When added to other sources of disruption such as fast changing technology and climate change, it makes for a volatile operating environment for Canadian entrepreneurs.

In sum, Canadian entrepreneurs face a landscape of accelerating technological change, tight labour markets and growing uncertainty. To remain competitive, businesses must scale up and invest more in technology to become more productive, more innovative and better able to expand into foreign markets. This will require them to seek advice, training and coaching to ensure they have the skills to succeed in an ever more complex and challenging environment.

The financial services industry is evolving just as rapidly as the wider economy. Incumbent institutions are more aggressively courting entrepreneurs, offering personalized, comprehensive offerings tailored to different sizes, growth stages and business needs. At the same time, new players—both big and small—are disrupting the market. Large tech or tech-enabled companies are integrating SME lending into their offerings while fintech start-ups are using big data and artificial intelligence to provide financing to entrepreneurs quickly, conveniently and digitally.

## 2. Internal environment

### Developing our capabilities and key enablers

BDC continues to evolve to better serve entrepreneurs in a time of rapid technological change and growing challenges to business growth. We are undertaking our evolution from a position of strength, having achieved record-setting results in number of clients served, portfolio size and income growth. Fully 94% of our clients say they are satisfied with us, and Statistics Canada found that BDC clients—especially those that received both financing and advisory services—saw higher revenue growth than non-clients.<sup>10</sup>

BDC understands that change is essential if we are to remain relevant to entrepreneurs and have greater impact on more of them. We must become a smarter, more agile partner for businesses. As fintechs challenge incumbents, BDC is also embarking on its own digital evolution to better meet the needs and expectations of entrepreneurs. To do so, we will continue to make investments in our people, and organizational and technological capabilities over the planning period.

Being an entrepreneur is a journey and our evolution aims to make that journey better at every step of the way. We will improve client journeys with BDC by being simpler, easier and faster to do business with. We will improve business journeys for entrepreneurs by going beyond financial transactions to become an essential partner at each stage of our clients' growth. To achieve these goals, we will use technology to refine our understanding of entrepreneurs and deliver the products and services they want, when and how they want them.

At the same time, we will continue to fulfill our purpose as Canada's development bank in partnership with public and private sector players. Acting in a complementary manner, we will fill key market gaps, notably, by supporting women, Indigenous, and purpose-driven entrepreneurs. We will also continue to support Canada's innovation ecosystem through lending and investments to tech firms and other asset-light businesses.

<sup>10</sup> Measuring BDC's Impact on Clients (2008–2015), May 2019 [https://www.bdc.ca/en/documents/analysis\\_research/measuring-bdc-impact-on-clients-may-2019.pdf](https://www.bdc.ca/en/documents/analysis_research/measuring-bdc-impact-on-clients-may-2019.pdf)

BDC considers the following key enablers to be essential elements in our evolution as reflected in this Corporate Plan.

### Brand and client experience

Building and sustaining awareness of BDC's brand to better connect with entrepreneurs remains a priority. BDC ranks first in terms of trust among similar organizations<sup>11</sup> but can do more to improve awareness in certain markets. To address this challenge, our advertising and other marketing initiatives continue to focus on maintaining our share of voice in an increasingly competitive marketplace. In doing so, we strive to reinforce our positioning as the only bank devoted exclusively to entrepreneurs.

In parallel, we will continue to improve our client-centricity with refined value propositions, enhanced service models and go-to-market plans designed for each segment of the SME market. The completion of several major projects in the online and mobile channels will also contribute to improving client satisfaction with BDC, allowing for more personalized touchpoints and an omnichannel approach to client experience. We will also continue to expand and enrich our online content offerings to provide entrepreneurs with best-in-class business advice, training, practical information and inspirational stories about successful business owners.

### Technology and data

Technology is at the heart of our efforts to improve BDC by making client journeys easier, faster and more successful. Our digitization is already well underway with a modern lending platform, a sophisticated online presence and award-winning mobile applications.

We will continue to invest in our platforms, our infrastructure and data governance. We will optimize our data with advanced analytics, artificial intelligence and process automation. The goal is to enhance our understanding of entrepreneurs to serve more of them better while increasing efficiency, speed and personalization.

### Human resources

BDC successfully attracts talented employees and retains them by fostering a high level of employee engagement. At the end of fiscal 2019, BDC had more than 2,300 employees and a voluntary turnover rate of 5.4%. This compares favourably to a turnover rate at other financial institutions of 8%, according to the Conference Board of Canada.<sup>12</sup> Our employee engagement rate stands at 85%. The Bank continues to receive numerous awards and certifications recognizing the quality of our workplace and HR practices, including Canada's Top 100 Employers, Great Place to Work, Canada's Best Diversity Employers and Best Employers for New Canadians.

As part of our efforts to attract and retain the best talent in a highly competitive market, BDC offers employees a broad spectrum of learning and development opportunities and a total rewards package that is regularly benchmarked and adjusted to industry standards. As BDC strives to develop new digital capabilities, we will align our people strategy, programs and practices that are critical to our future success. We expect our digital evolution to improve the work experience of our employees by making interactions faster, more efficient, insightful and satisfying to clients.

### Strategic objectives

BDC's mission is to help Canadian SMEs succeed by providing the capital and advice they need to compete effectively and grow. Our strategic objectives set out how we plan to fulfill our mission over the planning period by building on what we've already accomplished. In pursuing these objectives, we will ensure we remain aligned with government direction (refer to Appendix 5) and committed to working with the private sector in a complementary fashion for the benefit of entrepreneurs, our communities and Canada as a whole.

<sup>11</sup> Survey on BDC Awareness and Reputation, Wave IV, March 2019

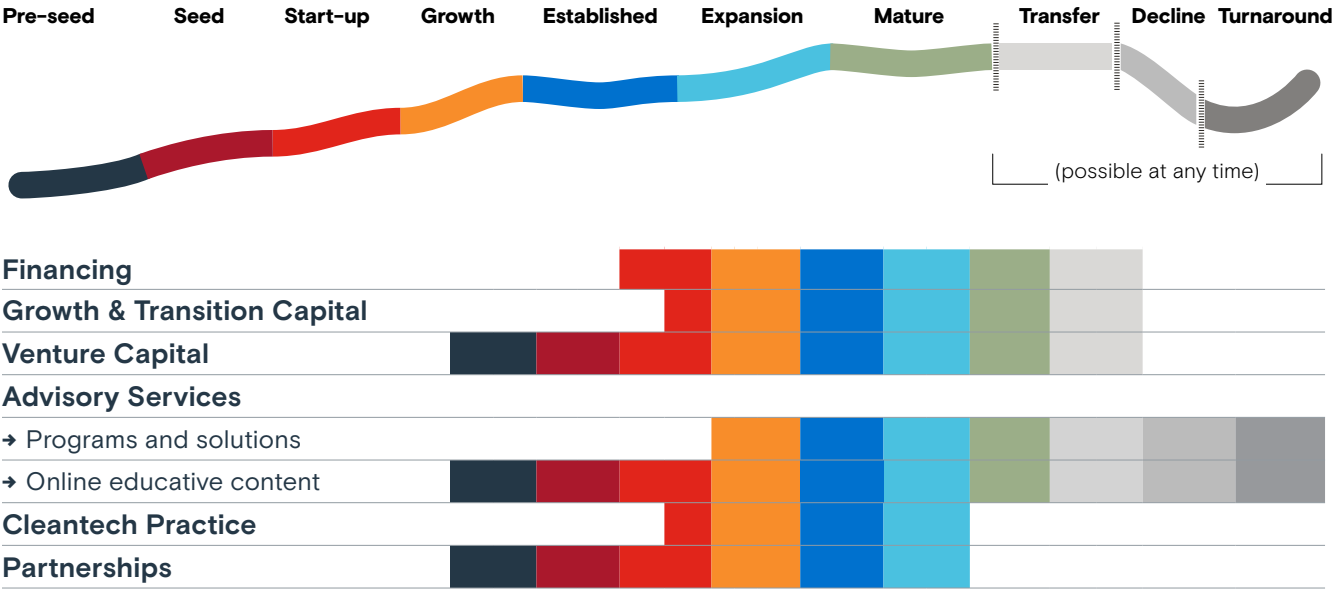
<sup>12</sup> The Conference Board of Canada, Compensation Planning Outlook 2019

Objective 1

Better business journeys for entrepreneurs

BDC knows the path to business success isn't a straight line. That's why we are committed to accompanying SMEs at every step of their business journey by providing loans, investment capital and advice that are appropriate for their size, development stage and growth ambitions.

This tailored approach to supporting entrepreneurs is particularly important because BDC understands how critical it is for SMEs to scale up to become more competitive here and abroad. To do so, they must invest to increase their use of technology, boost productivity, become more innovative and seize growth opportunities. At BDC, we are also investing in the tools and knowledge we need to help entrepreneurs reach new summits.



Financing

Evolving to support entrepreneurs better

As technology reshapes the business landscape and the financial services industry, entrepreneurs are increasingly expecting greater ease and speed when requesting financing. They also want personalized service and a level of relationship with BDC that best suits them. We have already made investments to meet the evolving needs of entrepreneurs by simplifying our processes and enhancing our use of digital technologies. While many clients prefer a digital experience, we will, of course, retain account managers to respond to the more complex needs of SMEs.

The evolution of our financing business includes the following key initiatives.

→ **Online financing:** Improving our online financing platform is an important part of how we are making it faster and easier for entrepreneurs to do business with us. Business owners can now apply to borrow up to \$100,000 and receive their funds in as little as 48 hours after approval, while existing clients can apply for up to \$750,000 via our Express Loan offering.

- **Virtual business centres:** We have established virtual business centres across Canada. They allow us to maintain client relationships with smaller businesses that prefer digital or phone contacts.
- **Client teams:** Larger, growing businesses often have multi-faceted needs in planning and managing their growth. Our client teams bring together financing and expert advice to deliver tailored, integrated support for the growth ambitions of these larger businesses.
- **Technology financing:** To support the growth of tech firms, BDC has established a dedicated technology team and launched lending solutions designed specifically for these businesses. The tech team works closely with BDC Capital, Advisory Services and Export Development Canada (EDC) to ensure a full spectrum of support for tech businesses.

Over the planning period, we will make further strides in evolving BDC with the help of advanced analytics, artificial intelligence and automation to make the business journeys of entrepreneurs better.



## Wholesale financing

### Working to increase the availability of capital for entrepreneurs

The wholesale financing division consists of the indirect financing and syndicated financing teams. They support other financial institutions and intermediaries to help increase the availability of capital for Canadian entrepreneurs.

Our indirect financing team develops strategies to provide structured financing options to market participants. Our focus is to work with financial intermediaries to:

- ➔ lend against portfolios of equipment loans and leases
- ➔ lend against other types of collateral, such as cash flow and receivables
- ➔ increase the risk appetite of financial institutions lending to entrepreneurs

Our syndicated financing team supports medium-sized and larger businesses by providing senior debt financing in syndicated transactions led by other banks. We participate in existing operating lines of credit and term loans for working capital, capital expenditures, acquisitions and succession planning in all sectors.

We maintain a state of readiness to do more during periods of economic uncertainty or limited credit availability through our permanent in-house syndication and securitization expertise.

## BDC Capital

### Growth & Transition Capital

#### Providing capital for growth and transition

As SMEs mature, many require more patient funding to help them grow. With our financing and investment solutions for growth and business transition, we often rank behind the security of other lenders and as a result take more risk, helping entrepreneurs secure the funding required to execute their growth plan.

To meet the needs of these companies, BDC provides the following financing solutions for growth and transition.

**Cash flow financing:** Debt financing with fixed monthly principal and interest repayments for companies with a consistent track record of positive earnings and strong cash flow.

**Mezzanine financing:** Debt financing with customized repayment terms adapted to the firm's cash flow, allowing companies to preserve the working capital needed to fuel growth.

**Quasi-equity financing:** Debt financing with repayments based on company performance.

**Uni-tranche financing:** A hybrid of senior debt and subordinate debt financing with a flexible repayment structure for acquisitions or change of ownership transactions.

**Monthly recurring revenue financing:** Debt financing based on a multiple of monthly recurring revenue for subscription revenue businesses.

**Growth equity:** Through our growth equity solution, BDC acts as a management-friendly partner, investing in established companies poised to pursue profitable growth.

In 2017, BDC set a target of \$1.8 billion in growth and transition capital over five years to increase support for asset-light, high growth Canadian SMEs. This funding includes \$250 million in growth equity and \$900 million to support business transitions. We are on track to reach the \$1.8 billion target. At the end of fiscal 2019, a total of \$816 million had been accepted by clients in 362 transactions.

Over the planning period, Growth & Transition Capital will continue to provide patient capital and deploy new initiatives for high-growth businesses, paying specific attention to companies that are rich in intellectual property.

## Venture Capital

### Supporting the growth of innovative companies

Venture Capital is pursuing its vision of making Canadian VC a financially viable and attractive asset class for private sector investors with the aim of creating and growing successful and innovative technology businesses.

The Canadian VC market has improved considerably in recent years with a significant increase in capital raised and invested. The number and size of VC funds continues to grow as a result of the industry's success.

Performance has significantly improved as well. The five- and 10-year trailing returns for Canadian VC funds have reached 12.0% and 7.2% respectively and have been progressively closing a performance spread with their U.S. peers.

As the core VC market has become more efficient, BDC has increasingly sought ways to create opportunities in underserved sectors and strategies where we believe Canada can be a global leader.

## Direct investing strategy

Since 2012, BDC has been investing through three direct investment funds in the areas of information technology; healthcare; and industrial, clean and energy technology. Since fiscal 2018, we have also been investing in the Women in Tech Fund (WIT), and in fiscal 2019 we added a fifth direct investment vehicle, the Industrial Innovation Venture Fund.

Our WIT initiative is one of the largest of its kind in the world. This \$200-million fund aims to deliver on a dual mandate of supporting tech businesses led by women while helping to create a vibrant support ecosystem for women tech entrepreneurs. To accomplish this mandate, the fund takes a balanced approach that consists of making direct investments in women-led companies, indirect investments in emerging venture funds with female leadership and supporting the development of an ecosystem that allows women to thrive in the tech industry.

Consistent with our belief that venture capital can be an effective tool to encourage innovation in traditional sectors where Canada is a global leader, BDC has launched the \$250-million Industrial Innovation Venture Fund focused on technological innovations in the industrial sector. Building on existing strengths, the fund invests in early to late stage ventures in some of Canada's core competitive sectors such as energy, materials and agriculture. In doing so, the fund invests in technology companies that can increase the competitiveness of established industries, focusing on Industry 4.0 applications and resource technologies.

To support the long-term scaling of companies, Venture Capital will also ramp up co-investment activities over the planning period. Through the co-investment team, we will be making larger investments (\$5 million to \$20 million) in later stage companies. We believe that as the VC sector in Canada continues to mature, ensuring an adequate supply of late-stage capital will be key to helping Canadian tech companies reach their full potential and become global champions.

Venture Capital will also continue to support seed stage companies through its Strategic Investments and Women In Tech team. This team is projected to direct approximately \$7 million of investments a year to early stage technology start-ups in all sectors of the VC market. In addition, our other direct funds, the Industrial, Clean and Energy Technology Fund and the Industrial Innovation Venture Fund, will also opportunistically invest in seed stage companies. Lastly, BDC supports several accelerator and incubator programs across Canada to help provide early stage start-ups with resources beyond capital to ensure that they can grow to their full potential.

Over the planning period, BDC will:

- finalize the implementation of the Industrial Innovation Venture Fund
- continue to support women entrepreneurs through the WIT Fund and its accompanying initiatives
- continue co-investing in later stage companies alongside private sector fund partners
- continue making seed investments in early stage technology companies

## Indirect investing strategy

Venture Capital's indirect investment strategy focuses on supporting a mix of emerging and established fund managers and helping top funds evolve into globally competitive performers over time. BDC indirectly supports 705 tech firms through investments in 78 funds. Support will be enhanced with investments in additional funds.

BDC Capital also completed its strategy of co-creating new general partners (GPs) from two of its internal funds. A team from BDC's IT Venture Fund successfully closed a fintech focused fund, Framework Venture Partners, and the BDC Healthcare Venture Fund closed a precision medicine fund, Amplitude Ventures. These funds will continue to contribute to the development of the Canadian venture ecosystem and will be able to use their strong track records to continue attracting both domestic and foreign capital to help create global champions in Canada.

Over the planning period, BDC will continue to encourage the development of Canadian fund managers. In addition, we will seek to identify fund managers operating in areas of strategic importance to Canada, such as those covered by our Industrial Innovation Venture Fund.

Enable federal government VC initiatives

On behalf of the federal government, BDC Capital manages \$390 million allocated to the Venture Capital Action Plan (VCAP), which has attracted significant private sector investment to support promising Canadian start-ups. Since fiscal 2019, we also manage on behalf of the federal government \$450 million allocated to the Venture Capital Catalyst Initiative (VCCI). VCCI aims to increase the availability of late stage VC and support underrepresented groups, such as women and diverse entrepreneurs and management teams, as well as emerging regions and sectors. In addition to these programs, BDC Capital will continue to deploy capital on behalf of the government in mandates of strategic importance relating to VC, such as our management of funds portion of BDC’s Cleantech Practice. (For more details about the Cleantech Practice, please see page 47). Over the planning period, BDC will continue to apply its usual rigour in managing these initiatives to ensure that VCAP, VCCI and the Cleantech Practice play the important role in the economy for which they were designed.

Strengthen the innovation ecosystem

In addition to providing capital to promising and innovative Canadian businesses, Venture Capital also uses its extensive knowledge of the market and its many relationships with industry stakeholders to accelerate the industry’s development and improve the outcome of venture investments.

Advisory Services

Providing entrepreneurs the skills to succeed

To ensure entrepreneurs have the knowledge and skills they need throughout their business journey, BDC invests close to \$50 million annually to offer advice that is practical and tailored to the size, sophistication and ambitions of individual companies. We use a national network of internal and external experts and our online capabilities to help companies overcome their challenges and scale up at a price they can afford. In this way, our advisory services are a key part of how we deliver on our mission as a development bank and are complementary to services available in the market.

A recent Statistics Canada study found that BDC Advisory Services is a key growth enabler for our clients.<sup>13</sup> Indeed, BDC’s impact on the revenue and employment growth of our clients is greater when they receive both financing and advisory services. Our clients also perform better in terms of productivity growth and survival rates compared to non-client companies.

Our advisory services are adapted to the size and growth ambitions of clients. For smaller businesses, we offer standardized solutions that help entrepreneurs address fundamental business challenges and accelerate growth. For larger and more complex companies, BDC advisors and our external partners become progressively more involved in providing direct guidance over longer periods.

Smaller businesses

We help the owners of smaller businesses master fundamental management skills with five standardized solutions that will grow to six with the addition of operational efficiency during the planning period. They are delivered in a coaching format and are based on a learning to do-it-yourself approach. The solutions are designed to be delivered remotely or in person.

Solutions for smaller businesses

Financial management	Sales and marketing
Human resources	Strategic planning
Leading change	Operational efficiency (new)

Medium-sized and larger businesses

BDC recognizes that larger businesses have more complex needs. We currently offer solutions covering all the principal management challenges and personalize them for each client. We have also recently launched the Business Performance Builder program. This innovative program takes a 360-degree approach to building fundamental management capabilities in a business so it will be ready to scale up. Designed for larger businesses facing operational challenges, this program is delivered over 12 months. A team of experts identifies and addresses the root causes of the company’s challenges. Performance issues are prioritized and a detailed plan for improvement is implemented and results monitored.

Besides our solutions to help companies grow their sales and access new markets, we also help businesses to innovate with advice on how to explore and operationalize new business models. In addition, we offer advice to entrepreneurs on how to better manage their business via strategic planning and financial and HR management. Through our operational efficiency solution, we support the efforts of SMEs to optimize their operations by helping them overcome production issues and expand capacity to meet client demand.

<sup>13</sup> Measuring BDC’s Impact on Clients (2008–2015), May 2019 [https://www.bdc.ca/en/documents/analysis\\_research/measuring-bdc-impact-on-clients-may-2019.pdf](https://www.bdc.ca/en/documents/analysis_research/measuring-bdc-impact-on-clients-may-2019.pdf)



Over the planning period, BDC will continue to deploy integrated and tailored advice solutions to increase the efficiency and profitability of Canadian SMEs. To increase our impact, we will focus on deeper and larger engagements with clients.

**Solutions for medium-sized and larger businesses**

Increase revenues	Manage your business
Sales growth and planning	Strategic planning
International expansion	Financial management
Marketing strategy	HR management
Business model innovation	Operational efficiency
	Digital strategy and systems selection
	Business Performance Builder Program

**Free online advice and tools**

In addition to our advisory services, BDC helps entrepreneurs gain knowledge and hone their business skills with over 1,100 pieces of content on [bdc.ca](https://www.bdc.ca), including independent research on business challenges, advice articles, eBooks, videos and interactive training.

Additionally, we offer a benchmarking tool designed to help entrepreneurs compare their productivity to other Canadian businesses in the same industry. This tool allows entrepreneurs to assess productivity gaps and identify ways to improve their top and bottom lines.

We also offer a digital assessment tool to help entrepreneurs compare their level of digitization to industry peers and identify areas for improvement.

Over the planning period, we will continue to evolve our advisory services, including those designed to help firms scale up their operations. We will also extend our reach and impact to a greater number of entrepreneurs through the use of our library of online content, management tools and user-friendly business training modules.

**High-growth firms**

High-growth firms account for about 5% of Canadian SMEs but have a disproportionate impact on the Canadian economy, according to an extensive BDC study conducted in 2014.<sup>14</sup> These companies are usually medium-sized (100 to 499 employees) but may be smaller. They are ambitious, high-growth performers that can be found in all sectors. The findings and recommendations of the 2014 study led BDC to create what is now called the Growth Driver Program (GDP).

GDP aims to help a select group of high-growth firms achieve sustainable growth by offering strategic advice, tailored coaching and leadership development skills. Over a two-year period, a dedicated BDC team led by a seasoned executive advisor and supported by a team of business advisors and analysts supports the firm's CEO and executive leadership in developing and implementing a strategic growth plan. The program includes leadership retreats, in conjunction with educational partners such as the Ivey Business School and HEC Montréal, for the CEOs and management teams of enrolled firms.

Over the planning period, we will continue our support for graduating GDP clients through a new exit offering. We will also increase our reach by enrolling new high-growth firms in the program. From the launch of GDP to the end of fiscal 2020, we will have built a community of more than 200 high-growth firms through the program.

<sup>14</sup> BDC Study High-impact firms: Accelerating Canadian competitiveness May 2015 [https://www.bdc.ca/en/documents/analysis\\_research/measuring-bdc-impact-on-clients-may-2019.pdf](https://www.bdc.ca/en/documents/analysis_research/measuring-bdc-impact-on-clients-may-2019.pdf)

## Filling key market gaps

### Supporting underserved entrepreneur groups

BDC is committed to meeting the needs of all entrepreneurs in a complementary manner, including by filling key market gaps. As a result, BDC continues to focus on supporting the following underserved entrepreneur groups, enabling them to participate in the economy and succeed.

### Young entrepreneurs

Young entrepreneurs often have difficulty finding the capital and advice they need to launch and grow their businesses. As part of our ongoing efforts to support young entrepreneurs, we have developed a strong partnership with Futurpreneur Canada, a national non-profit organization that offers mentoring, financing and other business resources to young entrepreneurs.

BDC and Futurpreneur work together to promote youth entrepreneurship and increase financing for young entrepreneurs (age 18 to 39). Under the latest renewal of our co-lending agreement, we increased the limit for Futurpreneur loans to a maximum of \$60,000 from \$45,000. Futurpreneur's maximum contribution is now \$20,000, while BDC's maximum matching contribution is \$40,000. BDC's commitment to youth entrepreneurship under the Futurpreneur program stands at \$42 million out of a total envelope of \$60 million.

### Indigenous entrepreneurs

Entrepreneurship can be an important contributor to economic and social progress for Indigenous people living both on and off reserves. At the same time, BDC recognizes that Indigenous entrepreneurs face unique challenges running their businesses, including using on-reserve assets as collateral for non-Indigenous creditors and the fact that many businesses are in remote areas.

In our Indigenous Banking Unit, BDC has established a team of account managers across the country specifically dedicated to supporting Indigenous entrepreneurs. Working with other stakeholders in the Indigenous entrepreneur ecosystem, the Indigenous Banking Unit strives to increase access to financing, advice and business training and now serves more than 700 Indigenous entrepreneurs.

The Indigenous Entrepreneur Loan aims to support the launch and expansion of businesses both on and off reserve by lending business owners up to \$350,000 and start-ups up to \$250,000. BDC is also working with the National Aboriginal Capital Corporation Association (NACCA) to design and launch the Indigenous Growth Fund to improve access to capital for Indigenous entrepreneurs.

More specifically, BDC aims to:

- provide more indirect capital to strengthen the Aboriginal Financial Institutions network
- encourage private sector investment
- develop lending criteria that make sense for borrowers, i.e. pricing, terms and conditions
- use our expertise to help set up the Indigenous Growth Fund in partnership with NACCA

As well, BDC works in conjunction with Chartered Professional Accountants Canada and Aboriginal Financial Institutions, First Nations and other organizations to provide financial literacy training for aspiring and existing Indigenous entrepreneurs.

### Women entrepreneurs

Only 16% of small and medium-sized businesses in Canada are currently majority owned by women.<sup>15</sup> And women entrepreneurs earn, on median basis, an average of 58% less annually than their male peers running similar businesses.

BDC believes women entrepreneurs represent a huge source of untapped potential for Canada. As part of Canada's Women Entrepreneurship Strategy announced in Budget 2018, we are working to encourage more women to get into business and help those already running a company to grow it faster. To achieve these goals, we will focus on the following four areas over the planning period.

#### Increase access to capital for women entrepreneurs

- Build on the substantial progress we've already made toward achieving our goal of providing \$1.4 billion in financing to majority women owned business by the end of fiscal 2021.
- Raise employee awareness of unconscious gender bias by rolling out a training course to client-facing employees.

<sup>15</sup> Survey on Financing and Growth of Small and Medium Enterprises, 2017 <https://www.ic.gc.ca/eic/site/O61.nsf/eng/O3Q87.html>

### Be at the forefront of encouraging gender equality in the tech industry

- Manage the Women in Technology Venture Fund (WIT). The WIT fund will invest \$200 million in women-led technology firms over a ten-year fund life, with the majority of the money being invested during the first five years.
- Earmark \$170 million of the WIT capital to make equity and equity-like investments in women-led or co-led technology companies from seed to growth stage. The remaining \$30 million will be allocated to ecosystem investments, such as support for emerging female fund managers and collaboration with accelerators.

### Address underserved needs of women entrepreneurs using a tailored approach

- Provide practical advisory services to women entrepreneurs on a range of management challenges.
- Improve financial literacy through targeted online training.

### Be a thought leader and catalyst for the Canadian women entrepreneur ecosystem

- Contribute to creating a vibrant and cohesive women entrepreneur ecosystem by increasing sponsorships and collaboration with ecosystem stakeholders, including the Women's Enterprise Organizations of Canada, Cisco's Circle of Innovation program, the Communitech Fierce Founders Accelerator, Canadian Manufacturers & Exporters and the Women Entrepreneurship Knowledge Hub.
- Improve opportunities for women entrepreneurs in BDC's procurement process through our Supplier Diversity Program. Our Supplier Diversity Program has won the Women Business Enterprises' WBE Canada 2019 President's Award.

### Tech entrepreneurs

BDC recognizes that successful technology firms are an important engine of Canada's competitiveness. Canada is home to many impressive technology firms and BDC continues to observe a strengthening of the tech ecosystem.

Still, growth in Canada's tech sector is below that observed globally. Therefore, we will continue to strengthen our help to tech firms so they achieve their full potential. In support of this effort, we have developed tailored solutions and continue to explore how to better help tech companies finance their investments in intangible assets, a critical component of the success of knowledge-based companies. We have also expanded our support to tech entrepreneurs nationally with the creation of a specialized pan-Canadian tech team.

In addition to the support provided to tech firms, BDC continues to deploy funds from a \$250-million financing envelope announced in October 2018 to support the digital transformation of SMEs. At the end of fiscal 2019, over 600 loans totalling more than \$64 million had been authorized. This funding enables entrepreneurs to increase their use of digital technologies by investing in information and communications technology and employee training.

Over the planning period, we will continue to support portfolio firms and refine our support for various ecosystem actors, including general partners, corporates, accelerators and incubators. Some examples include partnerships with accelerators such as Communitech and MaRS, organizations such as Prospect.fyi, and initiatives such as the GP Academy learning program, the FUNDamental Principals seminar series, the C.L.I.C. Challenge and the Women in Technology bootcamps.

### Cleantech entrepreneurs

BDC is committed to building a strong, globally competitive cleantech industry in Canada that develops and deploys innovative technology to combat climate change and pollution while creating a resource-efficient economy.

Already, Canadian companies are leaders in cleantech innovation, but they face challenges in finding the financing they need to scale up to address global markets. In response, BDC launched the Cleantech Practice in fiscal 2018, following an announcement in the 2017 Budget.

The target market for this initiative is disruptive firms that have sufficiently validated technology, a strong commercial potential and the ambition to grow. BDC has allocated \$600 million to execute the cleantech strategy.

We have created a dedicated national multi-disciplinary investment team that works closely with federal partners such as EDC, Sustainable Development Technology Canada and the Clean Growth Hub to support cleantech companies. The Cleantech Practice also works with both private sector venture capital providers and strategic partners as well as other public funders to ensure companies are well-capitalized and positioned for success.

The team has made good progress so far, deploying capital both directly in the form of subordinated debt and equity to Canadian companies, and indirectly to cleantech funds that are aligned with the cleantech mandate.

Over the planning period, BDC will deliver on the Budget 2017 commitment to increase cleantech financing in a whole-of-government approach and will collaborate with industry stakeholders to maximize the initiative's reach and impact.

## Purpose-driven entrepreneurs

In 2014, BDC became the first financial institution in Canada to be certified a B Corp (beneficial corporation), a business that profitably fulfills a broader purpose and meets rigorous environmental, social, governance and workplace standards. Since then, we have been re-certified twice, and most recently, we were honoured as being among the top 10% of all certified B Corp companies worldwide for our performance in governance and our relationship with employees.

In addition to being a B Corp, BDC works to help encourage Canada's B Corps and other purpose-driven businesses through the following activities:

- ➔ financing B Corps and other purpose-driven businesses
- ➔ attracting thousands of entrepreneurs to B Corp awareness raising events
- ➔ holding workshops in collaboration with the cities of Vancouver, Toronto and Montreal to guide entrepreneurs to certification
- ➔ supporting monthly gatherings of purpose-driven entrepreneurs across Canada

Purpose-driven businesses operate in virtually every sector and are found in every part of Canada. BDC was the first bank in Canada to begin identifying these entrepreneurs in our client base and currently supports them with approximately \$200 million in financing.

Our work to build the B Corp and purpose-driven business movement will continue through the planning period.

## Deepening BDC's impact on key journeys

### Supporting international expansion

BDC knows the ability of Canadian SMEs to access international markets is critical for their growth and improved competitiveness. Recently, the international performance of SMEs has improved thanks to such factors as e-commerce, supply chain technologies and attractive exchange rates.

However, competition for international opportunities is fierce and Canadian businesses must keep pace with the diversity and intensity of other nations' international expansion efforts.

BDC has partnered with Global Affairs Canada (GAC) and EDC to provide a whole-of-government approach to helping SMEs expand internationally. Our goal is three-fold:

- ➔ increase the number of Canadian exporters
- ➔ increase the number of markets accessed by Canadian exporters
- ➔ increase the collaboration between our organizations towards a seamless client experience

Using the technology developed by a Canadian company, we have joined forces to launch the Canada Tariff Finder tool available online at [www.tariffinder.ca](http://www.tariffinder.ca). This is a free tool for Canadian entrepreneurs who plan to import or export products. It enables entrepreneurs to find up-to-date custom tariff information for countries with which Canada has a free trade agreement. It gives the current tariff rate for specific goods as well as the rate in subsequent years, when available. The tool also allows users to compare tariffs between products or countries to identify their best option.

In addition, BDC has worked bilaterally with both EDC and the Trade Commissioner Service (TCS) to deepen the collaboration for the benefit of Canadian businesses.

Cross-referrals between BDC and EDC increased 24% year-over-year to over 1,100 as a result of a variety of new initiatives. Together, BDC and EDC launched the Joint Technology Loan facility to make more capital available to growing technology firms and through which clients of the loan facility get access to both BDC and EDC scale-up expertise early in their growth path. Following the heels of the tech loan facility, BDC and EDC jointly launched an international Purchase Order Financing facility providing growing companies with the working capital to fill international orders while benefiting from EDC's international risk assessment experience.

With the Trade Commissioner Service, BDC has a Memorandum of Understanding to improve the joint service level to clients that are exploring export opportunities. A system is established to ensure that CanExport recipients are made aware of BDC services and proactively contacted to engage about working capital or business advisory needs. Since January 2019, over 650 CanExport recipients agreed to be contacted by BDC. Working closely with the Trade Commissioner Service, BDC also actively promotes trade missions to its national network of clients which may not be aware of these international opportunities.

Over the planning period, BDC intends to:

- continue to offer entrepreneurs advisory support for their efforts to develop new markets
- continue to provide flexible financing to businesses with plans for international expansion
- work with partners to help clients earlier in the process in order to prepare them to make their international expansion journeys smoother and faster
- work closely with EDC on a range of joint initiatives to encourage companies to export more and make direct investments in foreign markets
- collaborate with GAC to support companies entering foreign markets through the CanExport Program, international trade missions and the tariff finder tool

### Supporting business transitions

With more baby boomers heading to retirement, the need for financing of business transitions is growing. Indeed, a BDC survey of more than 2,500 entrepreneurs indicates that 49% of them are planning to sell their business over the next five years, mostly because of retirement.<sup>16</sup> However, the survey also indicated that few of the entrepreneurs who anticipate exiting their businesses have sufficiently planned for the transition.

BDC recognizes the importance of preserving the value built up in businesses as one generation makes way for another. To meet this increasingly important market challenge, we are evolving our offering to ensure that business buyers are equipped with the resources they need to undertake a successful change of ownership and sustain future growth.

In 2017, BDC committed to deploying \$900 million in transition financing over five years. Over \$400 million has been deployed to enable 158 change of ownership transactions of which nearly \$200 million has already been disbursed. BDC will work to facilitate transitions, including by advising entrepreneurs on managing the critically important integration phase following an acquisition or merger. We will also sponsor educational events on transition issues for entrepreneurs and focus on building strategic partnerships in support of successful transitions.

### Supporting the commercialization of intellectual property

BDC supports the growth of an innovation-driven economy, built on intellectual property (IP). BDC finances innovation intensive companies even when they have little or no collateral, offering them flexible financing terms, venture capital investments and advisory services.

BDC is launching an IP financing pilot project designed to help innovative companies scale up by generating value from their IP assets.

BDC directly supports investments in intellectual property and participates in activities to raise awareness about the importance of protecting IP. Our IP-related activities include:

- organizing events for SMEs and training for employees in partnership with the Canadian Intellectual Property Office (CIPO)
- providing specialized financing to support the protection of IP through projects such as applying for a patent, trademark, industrial design or copyright
- allocating a \$20-million envelope to finance IP-rich companies through BDC's partnership with Communitech

BDC understands the critical importance of businesses rich in intellectual property (IP) to the Canadian economy. That's why we have developed a strategy that will see our support increase during the planning period for IP-rich companies during the commercialization phase of their activities. This support will include raising awareness among entrepreneurs about how to create an IP strategy and build IP value.

Over the planning period BDC will monitor emerging IP challenges and continue to help entrepreneurs protect their innovations so they can grow and enhance their competitiveness.

<sup>16</sup> BDC Study, The coming wave of business transitions in Canada [https://www.bdc.ca/en/about/sme\\_research/pages/coming-wave-business-transitions-in-canada.aspx](https://www.bdc.ca/en/about/sme_research/pages/coming-wave-business-transitions-in-canada.aspx)



## Sectors facing headwinds

BDC offers special support to entrepreneurs when external developments, market uncertainty or natural forces create unexpected turbulence for them. Most recently, we supported the steel and aluminum, softwood lumber and energy industries with the following special envelopes:

- ➔ \$800-million over two years for aluminium and steel companies affected by U.S. tariffs to help them scale, diversify and increase innovation
- ➔ a two-year \$250-million extension of an existing package to help companies in the forestry sector navigate market turbulence, scale up and boost their competitiveness
- ➔ in December 2018, we announced an additional \$500 million over three years to help higher risk but viable oil and gas SMEs weather market uncertainty in the energy industry, bringing the total financing envelope to \$1.35 billion since November 2015

We also offered up to six-month principal payment postponements to help clients in Ontario, Quebec and the Atlantic region affected by flooding in the spring of 2019. We offered the same support to Atlantic clients affected by Hurricane Dorian in September 2019. Over the planning period, BDC will continue to respond to these types of situations as they arise.

## Climate change

Climate change is a complex phenomenon that poses fundamental risks to countries, economies and businesses. The most powerful contribution BDC can make toward achieving a climate resilient nation is by supporting entrepreneurs who are innovating in the transition to a low-carbon economy. This starts with businesses that are discovering and commercializing ways to combat climate change and pollution that we finance through our Cleantech Practice and other initiatives. Additionally, we will help Canadian SMEs understand how to decrease their carbon footprint through various activities and by supporting the movement of certified Beneficial corporation (B Corp) entrepreneurs. We want to help grow this group of businesses that is setting an example for all SMEs on how to successfully transition to a low-carbon economy.

In the next year, we will start assessing the impact of climate change on the economy, including what it means for our portfolio. We will also evaluate how BDC can best support Canadian entrepreneurs who are innovating to reduce their environmental impact and be climate resilient.

A BDC study, based on a survey of 1,500 entrepreneurs, found that most Canadian SMEs have already taken steps to reduce their environmental and carbon footprint and would like to do more. The study found the main driver behind the adoption of environmentally friendly practices is the personal conviction and motivation of entrepreneurs. However, obstacles remain.

The main challenges are:

- ➔ many customers are unwilling to pay more for green products and services.
- ➔ entrepreneurs say they lack information on how to proceed.
- ➔ financing to develop greener products, services and processes is often unavailable.

## Partnerships and the entrepreneurial ecosystem

### Collaborating for the benefit of entrepreneurs

BDC has developed partnerships with a wide range of public and private sector organizations at the regional, national and international levels with the goal of enhancing Canada's entrepreneurial ecosystem and increasing support for small and medium-sized businesses.

Through our partnerships, we play a catalyst role in the entrepreneurial ecosystem, nurturing positive relationships among key players to strengthen the environment for starting and growing a business in Canada. We also partner with organizations with the objective of increasing the availability of capital and advice for entrepreneurs.

### Accelerated Growth Service

The Accelerated Growth Service (AGS) is a sector agnostic and whole-of-government initiative led by Innovation, Science and Economic Development Canada that aims to support established firms with high growth potential. Through AGS, businesses have access to dedicated expert advisors and personalized support from a cross-government team that help them address their growth challenges. At the end of fiscal 2019, AGS had reached over 600 SMEs and expects to continue to grow over the next few years. Over the planning period, BDC will continue to be an AGS partner alongside other federal organizations to support growth-oriented businesses.

More details on key BDC partnerships can be found in Appendix 4: Key partnerships, page 35.

Over the planning period, we will strengthen our ties with existing partners and foster new relationships to increase reach and bolster the entrepreneurial ecosystem.

At BDC, we strive to put entrepreneurs at the heart of everything we do so we can better help them grow their businesses and succeed. Concretely, this means making client journeys with us easier, simpler and faster. To that end, we have launched many initiatives to improve the experience of our clients and seen the percentage of clients who say they are very satisfied climb to 67% from 56% over the last five years. The proportion of clients who say they are either satisfied or very satisfied has reached an outstanding 94%. We will continue our efforts to increase the number of very satisfied clients because we know they are the most loyal to BDC and most likely to refer new business to us. As well, a better client experience benefits our employees by making their work more satisfying and fulfilling.

As technology revolutionizes business functions and financial services, our clients increasingly expect us to anticipate their needs and deliver an integrated, personalized experience across all channels—in-person, online and mobile. To deliver this level of service, we will continue our digital evolution with the goal of reducing friction and increasing the speed and ease of doing business with us.

At the same time, we understand the needs and expectations of entrepreneurs vary greatly depending on business size, complexity and ambition. Some entrepreneurs seek fast, convenient virtual interactions while others want a face-to-face relationship with a trusted advisor. In this context, BDC will focus over the planning period on the following three key initiatives that complement our digital evolution and will enhance both client and employee experience.

### Client segmentation

We have analyzed the composition of our portfolio and identified six distinct client segments based on the size and growth trajectory of individual businesses. This segment-based approach allows us to deepen our understanding of our clients; better target our solutions to them; and reach more entrepreneurs. For each segment, we have developed a journey map. This is a graphic representation of the experience a client in that segment can be expected to have with BDC over time. These journey maps help us to better understand and meet the needs and desires of different client groups as well as identify and eliminate points of friction in our interactions with them.

### Mobility

Mobile devices are playing an increasingly important role in how people communicate, exchange information and do business. BDC is keenly focused on creating a mobile enabled workforce to serve entrepreneurs better. Mobile devices and apps allow our account managers to work more efficiently and faster while making their interactions with clients better. We have developed several mobile apps covering a wide range of client interactions. For example, with our award-winning BDC Express Loan app, account managers can authorize loans of up to \$750,000 in less than 30 minutes during a single client visit. The accelerated processing we achieve with this app has allowed us to save tens of thousands of hours of employee time.

### Online platforms

At the core of our digital evolution are robust online platforms. Through our online loan platform, entrepreneurs can quickly and conveniently borrow up to \$100,000 to finance a wide variety of business projects. We have worked hard to improve the speed and ease of obtaining a loan on the platform. We have streamlined our processes. It used to take several hours on average to apply for an online loan and more than five business days for it to be approved. Now, it can take a matter of minutes to complete the application and less than a day to have it approved.

Clients can access our Client Space portal day or night. There, they can view and accept pre-authorized loan offers, follow the progress of their financing request in real time, communicate and exchange documents with BDC representatives, and consult their statements, account balance and payment history.

## Digital evolution

We have already made huge progress in using technology to evolve our business to better meet the needs of entrepreneurs and provide an exceptional employee experience. In the coming years, our ability to keep pace with technological change will continue to be an essential pillar of our success. That's why we have a continued IT investment roadmap in support of our digital evolution. Projects on the roadmap have been rigorously vetted and categorized based on whether they will help transform, grow or run BDC's business. Guided by this process, we will focus over the planning period on the following priorities:

- ➔ make more and better use of data through investments in our advanced analytics and artificial intelligence capabilities.
- ➔ continue to streamline and automate our loan processes to improve the speed, convenience and efficiency of client interactions.
- ➔ deploy more mobile apps to provide client-facing employees with additional resources to deliver products and services faster and more efficiently while improving in-person interactions
- ➔ refine our client segmentation.

## Employee experience

A better experience for clients starts with attracting and retaining talented, motivated and diverse employees. That's why we strive to create an exceptional work experience. Our success in this regard has led to numerous recognitions as a top employer (listed under Human Resources on page 9). Making BDC a great place to work includes the following efforts:

- ➔ continuously providing training and professional development opportunities
- ➔ making work more efficient by equipping employees with mobile devices, developing a full range of client-facing mobile apps and encouraging remote work
- ➔ creating agile, dynamic and stimulating work environments through renovations of many business centres and our head office
- ➔ encouraging volunteer work that has led to many thousands of hours devoted to improving our communities



In alignment with its risk management framework, BDC has implemented a risk identification and assessment capability to ensure it recognizes and understands existing and emerging risks. These risks evolve as a result of changes in both the internal and external environments. BDC works to continuously identify and assess new and evolving risks through integrated risk identification and assessment programs and processes.

BDC uses its corporate planning process to review and assess significant risks that may impact the Bank's capacity to achieve its objectives. Based on BDC's strategic objectives over the planning period, the following top risks have been identified and will be continuously monitored:

→ **Cyber security risk**

Data security breaches continue to be a threat to all organizations, but especially those in industries that rely on large amounts of client data, including the financial services industry.

→ **Information technology (IT) failure**

Enhancements to BDC's technological infrastructure, including investments in cloud computing, artificial intelligence and automation, expose the organization to a greater potential for system outages and stability issues.

→ **Market uncertainty**

Market risks include interest rate fluctuations, trade disputes, equity and commodity price volatility, high Canadian household indebtedness and potential deterioration in the Canadian housing market.

→ **Market and portfolio volatility**

This encompasses risks associated with high valuations, elevated downgrading to impaired rates and increased weighting of larger loan and investment exposures.

→ **Change management**

The financial services industry is evolving rapidly, increasing the number and complexity of concurrent strategic initiatives underway at BDC. This requires sophisticated change management strategies and reliance on personnel with highly specialized skills in a competitive workforce environment. Certain elements of our organizational culture will need to be adjusted to support the evolving context in which we operate.

This section presents a corporate financial review with details by business line starting on page 38. The financial plan's projections for BDC's operations for fiscal 2021 to fiscal 2025 are based on the economic observations and assumptions presented in the section titled Operating environment on page 7. Although the present Corporate Plan is tabled based on a stable economic environment, market uncertainty remains a concern. This may result in significant variation from plan projections.

The term lending market, after expanding at an average rate of 9% a year between 2011 and 2018, is projected to grow at a slower pace over the planning period amid less favourable economic conditions. We also expect reduced credit demand, a high level of liquidity in the market and more alternative financing options available to SMEs. Despite this context, BDC's volume of activity in all business lines is forecast to increase over the planning period, as shown in Table 1.

- Financing's activity level is expected to experience an annualized growth of 8%. Improvement in processes and investments in technology will contribute to achieve this growth efficiently.
- Growth and Transition Capital's activity level is forecast to increase by 9%<sup>1</sup> annualized, mainly driven by expected strong demand for growth equity and business transition financing. Additionally, higher growth will be supported by BDC's appetite to support growing companies resulting in higher deal sizes and by developing a strategy to increase financing to IP-rich companies.

- Venture Capital will continue to invest from \$250 million to \$270 million per year over the planning period. Over \$100 million per year is projected in direct investments fuelled by the Industrial Innovation Venture Fund, Women in Technology Venture Fund (WIT) and co-investments, while indirect investments are expected to stabilize at \$150 million per year.
- Advisory Services's activity level is forecast to increase by 7% annualized as a result of a greater focus on supporting the growth of our clients and further serving larger clients.
- The venture capital incentive programs include the Venture Capital Action Plan (VCAP), the Venture Capital Catalyst Initiative (VCCI) and the new Indigenous Growth Fund (IGF). A total of \$152 million is planned to be authorized in VCCI in fiscal 2020 and, consequently, the \$450 million VCCI envelope will be fully committed by the end of fiscal 2020. It is projected that the full IGF envelope will be disbursed over the duration of the plan.
- As planned, the \$600-million Cleantech Practice envelope will be fully committed by the end of fiscal 2022, as BDC continues to increase market awareness and ramp up investment activity.

**Table 1—Activity level summary**  
(\$ in millions)

	2019	2020	2021	2022	2023	2024	2025
Loans acceptances	7,223	7,800	8,350	8,985	9,665	10,400	11,200
Growth	6%	8%	7%	8%	8%	8%	8%
Asset-backed securities acceptances	290	140	400	200	100	70	270
<b>Financing</b>	<b>7,513</b>	<b>7,940</b>	<b>8,750</b>	<b>9,185</b>	<b>9,765</b>	<b>10,470</b>	<b>11,470</b>
<b>Growth &amp; Transition Capital acceptances<sup>1</sup></b>	<b>388</b>	<b>440</b>	<b>485</b>	<b>535</b>	<b>585</b>	<b>635</b>	<b>690</b>
<i>Growth</i>	-4%	13%	10%	10%	9%	9%	9%
<b>Venture Capital authorizations</b>	<b>247</b>	<b>260</b>	<b>265</b>	<b>265</b>	<b>270</b>	<b>265</b>	<b>250</b>
<b>Advisory Services revenue</b>	<b>25</b>	<b>28</b>	<b>30</b>	<b>32</b>	<b>34</b>	<b>36</b>	<b>39</b>
<i>Growth</i>	27%	12%	7%	7%	6%	6%	8%
<b>VC Incentive Programs authorizations</b>	<b>301</b>	<b>152</b>	<b>100</b>	-	-	-	-
<b>Cleantech Practice acceptances</b>	<b>113</b>	<b>125</b>	<b>171</b>	<b>152</b>	-	-	-

<sup>1</sup> Uni-tranche senior debt component is excluded as it is volatile and difficult to forecast.

BDC's portfolio has increased steadily in recent years, in line with market growth. The business lines' planned level of activity is projected to bring the portfolio to over \$50 billion by fiscal 2025, as shown in Table 2.

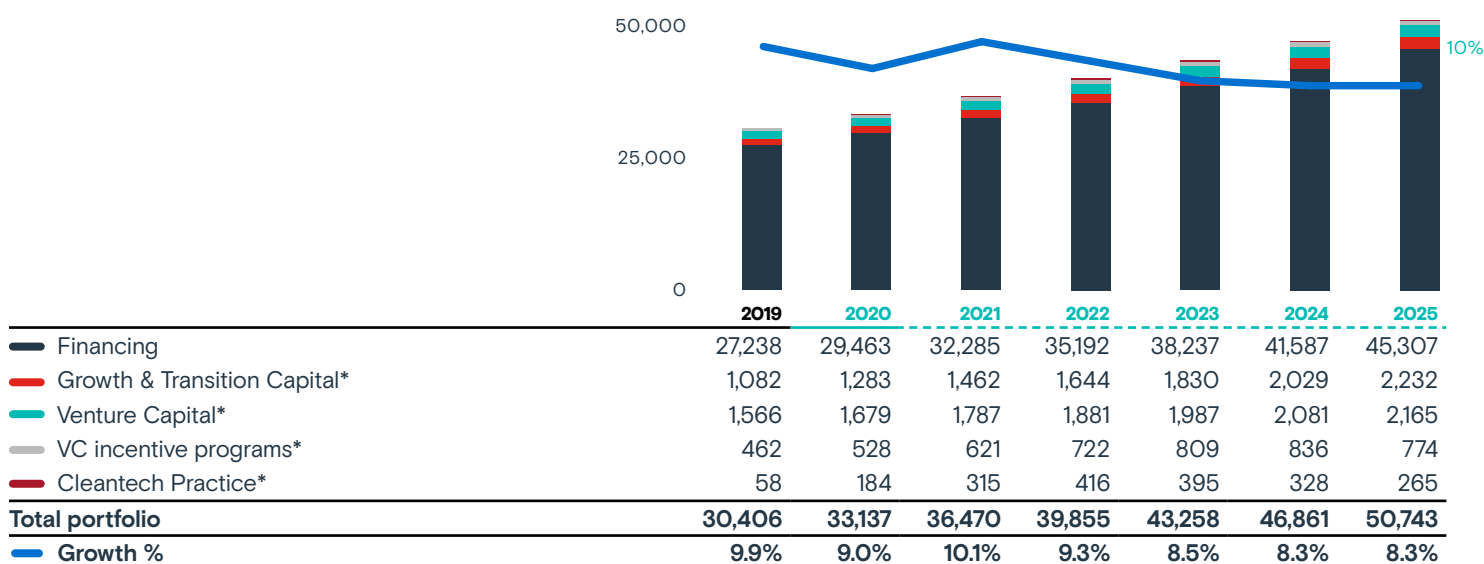
Portfolio growth is projected to reach 10.1% in fiscal 2021 partly due to an increase in asset back securities. The annualized growth is expected to remain strong at 8.6% from fiscal 2021 to the end of the planning period. Portfolio growth from fiscal 2021 is expected to outpace expense growth, reflecting BDC's constant focus on efficiency gains. This will contribute to an increase in BDC's annual return on equity over the rest of the planning period.

BDC's net revenue, as shown in Table 3, is forecast to decrease by 7% from fiscal 2020 to fiscal 2021 due to significant realized gains in investments as a result of investment exits in the Venture Capital segment in fiscal 2020. Net revenue will then increase at a steady rate from fiscal 2021 to fiscal 2025, reaching \$2.2 billion by fiscal 2025. This will be driven by portfolio growth in all business

lines (Table 2). The net income decrease in fiscal 2021 is due to an increase in provisions for expected credit losses as they return closer to long-term historical levels, a lower Venture Capital income as a neutral net income is forecast due to fair value volatility, and an increase in operating and administrative expenses to support BDC's technological investments.

As BDC continues to invest in its digital evolution to better serve entrepreneurs and launches new initiatives—notably the Indigenous Growth Fund and the G&TC IP-rich financing offering—operating and administrative expenses are expected to grow more rapidly early in the planning period. However, expense growth is expected to fall steadily over the duration of the planning period as BDC benefits from efficiency gains from its investments in processes and technology. BDC's consolidated net income is forecast to increase by 5% annualized, reaching \$981 million by fiscal 2025. This will provide the Bank with financial flexibility to support the long-term success of Canadian entrepreneurs.

**Table 2—Consolidated portfolio**  
(\$ in millions)



\*At fair value

**Table 3—Summary of income and capital expenditures**  
(\$ in millions)

	2019	2020	2021	2022	2023	2024	2025
Net revenue	1,423	1,683	1,573	1,694	1,839	2,031	2,230
Growth	10%	18%	-7%	8%	9%	10%	10%
Provision for expected credit losses	(180)	(272)	(335)	(318)	(356)	(401)	(437)
Net change in unrealized appreciation (depreciation) of investments and other	244	54	22	17	55	45	54
Operating and administrative expenses	601	679	720	759	795	830	866
Growth	8%	13%	6%	5%	5%	4%	4%
<b>Net income</b>	<b>886</b>	<b>786</b>	<b>540</b>	<b>634</b>	<b>743</b>	<b>845</b>	<b>981</b>
Capital expenditures	30	31	35	22	22	19	17

As returns generated by activities surpass the required capital to support portfolio growth, BDC expects to have excess capital available for supporting SME growth and/or dividend payments over the planning period.

To remain efficient and responsive to clients, BDC invests in information technology and in its business facilities. Following a spike in fiscal 2021, capital expenditures are forecast to fall as leasehold expenditures decrease. For more information, please refer to the capital budget on page 47.

## Key financial indicators

Table 4 presents financial indicators related to BDC's financial sustainability and capital adequacy, as required by the *Capital and Dividend Policy Framework for Financial Crown Corporations*. Information on BDC's liquidity policies and existing limits can be found in the borrowing plan on page 51.

## Adjusted annual return on equity

Adjusted annual return on equity measures the efficiency in generating income relative to equity. This is a key indicator to measure BDC's financial sustainability and capital management efficiency. BDC compares this ratio against its historical and projected financial performance and ensures that financial sustainability objectives are met.

In light of the introduction of VCIP and the Cleantech Practice, BDC introduced an adjusted return on equity measure, which excludes all initiatives requested and fully capitalized by the shareholder. After decreasing to 7.1% in fiscal 2021, it is expected to increase over the planning period, in line with the planned increase in net income.

**Table 4—Key financial indicators**

	2019	2020	2021	2022	2023	2024	2025
Adjusted return on equity (annual)	12.1%	10.1%	7.1%	8.0%	8.5%	8.9%	9.4%
Adjusted return on equity (10-year moving average)	10.5%	11.0%	10.5%	9.9%	9.6%	9.5%	9.4%
BDC efficiency ratio	38.0%	41.0%	40.6%	39.3%	37.6%	35.9%	34.1%
Internal capital ratio based on the current capital framework	136%	135%	—	—	—	—	—
Internal capital ratio based on the new capital framework	—	—	113%	111%	112%	113%	114%

<sup>1</sup> Adjusted return on equity is net income expressed as a percentage of average common equity. It excludes other comprehensive income or loss; accumulated other comprehensive income or loss and remeasurement of net defined benefit asset or liability; and non-controlling interest. It also excludes VC incentive programs and the Cleantech Practice.

<sup>2</sup> BDC's efficiency ratio is a measure of the efficiency with which BDC incurs expenses to generate revenue on its operations. It is calculated as operating and administrative expenses as a percentage of net revenue. It excludes VC incentive programs, Cleantech Practice, pension expenses and VC net revenue. A lower ratio indicates improved efficiency.

## Ten-year moving average for adjusted return on equity<sup>1</sup>

The 10-year moving average for adjusted return on equity is expected to peak in fiscal 2020 and then normalize to 9.4% by fiscal 2025, mainly due to increased provisions for expected credit losses as compared to historically low levels from fiscal 2012 to fiscal 2015. Over the planning period, results are forecast to exceed BDC's expected long-term average of 9.0%.

## BDC's efficiency ratio<sup>2</sup>

BDC's efficiency ratio is forecast to erode in fiscal 2020 as BDC invests in technology, then improve over the rest of the planning period, reflecting efficiency gains from investments in processes and technology. As shown in Table 4, the ratio is forecast to improve from 41.0% in fiscal 2020 to 34.1% in fiscal 2025. This means BDC will incur 34.1 cents of expense to earn one dollar of revenue.

## Internal capital ratio

BDC assesses the adequacy of its capital status with its internal capital ratio. It is expressed as the level of capital available over the economic capital required. As the growth of available capital outpaces the growth in capital demand, the ratio is expected to exceed BDC's target of 110% over the planning period. The internal capital ratio target was revised with the introduction of the new capital framework as detailed on page 48. The ratios shown for fiscal 2019 and fiscal 2020 are based on the current capital framework for which the target was 134%.

# Expected results and performance indicators 26

BDC's performance measures support its aspiration to make Canadian entrepreneurs the most competitive in the world. They are aligned with shareholder priorities and BDC's client impact strategic objectives.

Short term (1 year)		Actual F2019	Target F2020	Forecast F2020	Target F2021
Support more entrepreneurs	# of clients <sup>1</sup>	48,134	N/A	50,000	52,000
Provide asset-light financing <sup>2</sup>	\$ of acceptances, GTC and Financing unsecured loans (\$ in millions) <b>Former definition</b>	1,402	1,400	1,600	N/A
	\$ of acceptances for GTC (excluding growth equity), Online Financing and Information and Communication Technology leveraged loans (\$ in millions) <b>New definition</b>	695	N/A	775	800
Support Indigenous entrepreneurs	# of clients identified as Indigenous	714	750	800	850
Make it easy for clients to do business with BDC	% of very satisfied clients <sup>3</sup>	67	66	67	67
Provide advisory services to accelerate growth, innovation and productivity <sup>4</sup>	# of mandates for Advisory Services <b>Former definition</b>	1,633	1,775	1,700	N/A
	Revenues from Advisory Services (\$ in millions) <b>New definition</b>	25	N/A	28	30

Unless otherwise noted, all data are sourced from BDC's portfolio.

<sup>1</sup> BDC direct clients excluding VCIP and Cleantech Practice clients. Clients in more than one unit are only counted once.

<sup>2</sup> Provide asset-light financing remains as a short term, 1 year, performance indicator but the definition has evolved.

<sup>3</sup> "Very satisfied" clients gave a score of 9 or 10 out of 10 for their overall satisfaction with BDC services. Source: BDC Client Voice Survey (excludes Venture Capital).

<sup>4</sup> Provide advisory services to accelerate growth, innovation and productivity remains as a short term, 1 year, performance indicator but the definition has evolved.

Medium term (3 years)		Actual F2019	Forecast F2020	Target (T)
Support women entrepreneurs	\$ authorized, GTC and Financing, for majority women-owned businesses (\$ in millions, cumulative F2019 to F2021)	564	1,050	T2021 1,400
Work in partnership to extend reach and provide support to entrepreneurs	# of indirect clients	11,861	11,000	T2023 12,500
Make it easy and efficient to do business with BDC	% of online financing loans that are touchless <sup>5</sup>	Less than 10%	10%	T2023 70%
Long term (5 years)		Actual F2019	Forecast F2020	Target (T)
Support women-led tech firms	\$ authorized to women in tech (VC) (\$ in millions, cumulative to fiscal 2023)	24.7	50	T2023 100
Fulfill its complementary role by serving underserved entrepreneurs	% of Financing portfolio that is sub-investment grade <sup>6</sup>	90	90	T2022 Maintain a minimum of 93
Provide financing and advisory services that enable clients to succeed	% of clients who reported a positive impact on their business following the services they received from BDC <sup>7</sup>	91	92	T2022 Maintain a minimum of 89
Help restore the VC assetclass to profitability to attract private sector investors	BDC direct VC funds total value to paid-in capital (TVPI) <sup>8</sup>	1.63	1.75	T2022 1.25 or higher
Accelerate entrepreneurs' competitiveness	Results of BDC's Impact Study <sup>9</sup>	9.1	N/A	T2022 BDC has a positive impact on revenue growth
Increase the amount of capital available to Canada's promising cleantech firms	\$ accepted, Cleantech Practice (\$ in millions, cumulative fiscal 2018 to fiscal 2022) <sup>10</sup>	153	278	T2022 600

Unless otherwise noted, all data are sourced from BDC's portfolio.

<sup>5</sup> Touchless refers to an automated process that will occur if all relevant variables and verifications are deemed reliable and accurate.

<sup>6</sup> Sub-investment grade is rated BB+ or less.

<sup>7</sup> Source: BDC Client Voice Survey (excludes Venture Capital).

<sup>8</sup> TVPI, a VC industry standard metric, is a ratio of the current value of investments to the original amount invested. BDC's direct VC funds are Information Technology (IT), Healthcare, Industrial, Clean and Energy Technology (ICE), Industrial Innovation Venture Fund, Co-Investments and Women in Tech (WIT).

<sup>9</sup> Measuring BDC's Impact on Clients (2008–2015), May 2019 [https://www.bdc.ca/en/documents/analysis\\_research/measuring-bdc-impact-on-clients-may-2019.pdf](https://www.bdc.ca/en/documents/analysis_research/measuring-bdc-impact-on-clients-may-2019.pdf). This measure is calculated by Statistics Canada and refers to the additional average growth experienced by BDC clients when compared to a control group of similar businesses. Given the recent nature of this measure, a target has not been set.

<sup>10</sup> Includes Financing, Growth & Transition Capital, and Venture Capital.

**Chief Executive Officer commitment:** I, Michael Denham, as Chief Executive Officer of BDC, am accountable to the Board of Directors of BDC for the implementation of the results described in this Corporate Plan and outlined in this section. I confirm that this commitment is supported by the balanced use of all available and relevant performance measurement and evaluation information.



Michael Denham, Chief Executive Officer, BDC

Original signed January 28, 2020

The Corporate Plan is the centerpiece of the accountability process for Crown corporations and is an important element of BDC's governance structure. BDC also interacts regularly with government officials to ensure alignment with government priorities and direction.

The Corporate Plan's objective is to inform ministers and government officials of BDC's strategic plan, planned activities and expenditures over a five-year planning horizon and to request approval for them.



Within the context of the *Business Development Bank of Canada Act*, approved Corporate Plans and instructions it may receive from the government, BDC operates at arm's length from the government. It is ultimately accountable to Parliament through the **Minister of Small Business, Export Promotion and International Trade** ❶

An independent **Board of Directors** ❷, supported by various committees ❸–❹, ensures a high standard of corporate governance and ethical conduct. BDC's **President and CEO** ❸ sits on and reports to the Board. The Board is responsible for the following:

- ➔ approving BDC's strategic direction, Corporate Plan, and operating and capital budget to meet its public policy mandate
- ➔ approving the risk appetite framework and the regulatory compliance framework
- ➔ approving succession planning, performance management and compensation for the senior management team
- ➔ setting the President and CEO's performance objectives and evaluating his or her performance

- ➔ ensuring the highest standards of corporate governance and board effectiveness
- ➔ approving financial management, internal controls and management information systems
- ➔ overseeing BDC's pension plans
- ➔ approving financing and investment activities beyond the board committees' authority, and overseeing financial and advisory services

BDC's **Senior Management Committee** ❹ is comprised of the President and CEO, the executive financial and operating officers and designated chief officers. Its responsibilities include the following:

- ➔ recommending to the board and implementing BDC's vision, strategy and objectives
- ➔ overseeing BDC's disclosure obligations and practices
- ➔ establishing and monitoring compliance with the risk appetite statement, and assessing the effectiveness of risk management functions



The **Governance and Nominating Committee** ⑤ assists with governance of the board and its committees, and oversight of the corporate governance framework. Its duties include the following:

- assessing risk associated with the corporate governance framework
- ensuring that high standards of corporate governance, ethical business conduct and integrity are maintained, including with respect to diversity
- defining selection criteria for the President and CEO and the Chairperson of the Board and approving the board profile
- participating in the shareholder's process for selecting the Chairperson of the Board, the President and CEO, and board members, and assessing the performance and effectiveness of the board and its committees
- implementing a director orientation program

The **Board Investment Committee** ⑥ helps the board oversee all investment activities at BDC. Its duties include the following:

- reviewing policies and processes concerning investment activities
- reviewing and assessing all risks associated with investments and their management
- reviewing all strategies and capital allocations for material investment activities including VC and growth equity
- reviewing strategic initiatives aimed at improving the VC ecosystem
- monitoring portfolio performance
- recommending delegations of authority for investments
- approving investment transactions that exceed management's or a fund's delegation of authority and recommending to the board those that exceed its own authority
- approving transactions and overseeing the performance of the initiative's portfolio

The **Board Risk Committee** ⑦ oversees the risk management framework and important strategic initiatives. Its duties include the following:

- ensuring that BDC's material financial, business and operational risks are identified and that adequate controls are in place

- overseeing the activities of the Chief Risk Officer and the risk function
- monitoring BDC's risk profile, stress testing, strategic and emerging risks and compliance with risk limits
- approving transactions that exceed the delegation of authority of senior management

The **Human Resources Committee** ⑧ helps the board oversee the management of human capital to ensure that BDC attracts and retains the talent needed to deliver on its mandate and business objectives. Its duties include the following:

- developing the human resources strategy
- overseeing succession planning
- recommending the CEO's performance objectives and performance evaluation to the board
- overseeing compensation policies, programs and plans
- approving appointments of senior managers and major organizational changes
- assessing the "tone at the top" with respect to integrity and ethics
- assessing HR risks

The **Audit and Conduct Committee** ⑨ promotes an overall corporate culture of quality financial reporting and ethical behaviour. Its duties include the following:

- recommending BDC's consolidated financial statements to the board and reviewing the adequacy and effectiveness of the internal control framework
- overseeing the activities of the compliance function and the Chief Compliance Officer
- overseeing information management systems
- recommending the Capital Management and Dividend Policy to the board
- reviewing reports on capital adequacy and internal controls for capital management and stress testing
- overseeing the internal audit function and the Chief Audit Executive
- overseeing the external auditors and special examiners
- overseeing BDC's standards of integrity and conduct

## Compensation of key management personnel

Key management personnel<sup>17</sup> are defined as those officers having authority and responsibility for planning, directing and controlling the activities of BDC, including members of the Board of Directors. The following table presents the compensation expense of key management personnel.

<b>\$ in thousands</b>	<b>2018</b>	<b>2019</b>
Salaries and short-term employee benefits	6,378	5,961
Post-employment benefits	1,459	1,496
Other long-term benefits	1,232	1,596
<b>Total</b>	<b>9,069</b>	<b>9,053</b>

<sup>17</sup> In 2019, there were 11 SMC members and 12 board directors and one vacant seat on the Board of Directors was filled at the beginning of F2020.

Consistent with its mandate, BDC generally assumes more risk than a typical financial institution to better support SMEs. BDC’s sub-investment grade exposure is substantially higher than that of the six largest Canadian chartered banks. However, BDC’s strong risk management practices and culture enable it to take the risks necessary to fulfill its mandate while ensuring the organization is financially sustainable through economic cycles.

The risk appetite framework (RAF) defines BDC’s approach to establishing and governing its risk appetite. The RAF is integrated into BDC’s strategy development and implementation process. It determines core risk principles, which dictate that BDC will only take risks that:

- it understands, can manage and are aligned with its strategy
- are consistent with its mandate to support Canadian SMEs
- are not expected to negatively impact its brand reputation or the shareholder’s reputation

The risk appetite statement (RAS) is based on qualitative and quantitative measures that articulate, and allow for reporting on, the board and management’s vision for managing the risks that BDC is willing to accept in executing its mandate.

BDC’s risk management framework (RMF) outlines the methodology implemented to manage the risks inherent in BDC’s activities, while ensuring the outcomes of such risk-taking activities are aligned with BDC’s strategy and mandate. It also reinforces a risk management culture across the organization that ensures a high level of risk awareness where risk management is an integral part of strategic and operational decision-making.

BDC’s approach to risk management is based on four pillars of risk management as illustrated in the diagram below.

Each pillar incorporates risk management governance, programs, processes, tools and reports to ensure an effective framework for the management of risk.

BDC regularly reviews its activities to identify its top and emerging risks. Risks are considered by senior management and the Board of Directors and are monitored and/or remediated in alignment with BDC’s day-to-day risk management activities.



## Top risks

## Mitigation

### **T** Cyber security

The risk that technology will be used to maliciously access, use or distribute restricted data, disrupt operations or intentionally compromise BDC's reputation, as has been seen in recent incidents involving other large organizations. Threats include phishing, hacking and infrastructure penetration.

- Continuous security reviews and enhancements as appropriate
- Security controls
- Infrastructure testing
- Disaster recovery and cyber incident response strategies and protocols
- Organizational change management and communication

### **T** Information technology (IT) failure

The risk of IT infrastructure and related applications not adequately responding to business needs because of a lack of systems availability, reliability, capacity, serviceability and maintenance.

- Ongoing incident and problem management processes
- Organization-wide remediation plan
- Systems and application upgrades in alignment with best practices
- Disaster recovery plans and business continuity testing

### **O** Third-party failure

The risk of failure and/or security compromise associated with the sourcing, procurement and performance of third-party suppliers, products and services.

- Third-party risk management program
- Contract and service agreements
- Third-party monitoring and reporting
- Contingency planning

### **F** Market uncertainty

The risk that increasing market uncertainty and adverse changes in the macroeconomic environment will result in significant changes in interest rates and other market factors impacting loans, investments and transactions.

- Business unit planning and strategic reviews
- Contingency plans designed to address specific market scenarios and/or remediate emerging risks
- Stress testing of programs to ensure proactive identification of adverse scenarios
- Effective credit risk management policies and procedures
- Ongoing monitoring and administration of credit risk
- Effective systems and controls to detect and prevent inappropriate credit risk

### **F** Market and portfolio volatility

The risk that increasing market uncertainty and adverse changes in market factors such as interest rates, foreign exchange rates, equity or commodity prices will result in losses that exceed expectations.

- Portfolio stress testing
- Treasury risk management policies and procedures
- Activity monitoring to ensure alignment with board approved limits

### **O** Change management

The risk that the volume and velocity of change resulting from large concurrent strategic initiatives and internal priorities will impact BDC's ability to implement initiatives effectively, increase reliance on limited specialized resources and/or disrupt its capacity to deliver on its mandate and achieve its strategic objectives.

- Annual strategic planning process to identify and prioritize change
- Implementation of a transformation office
- Human resource change management function integrated in projects and activity planning
- Project management, change management functions and leaders to address organizational change
- Senior management engagement and communications to ensure employee buy-in and organizational strategic focus

### **O** Human resources

The risk that labour and skill shortages will arise from the following: competition for key resources; increasing operational demands for specialized skills and knowledge; a highly demanding workplace environment with large, varied and concurrent changes underway.

- High employee engagement, relative to industry benchmarks
- Increased activities towards employer brand recognition, including marketing campaigns
- Learning and development strategies
- Succession planning for critical positions
- Leadership and career development
- Competitive total rewards strategies

### **O** Climate Change

Climate change risks are interconnected and relevant across natural, human and corporate systems. The threats associated to climate change will therefore impact both BDC and its BDC clients. In addition, severe weather events, changing regulations, updated economic systems and changing social behavior may result in a broad range of impacts, including potential strategic, reputational, structural and credit related risks.

- B Corp Certification
- Portfolio composition
- Establish methodologies to identify, assess and manage the impact that climate change and climate change policies will have on financing and investment portfolios
- Identification of governance best practices to oversee climate risks
- Climate risk stress testing and scenario analysis

**F** Financial risk   **T** Technological risk   **O** Operational risk

## A. Compliance with legislative requirements

### Regulatory compliance processes

BDC is mandated to support Canadian entrepreneurs while ensuring our activities remain within the scope of applicable laws and regulations so that BDC and our shareholder, the Government of Canada, are not exposed to undue reputational, financial, operational or legal risks. This entails having processes and controls in place to ensure BDC is in compliance with all applicable regulatory requirements.

BDC's legislative and regulatory environment consists of the following:

- ➔ 33 federal and provincial laws, including the *Business Development Bank of Canada Act* and the *Financial Administration Act*
- ➔ two regulations specific to Crown corporations
- ➔ 12 Treasury Board and Minister of Finance policy instruments
- ➔ two orders of the Privy Council
- ➔ three trade agreements

In alignment with Guideline E-13 of the Office of the Superintendent of Financial Institutions (OSFI), BDC's compliance function has implemented the following processes:

- ➔ identification and risk-assessment of applicable regulatory requirements
- ➔ identification and mapping of regulatory requirements to compliance internal controls
- ➔ assessment of the adequacy and effectiveness of BDC's compliance internal controls
- ➔ reporting activities to management and board committees
- ➔ annual cascading certification of compliance by business and senior leaders
- ➔ continuous monitoring of BDC's compliance with legislation and regulations

### Regulatory compliance framework

The regulatory compliance framework consists of a Regulatory Compliance Policy and a regulatory compliance function which oversees compliance processes and accountability. In this regard, BDC's regulatory compliance framework is based on a three lines of defence model as referred to in OSFI's Guideline E-13. The three lines of defence are as follows.

#### Business units as operational management

- ➔ Internal controls are implemented and managed in business units to ensure compliance on a day-to-day basis. Internal controls are documented in policies, corporate directives and procedures, or are reflected in processes or tasks.

#### Compliance as an oversight function

- ➔ The adequacy and effectiveness of day-to-day compliance internal controls are overseen by the corporate compliance function, using a risk-based approach. The corporate compliance function is an independent oversight function that assigns ownership of and accountability for all relevant laws and regulations, assesses the adequacy and effectiveness of day-to-day compliance internal controls and assists business units in developing appropriate policies, corporate directives, procedures, processes or tasks

#### Internal audit as an independent review function

- ➔ The activities carried out by the corporate compliance function are subject to periodic reviews by internal audit, which assesses the reliability of and adherence to the regulatory compliance framework.

### Regulatory Compliance Policy

The Regulatory Compliance Policy defines the roles and responsibilities of board members, senior management, business leaders and the compliance, internal audit and legal functions. Included in the policy is BDC's governance model related to regulatory compliance and the compliance risk management process.

### Regulatory compliance accountability

While compliance procedures exist at an operational level, independent testing is overseen by the regulatory compliance function, which is an independent oversight function responsible for the management of the regulatory compliance framework. The function is managed by the Chief Legal Officer and Corporate Secretary (CLO). In this role, the CLO reports to the President and CEO and provides reports to the Audit Committee on all regulatory compliance matters.

## B. Compliance with policy requirements

### Treasury Board Directive on Travel, Hospitality, Conference and Event Expenditure

- ➔ Pursuant to section 89 of the *Financial Administration Act*, BDC received a directive in July 2015 from the Governor General in Council (P.C. 2015-1109) requiring that BDC align its travel, hospitality, conference and event expenditure policies, guidelines and practices with Treasury Board policies, directives and related instruments on travel, hospitality, conference and event expenditures in a manner that is consistent with its legal obligations.
- ➔ BDC is aligned with the Treasury Board Directive on Travel, Hospitality, Conference and Event Expenditure and the applicable guide. BDC discloses on its website the travel and hospitality expenses of senior executives and members of the Board of Directors. These disclosures have become more detailed and are made on a monthly basis since June 21, 2019, the date of coming into force of *An Act to Amend the Access to Information Act and the Privacy Act and to Make Consequential Amendments to Other Acts* (Bill C-58).

### Privy Council Order 2014-1378 on cost sharing for the BDC pension plan

- ➔ In December 2014, pursuant to section 89 of the *Financial Administration Act*, BDC received an Order from the Governor General in Council, directing it to review its pension plan to ensure that it remained affordable, financially sustainable and consistent with the terms of the Public Service Pension Plan. To comply with this directive, BDC implemented amendments to its defined benefit pension plan effective January 1, 2015.
- ➔ As at December 31, 2018, BDC reached a 48:52 current service cost-sharing ratio between employee and employer. The slight deviation from the 50:50 objective is mainly due to the greater than anticipated aging of its workforce, other demographic changes and economic assumption changes, such as a going-concern discount rate lower than forecasted in 2013-2014.

We will closely monitor the situation and report annually to the Treasury Board Secretariat to ensure that we do not deviate significantly from the 50:50 objective in the coming years.

## C. Compliance with legislation

### Access to Information and Privacy Act

The President and CEO has delegated the powers, duties and functions relating to the *Access to Information Act* and the *Privacy Act* to the Chief Legal Officer (CLO). The delegate reports to BDC's President and CEO on access to information and privacy requests. Procedures are in place for directing formal access and privacy requests to the coordinator who ensures they are processed in accordance with the provisions of the act. BDC provides reports to Parliament on a yearly basis.

### Official Languages Act

BDC has put in place a structure to comply with the *Official Languages Act*. The Chief Human Resources Officer, who is BDC's official languages champion, delegates the decision-making authority to the Official Languages Committee. The committee provides the overall direction, planning and coordination of activities, monitors adherence to the *Official Languages Act* and promotes the official languages at BDC. An Official Languages Procedure describes the principles of the law and outlines its application and administration in various BDC activities. BDC's senior management receives reports from the committee on a yearly basis.

BDC is closely following and preparing to comply with the regulatory and legislative developments with respect to the above-mentioned legislation, specifically:

- ➔ Amendments to *Official Languages Act regulations* (Communications with and services to the public)

### Impact assessment legislation

The *Canadian Environmental Assessment Act* was repealed on August 28, 2019. Therefore, BDC no longer has an obligation to prepare a report and table it in Parliament under that legislation. Its replacement, the *Impact Assessment Act*, has no reporting requirements similar or equivalent to s. 71 of the former legislation for federal authorities.



### Increasing access to financing for entrepreneurs

**Other financial institutions:** BDC partners with other financial institutions and lenders to increase credit availability. This includes:

- co-lending, where BDC enhances partners' lending appetite by sharing or taking on more risk
- syndicated loans, which involve a group of lenders coming together to finance larger projects than they otherwise would individually
- indirect financing, where BDC offers securitization and secured lending facilities to independent financing and leasing companies, conducted through the Funding Platform for Independent Lenders (F-PIL), in partnership with TAO Asset Management.

**Export Development Canada (EDC):** Collaboration with EDC includes a technology financing joint lending initiative, a joint international purchase order product and a two-way referral system that ensures Canadian companies get access to the services of the organization whose competencies best meet their needs.

**Global Affairs Canada (GAC):** BDC collaborates closely with Global Affairs Canada to support SMEs entering foreign markets. Examples include the CanExport program, a co-branded tariff finder tool with EDC, trade missions and co-locations across Canada. In addition, BDC Capital works closely with trade commissioners in foreign markets to support tech scouting missions to Canada.

**Women's Enterprise Organizations of Canada (WEOC):** BDC has a partnership with WEOC under which companies referred by WEOC members receive preferential conditions at BDC, based on the mentoring and coaching provided by WEOC partners.

**Futurpreneur Canada:** Futurpreneur and BDC collaborate to offer joint financing to young entrepreneurs aged 18 to 39. This year, BDC and Futurpreneur increased their joint maximum loan commitment to \$60,000 per application.

**National Research Council (NRC):** BDC has a memorandum of understanding with the NRC for joint visits and collaboration between our two organizations for cross-referrals. We are exploring other opportunities to collaborate nationally.

**Innovation, Science and Economic Development (ISED):** BDC along with sixteen other federal departments and agencies work together to further the government's goal of building a knowledge-based economy in all regions of Canada and to advance the government jobs and growth agenda.

**National Aboriginal Capital Corporations Association (NACCA):** BDC partnered with NACCA, as part of an announcement from the Government of Canada, to support social finance initiatives for Indigenous entrepreneurs. Together, we will be launching the Indigenous Growth Fund.

### Enhancing the entrepreneurial ecosystem

**Accelerated Growth Service:** BDC and ten other core government partners and agencies work together as part of a whole-of-government approach to better serve growing Canadian businesses.

**Trade Accelerator Program (TAP):** BDC is a supporting partner in TAP. This innovative program is designed to help SMEs gain knowledge and a network of contacts to take advantage of their export potential.

**Business accelerators:** BDC Capital has close ties with several business accelerators across Canada to enable the growth of new Canadian technology start-ups.

**Communitech Hub:** This accelerator has a partnership with BDC to strengthen the innovation start-up community in Kitchener-Waterloo, Ontario.

**MaRS:** BDC partners with the MaRS Discovery District through StandUp Ventures, which supports women-led start-ups, and through MaRS' Investment Accelerator Fund which focuses on scaling up IT, Health and Cleantech businesses.

**Canadian Venture Capital and Private Equity Association (CVCA):** BDC maintains a strong working relationship with the CVCA, which is a leading source of advocacy and professional development for VC and private equity professionals. BDC Capital has also supported CVCA initiatives for women VC investors.

**National Angel Capital Organization (NACO):** BDC Capital works with NACO to strengthen Canada's angel investing community, particularly with regards to angel professional development.

**Prospect.fyi:** BDC is a founding partner in Prospect.fyi. This partnership is designed to improve access to talent for Canadian tech companies by both attracting more applicants to the sector and sharing more information about hiring trends with the community.

**Start-Up Canada:** BDC's partnership provides support to the Canadian start-up community via sponsorship and attendance at events across the country.

**Cisco:** Cisco's Circle of Innovation Program helps women entrepreneurs develop their digital strategy. Engineering students from various Canadian universities are hired by Cisco for the summer months to work with women entrepreneurs, who are referred by BDC.

**CPA Canada:** BDC partners with CPA to offer financial literacy sessions to entrepreneurs, particularly in Indigenous communities.

**Kauffman Fellows:** BDC Capital collaborates with California-based Kauffman Fellows, a premier leadership organization in innovation and capital formation, for our GP Academy, an advanced training program for Canadian VC general partners.

**The Montreal Group:** BDC spearheads this international association of SME-focused development banks that aims to share best practices and benchmark performance.

### Transparency and open government

BDC is committed to promoting transparent and open government through proactive disclosure and access to information. For example, BDC ensures we proactively disclose information by:

- preparing the summary of our Corporate Plan to be tabled in Parliament by the responsible minister and publishing it on our website
- publishing our Annual Report, which includes consolidated financial statements, management discussion and analysis and notes to financial statements
- providing annual reports under the *Access to Information Act and Privacy Act*
- publishing quarterly financial reports on our website
- publishing the Office of the Auditor General Special Examination report on our website
- answering questions from various stakeholders, including the federal government and parliamentarians
- answering Access to Information and Privacy requests
- conducting regular outreach to financial institutions and ecosystem players to ensure our activities remain complementary to the private sector
- webcasting our annual public meeting to share corporate results and future priorities
- providing information to the public about our activities through, for example, news releases, publications and presentations

### Alignment with government priorities

Looking ahead, BDC is committed to adapting to the needs of Canadian entrepreneurs, both in terms of the services we provide and how we deliver these services.

We will continue to be a role model in terms of how we work with our clients, investing in technology, process excellence and digitization to make us even more responsive to the needs of entrepreneurs.

We will refine what we currently offer and introduce new services that reflect the intangible economy and the fact that some groups remain underrepresented in the economy.

Finally, we intend to deepen our collaboration with the many other parts of the federal government that are working to make Canadian entrepreneurs successful and our economy more competitive.

### Diversity, inclusion, accessibility, safe workspaces and employment equity

We are committed to diversity and inclusion in our efforts to encourage entrepreneurship in Canada, notably through our support for underserved groups as outlined on page 15. Within BDC, our leadership and employees are equally committed to building an increasingly diverse and inclusive workplace and workforce. One of our goals is to be a great place to work. Embracing inclusion and diversity of ideas and people is one of our key strategies for achieving this.

We have received numerous awards for our commitment to diversity, including once again being recognized in 2019 as a Top Diversity Employer and a Great Place to Work. As part of our commitment, BDC's Diversity and Inclusion Committee, which is supported nationally by 60 employee resource group members, focuses on identifying and removing barriers to the recruitment, mobilization and retention of diverse communities as well as barriers that may prevent potential candidates and clients from engaging with BDC. The committee looks for innovative ways to engage with diverse communities. To enhance our efforts, we have created sub-committees to address the following key segments: Indigenous persons, women, persons with disabilities, LGBTQ2+ and military personnel.

Our support for diversity and inclusion extends to people with disabilities. In partnership with the Canadian Council on Rehabilitation and Work, we are revising our human resources practices to include accommodation recruitment as part of our standard practices. As well, innovative physical workplace accommodations are reflected in our major renovation projects.

BDC also continues to focus on gender equality with a commitment to benchmarking ourselves from a gender parity perspective for the next three years. We have achieved bronze parity certification status with Women in Governance and look to enhance our position through innovative changes to our policies and practices. In recent years, our Executive Vice President, BDC Financing, has been honoured with a Catalyst Canada award for inclusive leadership.

We want our organization, and the people in it, to reflect Canada's increasingly diverse workforce and business community. Over the planning period, we will look at developing metrics to support our governance, strategies and tactics around diversity and inclusion.

## Gender-based analysis plus (GBA+)

In line with its development mandate, BDC is committed to ensuring that its services are accessible to all entrepreneurs, regardless of gender, race, ethnicity, religion, age or disability. BDC has adopted the GBA+ process for assessing its initiatives and continues to raise employee awareness on the topic. BDC ensures that all stakeholders are considered and unintended consequences mitigated by examining how various intersecting identity factors impact the effectiveness of its initiatives. Furthermore, BDC pays particular attention to underserved segments by offering them tailored support. This includes but is not restricted to women entrepreneurs, Indigenous and young entrepreneurs. (See Supporting underserved entrepreneur groups on page 15 for more details.)

Over the planning period, BDC will continue to raise employee awareness about underserved segments by maintaining unconscious bias training part of BDC's ongoing development curriculum, and will find new ways to advance gender equality in Canada.

BDC has a People Policy that defines the mutual commitment between BDC and our employees. The policy aims to make our organization a great place to work, conducive to achieving our aspiration to make Canadian entrepreneurs the most competitive in the world. It complies with the Business Development Bank of Canada Act and with all Canadian labour laws and regulations. The BDC Code of Conduct, Ethics and Values, the Supporting Health, Safety and Security Directive, the Promoting a Workplace Free from Harassment, Discrimination and Violence Procedure, and the A Substance-Free Workplace Procedure complement BDC's People Policy. BDC's People Policy includes the following key elements:

- ➔ BDC promotes a culture in which employees and internal or external partners (colleagues, clients, suppliers, etc.) are treated with respect and courtesy in a spirit of collaboration, openness and accountability.
- ➔ BDC commits to providing a work environment that protects and fosters the security, health, safety, and overall well-being of all employees.

We will continue to pursue our Supplier Diversity Program, winner of the WBE Canada 2019 President's Award, to attract a greater number of suppliers from key entrepreneur segments, including Indigenous entrepreneurs, Women and B Corp companies.

BDC also believes Canada's official languages reflect the diversity of our country, and we were proud to participate in numerous activities celebrating the 50th anniversary of the *Official Languages Act* with the support of BDC's Official Languages Committee. However, we recognize that additional efforts are required to ensure full compliance with the legislation.

## Indigenous issues

As outlined on page 15, BDC continues to address the unique challenges that many Indigenous entrepreneurs face by offering them tailored financing solutions and financial literacy training among other support. In addition, BDC's Diversity and Inclusion Committee for Indigenous Persons is committed to contributing to the following two calls to action of the Truth and Reconciliation Commission of Canada.

### Call to Action 92—Business and reconciliation

BDC will adopt the United Nations Declaration on the Rights of Indigenous Peoples as a reconciliation framework and will apply the declaration's principles, norms and standards to corporate policy and core operational activities involving Indigenous peoples, their lands and resources.

### Call to Action 57—Professional development and training for public servants

BDC will provide education to employees on the history of Aboriginal peoples, including the history and legacy of residential schools, the United Nations Declaration on the Rights of Indigenous Peoples, Treaties and Aboriginal rights, Indigenous law, and Aboriginal-Crown relations. This includes skills-based training on inter-cultural competency, conflict resolution, human rights and anti-racism.

## Sustainable development and greening government operations

BDC is committed to reducing the environmental impact of our operations by using greener practices.

Some of our initiatives include:

- ➔ building on BDC's award-winning mobile applications that allow client-facing employees to create and authorize loans and proposals electronically
- ➔ developing in-house waste reduction and recycling programs that extend beyond municipal requirements
- ➔ conducting a greater number of transactions electronically to reduce paper consumption
- ➔ achieving LEED certification for 10 business centres and applying LEED criteria in all new business centres

Information is provided below on amendments and interpretations to existing standards, as well as new standards, that are effective starting in fiscal 2021 or that are not yet effective but are expected to affect BDC's financial results.

## Modified or new accounting changes not yet effective

### Conceptual framework

On March 29, 2018, the IASB issued the revised *Conceptual Framework for Financial Reporting* (the framework) replacing the previous version issued in 2010. The framework is effective immediately for the IASB and IFRS

Interpretations Committee, but has an effective date of January 1, 2020, which will be April 1, 2020 for BDC. The framework includes some new concepts, provides revised definitions and recognition criteria for assets and liabilities, and clarifies some important concepts. BDC is currently assessing the impact of adopting the framework and does not expect its adoption to have a material impact on BDC's Consolidated Financial Statements.

**Table 6—Consolidated statement of financial position**  
(\$ in millions)

	2019	2020	2021	2022	2023	2024	2025
<b>ASSETS</b>							
Cash and cash equivalents	704	733	755	790	830	873	916
Derivative assets	10	10	10	-	-	-	-
Loans							
Loans, gross carrying amount	26,546	28,637	31,069	33,917	36,974	40,390	44,033
Less: allowance for expected credit losses	(629)	(755)	(854)	(906)	(961)	(1,026)	(1,101)
Loans, net of allowance for expected credit losses	25,917	27,882	30,215	33,011	36,013	39,364	42,932
Investments							
Asset-backed securities	700	826	1,236	1,314	1,318	1,266	1,357
Subordinate financing investments	1,152	1,464	1,770	2,047	2,207	2,338	2,481
Venture capital investments	2,028	2,210	2,395	2,577	2,759	2,867	2,872
Total investments	3,880	4,500	5,401	5,938	6,284	6,471	6,710
Right-of-use asset	-	120	115	102	90	78	66
Net defined benefit asset	20	-	-	-	-	-	-
Other assets	126	129	135	131	127	120	110
<b>Total assets</b>	<b>30,657</b>	<b>33,374</b>	<b>36,631</b>	<b>39,972</b>	<b>43,344</b>	<b>46,906</b>	<b>50,734</b>
<b>LIABILITIES AND EQUITY</b>							
<b>Liabilities</b>							
Accounts payable and accrued liabilities	141	152	165	180	196	214	233
Derivative liabilities	6	-	-	-	-	-	-
Borrowings							
Short-term notes	20,952	19,663	20,702	22,374	24,363	26,504	28,794
Long-term notes	1,443	4,181	5,892	6,936	7,631	8,199	8,913
Total borrowings	22,395	23,844	26,594	29,310	31,994	34,703	37,707
Lease Liabilities							
Short-term lease liabilities	-	12	12	12	13	13	13
Long-term lease liabilities	-	117	115	103	92	79	66
Total lease liabilities	-	129	127	115	105	92	79
Net defined benefit liability	282	373	419	468	519	573	632
Other liabilities	77	83	90	98	107	117	128
<b>Total liabilities</b>	<b>22,901</b>	<b>24,581</b>	<b>27,395</b>	<b>30,171</b>	<b>32,921</b>	<b>35,699</b>	<b>38,779</b>
<b>Equity</b>							
Share capital	2,603	3,065	3,313	3,463	3,373	3,418	3,358
Contributed surplus	28	28	28	28	28	28	28
Retained earnings	5,076	5,657	5,853	6,269	6,982	7,722	8,532
Accumulated other comprehensive income	7	6	5	4	3	2	-
<b>Equity attributable to BDC's shareholder</b>	<b>7,714</b>	<b>8,756</b>	<b>9,199</b>	<b>9,764</b>	<b>10,386</b>	<b>11,170</b>	<b>11,918</b>
Non-controlling interests	42	37	37	37	37	37	37
<b>Total equity</b>	<b>7,756</b>	<b>8,793</b>	<b>9,236</b>	<b>9,801</b>	<b>10,423</b>	<b>11,207</b>	<b>11,955</b>
<b>Total liabilities and equity</b>	<b>30,657</b>	<b>33,374</b>	<b>36,631</b>	<b>39,972</b>	<b>43,344</b>	<b>46,906</b>	<b>50,734</b>
<b>Debt-to-equity ratio</b>	<b>2.9</b>	<b>2.7</b>	<b>2.9</b>	<b>3.0</b>	<b>3.1</b>	<b>3.1</b>	<b>3.2</b>

**Table 7—Consolidated statement of income**  
(\$ in millions)

	2019	2020	2021	2022	2023	2024	2025
Interest income	1,607	1,774	1,906	2,082	2,270	2,472	2,695
Interest expense	290	381	424	466	504	546	594
<b>Net interest income</b>	<b>1,317</b>	<b>1,393</b>	<b>1,482</b>	<b>1,616</b>	<b>1,766</b>	<b>1,926</b>	<b>2,101</b>
Net realized gains (losses) on investments	37	205	4	(16)	(25)	–	16
Revenue from Advisory Services	25	28	30	32	34	36	39
Fee and other income	44	57	57	62	64	69	74
<b>Net revenue</b>	<b>1,423</b>	<b>1,683</b>	<b>1,573</b>	<b>1,694</b>	<b>1,839</b>	<b>2,031</b>	<b>2,230</b>
Provision for expected credit losses	(180)	(272)	(335)	(318)	(356)	(401)	(437)
Net change in unrealized appreciation (depreciation) of investments*	226	75	20	15	52	42	51
Net foreign exchange gains (losses)	17	(21)	2	2	3	3	3
Net gains (losses) on other financial instruments	1	–	–	–	–	–	–
<b>Income before operating and administrative expenses</b>	<b>1,487</b>	<b>1,465</b>	<b>1,260</b>	<b>1,393</b>	<b>1,538</b>	<b>1,675</b>	<b>1,847</b>
Salaries and benefits	410	446	474	498	522	547	576
Premises and equipment	44	44	47	46	47	48	49
Other expenses	147	189	199	215	226	235	241
<b>Operating and administrative expenses</b>	<b>601</b>	<b>679</b>	<b>720</b>	<b>759</b>	<b>795</b>	<b>830</b>	<b>866</b>
<b>Net income</b>	<b>886</b>	<b>786</b>	<b>540</b>	<b>634</b>	<b>743</b>	<b>845</b>	<b>981</b>
<b>Net income attributable to:</b>							
BDC's shareholder	879	785	540	634	743	845	981
Non-controlling interests	7	1	–	–	–	–	–
<b>Net income</b>	<b>886</b>	<b>786</b>	<b>540</b>	<b>634</b>	<b>743</b>	<b>845</b>	<b>981</b>

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

**Table 8—Consolidated statement of comprehensive income**  
(\$ in millions)

	2019	2020	2021	2022	2023	2024	2025
<b>Net income</b>	<b>886</b>	<b>786</b>	<b>540</b>	<b>634</b>	<b>743</b>	<b>845</b>	<b>981</b>
<b>Other comprehensive income (loss)</b>							
<i>Items that may be reclassified subsequently to net income</i>							
Net change in unrealized gains (losses) on fair value through other comprehensive income assets	7	–	–	–	–	–	–
Net change in unrealized gains (losses) on cash flow hedges	1	(1)	(1)	(1)	(1)	(1)	(2)
<b>Total items that may be reclassified subsequently to net income</b>	<b>8</b>	<b>(1)</b>	<b>(1)</b>	<b>(1)</b>	<b>(1)</b>	<b>(1)</b>	<b>(2)</b>
<i>Items that will not be reclassified to net income</i>							
Remeasurements of net defined benefit asset or liability	(76)	(76)	–	–	–	–	–
<b>Other comprehensive income (loss)</b>	<b>(68)</b>	<b>(77)</b>	<b>(1)</b>	<b>(1)</b>	<b>(1)</b>	<b>(1)</b>	<b>(2)</b>
<b>Total comprehensive income</b>	<b>818</b>	<b>709</b>	<b>539</b>	<b>633</b>	<b>742</b>	<b>844</b>	<b>979</b>
<i>Total comprehensive income attributable to:</i>							
BDC's shareholder	810	708	539	633	742	844	979
Non-controlling interests	8	1	–	–	–	–	–
<b>Total comprehensive income</b>	<b>818</b>	<b>709</b>	<b>539</b>	<b>633</b>	<b>742</b>	<b>844</b>	<b>979</b>



**Table 9—Consolidated Statement of changes in equity**  
(\$ in millions)

	2019	2020	2021	2022	2023	2024	2025
<b>Opening balance</b>	<b>6,891</b>	<b>7,756</b>	<b>8,793</b>	<b>9,236</b>	<b>9,801</b>	<b>10,423</b>	<b>11,207</b>
Net Income	886	786	540	634	743	845	981
Other comprehensive income (loss)	(68)	(77)	(1)	(1)	(1)	(1)	(2)
<b>Total comprehensive income</b>	<b>818</b>	<b>709</b>	<b>539</b>	<b>633</b>	<b>742</b>	<b>844</b>	<b>979</b>
Dividends on common shares <sup>1</sup>	(70)	(128)	(344)	(218)	(30)	(105)	(171)
Distributions to non-controlling interests	(11)	(6)	-	-	-	-	-
Capital injections from non-controlling interests	3	-	-	-	-	-	-
Issuance (repurchase) of common shares	125	462	248	150	(90)	45	(60)
<b>Closing balance</b>	<b>7,756</b>	<b>8,793</b>	<b>9,236</b>	<b>9,801</b>	<b>10,423</b>	<b>11,207</b>	<b>11,955</b>

**Table 10—Consolidated Statement of cash flows**  
(\$ in millions)

	2019	2020	2021	2022	2023	2024	2025
Net cash flows used in operating activities	(1,351)	(1,333)	(1,709)	(2,042)	(2,171)	(2,431)	(2,527)
Net cash flows used in investing activities	(430)	(400)	(910)	(557)	(339)	(160)	(188)
Net cash flows provided by financing activities	1,812	1,762	2,641	2,634	2,550	2,634	2,758
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>31</b>	<b>29</b>	<b>22</b>	<b>35</b>	<b>40</b>	<b>43</b>	<b>43</b>
Cash and cash equivalents at beginning of year	673	704	733	755	790	830	873
<b>Cash and cash equivalents at end of year</b>	<b>704</b>	<b>733</b>	<b>755</b>	<b>790</b>	<b>830</b>	<b>873</b>	<b>916</b>

## Financing

Financing's loan acceptances in dollars are projected to grow by 8% annually, reaching \$11.2 billion in fiscal 2025, enabling BDC to increase access to financing for smaller businesses. BDC expects to achieve this growth by improving processes and investing in technology as well as by continuing to benefit from the enhancement of its delivery model, including online and Express loans. This will result in an increase in productivity over the planning period. Acceptances for asset-backed securities fluctuate and are difficult to forecast as they involve a small number of deals for large amounts.

High levels of market liquidity are leading BDC to develop more attractive offerings for entrepreneurs, which is resulting in lower margins compared to last year's projections. Financing's net income is projected to increase from \$536 million in fiscal 2020 to \$907 million in fiscal 2025, driven by portfolio growth and efficiency gains from investments in technology and digital evolution initiatives.

**Table 11—Financing: Activity and statement of income**

(\$ in millions)

	2019	2020	2021	2022	2023	2024	2025
<b>Loans acceptances (\$)</b>	<b>7,223</b>	<b>7,800</b>	<b>8,350</b>	<b>8,985</b>	<b>9,665</b>	<b>10,400</b>	<b>11,200</b>
<b>Asset-backed securities acceptances (\$)</b>	<b>290</b>	<b>140</b>	<b>400</b>	<b>200</b>	<b>100</b>	<b>70</b>	<b>270</b>
<b>Net interest income</b>	<b>1,229</b>	<b>1,298</b>	<b>1,369</b>	<b>1,492</b>	<b>1,634</b>	<b>1,793</b>	<b>1,964</b>
Fee and other income	21	23	24	26	28	30	33
<b>Net revenue</b>	<b>1,250</b>	<b>1,321</b>	<b>1,393</b>	<b>1,518</b>	<b>1,662</b>	<b>1,823</b>	<b>1,997</b>
Provision for expected credit losses	(180)	(272)	(334)	(317)	(354)	(398)	(434)
Net change in unrealized appreciation (depreciation) of investments	2	1	-	-	-	-	-
Net foreign exchange gains (losses)	(6)	(2)	2	2	3	3	3
Net gains (losses) on other financial instruments	1	-	-	-	-	-	-
<b>Income before operating and administrative expenses</b>	<b>1,067</b>	<b>1,048</b>	<b>1,061</b>	<b>1,203</b>	<b>1,311</b>	<b>1,428</b>	<b>1,566</b>
Operating and administrative expenses	446	512	540	575	603	633	659
<b>Net income</b>	<b>621</b>	<b>536</b>	<b>521</b>	<b>628</b>	<b>708</b>	<b>795</b>	<b>907</b>
<b>Portfolio outstanding</b>	<b>27,238</b>	<b>29,463</b>	<b>32,285</b>	<b>35,192</b>	<b>38,237</b>	<b>41,587</b>	<b>45,307</b>

## Growth & Transition Capital

Market demand for Growth & Transition Capital's offerings is expected to increase annual acceptances by 9%<sup>1</sup>, from \$440 million in fiscal 2020 to \$690 million in fiscal 2025, reflecting stronger demand for growth equity and an increase in SME business transitions. Opportunities to finance IP-rich companies will also stimulate growth in acceptances. Portfolio at fair value is expected to reach \$2.2 billion in fiscal 2025, representing 12% annualized growth over the planning period.

As Growth & Transition Capital's activities scale, efficiency will remain a focus. Operating and administrative expenses as a percentage of the average portfolio outstanding are projected to decrease from 4.0% in fiscal 2020 to 3.5% in fiscal 2025, while net income is forecast to increase from \$66 million in fiscal 2020 to \$101 million in fiscal 2025.

**Table 12—Growth & Transition Capital: Activity and statement of income**  
(\$ in millions)

	2019	2020	2021	2022	2023	2024	2025
<b>Acceptances<sup>1</sup></b>	<b>388</b>	<b>440</b>	<b>485</b>	<b>535</b>	<b>585</b>	<b>635</b>	<b>690</b>
<b>Net interest income</b>	<b>85</b>	<b>89</b>	<b>99</b>	<b>104</b>	<b>110</b>	<b>115</b>	<b>123</b>
Net realized gains (losses) on investments and write-offs	15	(7)	(13)	(9)	(2)	(2)	10
Fee and other income	20	27	26	28	30	33	35
<b>Net revenue</b>	<b>120</b>	<b>109</b>	<b>112</b>	<b>123</b>	<b>138</b>	<b>146</b>	<b>168</b>
Net fair value change	(9)	(12)	(9)	(6)	(1)	2	7
Fair value adjustments due to realized gains (losses) and write-offs	4	18	13	11	7	7	-
<b>Income before operating and administrative expenses</b>	<b>115</b>	<b>115</b>	<b>116</b>	<b>128</b>	<b>144</b>	<b>155</b>	<b>175</b>
Operating and administrative expenses	42	49	55	58	64	68	74
<b>Net income</b>	<b>73</b>	<b>66</b>	<b>61</b>	<b>70</b>	<b>80</b>	<b>87</b>	<b>101</b>
<b>Portfolio at fair value</b>	<b>1,082</b>	<b>1,283</b>	<b>1,462</b>	<b>1,644</b>	<b>1,830</b>	<b>2,029</b>	<b>2,232</b>

<sup>1</sup> Uni-tranche senior debt component is excluded as it is volatile and difficult to forecast.

## Venture Capital

VC activity level is supported by a growing Canadian VC market. Over the planning period, direct authorizations are forecast to remain strong at over \$100 million annually, partly driven by the deployment of the Industrial Innovation Venture Fund, while indirect authorizations are expected to stabilize at \$150 million annually.

VC proceeds are expected to total \$960 million over the planning period as legacy investments exit the portfolio and a growing portfolio of indirect investments provides a steady stream of distributions. Meanwhile, disbursements are forecast to total \$1.2 billion driving the portfolio to \$2.2 billion at the end of the planning period.

Due to favourable market conditions in recent years, VC investments have experienced significant fair value appreciation which resulted in \$194 million net income in fiscal 2019 and a forecast of \$220 million in fiscal 2020. It should be noted that VC is a risky asset class that is subject to volatile market conditions. It is difficult to forecast a reliable net income and as such, a neutral profitability is forecast over the planning period.

**Table 13—Venture Capital: Activity and statement of income**  
(\$ in millions)

	2019	2020	2021	2022	2023	2024	2025
<b>Direct authorizations</b>	93	118	115	115	120	115	100
<b>Indirect authorizations</b>	154	142	150	150	150	150	150
<b>Proceeds</b>	128	375	165	175	200	210	210
<b>Disbursements</b>	(202)	(225)	(213)	(224)	(255)	(254)	(242)
Net realized gains (losses) on investments	30	241	60	58	60	52	52
Write-offs	(8)	(25)	(30)	(36)	(40)	(23)	(23)
<b>Net realized gains (losses) on investments and write-offs</b>	22	216	30	22	20	29	29
Fee and other income	2	2	-	(1)	(1)	(1)	(1)
<b>Net revenue (loss)</b>	24	218	30	21	19	28	28
Net fair value change	177	249	53	39	45	51	52
Fair value adjustment due to realized gains (losses) and write-offs	2	(192)	(23)	(16)	(14)	(29)	(29)
Net foreign exchange gains (losses) on investments	23	(19)	-	-	-	-	-
<b>Income before operating and administrative expenses</b>	226	256	60	44	50	50	51
Operating and administrative expenses	32	36	40	39	40	40	41
<b>Net income</b>	194	220	20	5	10	10	10
<b>Portfolio at fair value</b>	1,566	1,679	1,787	1,881	1,987	2,081	2,165

## Advisory Services

Advisory Services revenues are forecast to show annualized growth of 7% over the planning period, reaching \$39 million by fiscal 2025.

BDC invests in helping Canadian SMEs grow, innovate, and become more competitive by taking on a significant portion of the costs associated with advisory activities. A BDC study<sup>1</sup> confirms that our advisory services have a long-lasting impact on entrepreneurs and the national economy. Used together, financing and advisory services have an even stronger impact.

In addition, another recent study<sup>2</sup> found that BDC clients report that our services have a considerable positive impact on their business. Within a few months of receiving Advisory Services, clients have implemented most or all of the actions recommended and are more knowledgeable of their business.

The net investment (net loss) is expected to decrease over the planning period, driven primarily by productivity improvements from process enhancements and technology implementation. The cost-recovery ratio should increase from 45% in fiscal 2020 to 60% in fiscal 2025, while sustaining or improving the impact we deliver.

**Table 14—Advisory Services: Statement of income**  
(\$ in millions)

	2019	2020	2021	2022	2023	2024	2025
Revenue from activities	25	28	30	32	34	36	39
Operating and administrative expenses including delivery costs	75	76	78	79	80	81	84
<b>Net income (loss)</b>	<b>(50)</b>	<b>(48)</b>	<b>(48)</b>	<b>(47)</b>	<b>(46)</b>	<b>(45)</b>	<b>(45)</b>
Cost-recovery ratio	41%	45%	47%	50%	54%	58%	60%

<sup>1</sup> Measuring BDC's Impact on Clients (2008 -2015), May 2019 [https://www.bdc.ca/en/documents/analysis\\_research/measuring-bdc-impact-on-clients-may-2019.pdf](https://www.bdc.ca/en/documents/analysis_research/measuring-bdc-impact-on-clients-may-2019.pdf)

<sup>2</sup> BDC Client Voice Survey & Advisory Services Client Impact Platform, March 31, 2019

## Venture capital incentive programs

The venture capital incentive programs (VCIP) include the \$390 million Venture Capital Action Plan (VCAP), the \$450 million Venture Capital Catalyst Initiative (VCCI) and the Indigenous Growth Fund (IGF).

VCAP is expected to earn a return of capital of 1.4x over the life of the program. Over the planning period, this translates into anticipated proceeds of \$202 million and net income of \$51 million as the program benefits from its investments.

BDC expects the \$450 million VCCI envelope will be fully committed by the end of fiscal 2020. Disbursements should total \$349 million over the planning period. Due to the J-curve effect, net losses are projected to total \$17 million over the planning period.

BDC expects to initiate the IGF fund in fiscal 2021 that will provide capital to the Aboriginal Financial Institutions to provide loans to new and expanding Indigenous businesses. The capital is planned to be fully disbursed over the planning period. The financial projections may differ from results as the fund structure has not been finalized. IGF is presented in the VCIP segment in this Corporate Plan. As this is a new fund, BDC is currently reviewing how the fund will be reported. As such, measurement and reporting on this segment in this Corporate Plan may differ from upcoming annual reports required under IFRS.

Overall, the incentives programs are forecast to generate \$27 million of net income over the planning period.

**Table 15—VCIP: Activity and statement of income**  
(\$ in millions)

	2019	2020	2021	2022	2023	2024	2025
<b>Authorizations</b>	<b>301</b>	<b>152</b>	<b>100</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Disbursements</b>	<b>8</b>	<b>50</b>	<b>95</b>	<b>109</b>	<b>101</b>	<b>88</b>	<b>70</b>
<b>Proceeds</b>	<b>2</b>	<b>1</b>	<b>4</b>	<b>8</b>	<b>15</b>	<b>65</b>	<b>138</b>
<b>Net revenue</b>	<b>-</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>5</b>
Provision for expected credit losses	-	-	(1)	(1)	(2)	(3)	(3)
Net fair value changes	56	13	3	1	5	10	13
<b>Income before operating and administrative expenses</b>	<b>56</b>	<b>14</b>	<b>4</b>	<b>3</b>	<b>7</b>	<b>12</b>	<b>15</b>
Operating and administrative expenses	3	2	2	3	3	3	3
<b>Net income</b>	<b>53</b>	<b>12</b>	<b>2</b>	<b>-</b>	<b>4</b>	<b>9</b>	<b>12</b>
<b>Portfolio</b>	<b>462</b>	<b>528</b>	<b>621</b>	<b>722</b>	<b>809</b>	<b>836</b>	<b>774</b>

**Table 16—VCAP: Activity and statement of income**

(\$ in millions)

	2019	2020	2021	2022	2023	2024	2025
<b>Authorizations</b>	3	-	-	-	-	-	-
<b>Disbursements</b>	8	6	5	4	2	2	1
<b>Proceeds</b>	2	1	4	6	10	56	126
Net revenue	-	-	-	-	-	1	2
Fair value change	56	21	18	11	9	8	7
<b>Income before operating and administrative expenses</b>	<b>56</b>	<b>21</b>	<b>18</b>	<b>11</b>	<b>9</b>	<b>9</b>	<b>9</b>
Operating and administrative expenses	1	1	1	1	1	1	1
<b>Net income</b>	<b>55</b>	<b>20</b>	<b>17</b>	<b>10</b>	<b>8</b>	<b>8</b>	<b>8</b>
<b>Portfolio at fair value</b>	<b>462</b>	<b>488</b>	<b>506</b>	<b>516</b>	<b>517</b>	<b>470</b>	<b>352</b>

**Table 17—VCCI: Activity and statement of income**

(\$ in millions)

	2019	2020	2021	2022	2023	2024	2025
<b>Authorizations</b>	298	152	-	-	-	-	-
<b>Disbursements</b>	-	44	70	85	79	66	49
<b>Proceeds</b>	-	-	-	2	5	9	12
Net revenue	-	1	1	2	2	2	2
Fair value change	-	(8)	(15)	(10)	(4)	2	6
<b>Income before operating and administrative expenses</b>	<b>-</b>	<b>(7)</b>	<b>(14)</b>	<b>(8)</b>	<b>(2)</b>	<b>4</b>	<b>8</b>
Operating and administrative expenses	2	1	1	1	1	1	1
<b>Net income (loss)</b>	<b>(2)</b>	<b>(8)</b>	<b>(15)</b>	<b>(9)</b>	<b>(3)</b>	<b>3</b>	<b>7</b>
<b>Portfolio at fair value</b>	<b>-</b>	<b>40</b>	<b>95</b>	<b>167</b>	<b>237</b>	<b>296</b>	<b>339</b>

**Table 18—IGF: Activity and statement of income**

(\$ in millions)

	2019	2020	2021	2022	2023	2024	2025
<b>Authorizations</b>			100	-	-	-	-
<b>Disbursements</b>			20	20	20	20	20
<b>Net interest income</b>			-	-	1	1	1
Fee and other income			1	1	1	1	-
<b>Net revenue</b>			1	1	2	2	1
Provision for expected credit losses			(1)	(1)	(2)	(3)	(3)
<b>Income before operating and administrative expenses</b>			-	-	-	(1)	(2)
Operating and administrative expenses			-	1	1	1	1
<b>Net income (loss)</b>			-	(1)	(1)	(2)	(3)
<b>Portfolio outstanding</b>			20	39	55	70	83



## Cleantech Practice

BDC projects deploying \$600 million in debt and equity transactions by fiscal 2022. To implement the program, BDC expects capital injections totalling \$600 million by fiscal 2021.

With this level of activity, BDC expects the Cleantech portfolio at fair value to peak in fiscal 2022 at \$416 million.

Given the risky nature and long lifespan of cleantech transactions, a net loss of \$66 million is forecast between fiscal 2021 and fiscal 2025. Due to the high-risk profile of the initiative, financial results are expected to be subject to significant volatility.

**Table 19—Cleantech Practice: Activity and statement of income**

(\$ in millions)

	2019	2020	2021	2022	2023	2024	2025
<b>Acceptances (\$)</b>	113	125	171	152	-	-	-
<b>Acceptances (#)</b>	11	17	21	21	-	-	-
<b>Net interest income</b>	2	6	14	20	21	17	13
Net realized gains (losses) on investments and write-offs	-	(4)	(13)	(29)	(43)	(27)	(23)
Fee and other income	1	4	5	6	4	3	3
<b>Net revenue</b>	3	6	6	(3)	(18)	(7)	(7)
Net fair value change	(6)	(11)	(30)	(43)	(33)	(31)	(21)
Fair value adjustments due to realized gains (losses) and write-offs	-	9	13	29	43	32	29
<b>Income before operating and administrative expenses</b>	(3)	4	(11)	(17)	(8)	(6)	1
Operating and administrative expenses	4	4	5	5	5	5	5
<b>Net income (loss)</b>	(7)	-	(16)	(22)	(13)	(11)	(4)
<b>Portfolio at fair value</b>	58	184	315	416	395	328	265

## Capital budget

To remain efficient and responsive to clients' needs, BDC invests in technology and in its business facilities across Canada. Facilities expenditures are expected to decrease over the planning period, as leasehold expenditures for the head office and relocation of the Toronto business centre

will be completed by the end of fiscal 2021. IT expenditures are forecast to peak in fiscal 2021 as BDC plans for the next phase of its digital evolution.

**Table 21—Capital budget**

(\$ in millions)

	2019	2020	2021	2022	2023	2024	2025
Facilities	13	11	17	7	7	5	5
Information technology	17	20	18	15	15	14	12
<b>Total</b>	30	31	35	22	22	19	17

BDC's capital management framework is aligned with:

- BDC's strategy (as outlined in the Corporate Plan), the risk appetite statement (RAS) and the Enterprise Risk Management Policy
- the Department of Finance's Capital and Dividend Policy Framework for Financial Crown Corporations
- the Office of the Superintendent of Financial Institutions (OSFI) guidelines and relevant industry practices, while accounting for factors unique to BDC's mandate as a financial Crown corporation

## Capital management framework

In fiscal 2020, BDC revised its capital management framework to ensure effective capital management is consistent with regulatory guidelines (OSFI/Basel) and in alignment with other Canadian financial institutions. BDC strives to continuously evolve its capital adequacy techniques and measures to better reflect the Bank's inherent risks while integrating industry best practices. The new capital management framework incorporates changes to both the available capital definition as well as the required capital quantification. The updated framework will be effective April 1, 2020.

BDC needs to maintain capital to ensure the organization can deliver on its mandate and operate on a sustainable basis through economic cycles. Capital is used to support the risk of BDC's portfolio/assets, enterprise and operational risks, organizational initiatives and unplanned activities.

In alignment with its risk management framework, BDC has established a comprehensive approach for the identification, assessment, control, monitoring and reporting of its significant risks, including all risks impacting capital adequacy.

The Department of Finance's Capital and Dividend Policy Framework states:

- A financial Crown corporation's capital level should reflect its respective mandate and objectives, associated risks and the different commercial segments in which it operates.
- These levels of capital should be consistent with Office of the Superintendent of Financial Institutions guidelines.
- Capital retention policies of financial Crown corporations should protect against risks that could adversely impact their ability to deliver on their public policy mandates and reasonably minimize the risk of recapitalization through a complete business cycle.

BDC's capital management framework has been developed to ensure effective capital management. It aligns with Basel/OSFI guidelines, with other Canadian financial institutions and is consistent with BDC's role as a government-owned development bank. BDC's capital management framework has been designed so that BDC has a sufficient level of required capital to meet its mandate objectives, while ensuring its ongoing financial sustainability through economic cycles. It is very important to note that under a severe stress event, BDC would require a significant recapitalization by the shareholder.

For the purpose of assessing its capital adequacy, BDC monitors its capital status on an ongoing basis by comparing its available capital to its required capital. BDC's approach is based on OSFI's Capital Adequacy Requirements and in alignment with OSFI's E-19 guideline on internal capital adequacy assessment process (ICAAP).

BDC's capital management framework excludes the venture capital incentive programs and Cleantech Practice because these programs are managed by BDC under a specific capital allocation from the shareholder.

The key principles behind BDC's capital management framework are as follows:

- BDC has adequate capital to protect against risks that could adversely impact its ability to deliver on its mandate and minimize the risk of recapitalization through a complete economic cycle.
- Capital in excess of BDC's target capital is available to be returned to the shareholder in the form of dividends, at the discretion of BDC's Board of Directors

The concept that capital has a cost, coupled with the requirement that BDC is to operate in a financially self-sustaining manner, is embedded in the capital management framework and supporting documentation and practices. Respect for this concept is ensured through strategic and efficient capital allocation to business segments, pricing models based on return on risk adjusted capital and assessment of financial performance against forecasted data.

BDC's internal capital requirements are determined in the application of OSFI's Capital Adequacy Requirements for calculation of Pillar 1 and Pillar 2 capital requirements.

Capital adequacy measures are used as an estimate of the required capital to absorb the maximum potential losses inherent in our activities. BDC's key measure to determine, assess and monitor capital adequacy is its internal capital ratio.

To assess its capital adequacy, BDC monitors its internal capital ratio on an ongoing basis by comparing its **available capital** to its **required capital**.

BDC's capital management framework also includes a **management operating range** to absorb volatility, from the Corporate Plan in-line with historical levels, unplanned growth and non-business external and internal factors.

#### **Available capital**

Available capital is composed of equity attributable to BDC's shareholder (share capital, contributed surplus and retained earnings) and adjustments aligned with industry practices.

Modifications arising from the new capital management framework primarily relate to the collective allowance add-back to capital as prescribed in OSFI's Capital Adequacy Requirements.

#### **Required capital**

BDC employs rigorous models to assess demand for capital arising from credit and investment, operational, business and market risk (interest rate risk as well as market risk related to the pension plan). Economic capital is a measure of risk used to determine the amount of capital required to ensure a financial institution's solvency given its risk profile. Economic capital is the methodology used to determine BDC's Pillar 2.

Economic capital models are developed based on advanced quantification methods and internal risk-based assumptions and take into account risk diversification benefits and both disbursed and undisbursed commitments. A key principle underlying the economic capital models is the establishment of a solvency that is set at a credit rating of AA.

BDC holds 100% capital for its Venture Capital portfolio.

Modifications arising from the new capital management framework primarily relate to the removal of capital reserves (enterprise stress testing and Venture Capital), alignment to industry standards for solvency rating, adjustment of the operating range definition and the updating of economic capital models validated by third parties.

#### **Management operating range**

BDC's management operating range accounts for differences between planned and actual level of activities as well as other Corporate Plan assumptions that are difficult to predict. It allows capital to be managed near a target level by mitigating unplanned required capital.

#### **Capital projections**

With returns generated by activities surpassing the required capital to support portfolio growth, BDC expects to have excess capital available for dividend payments from fiscal 2022 to fiscal 2025.

## Internal capital ratio

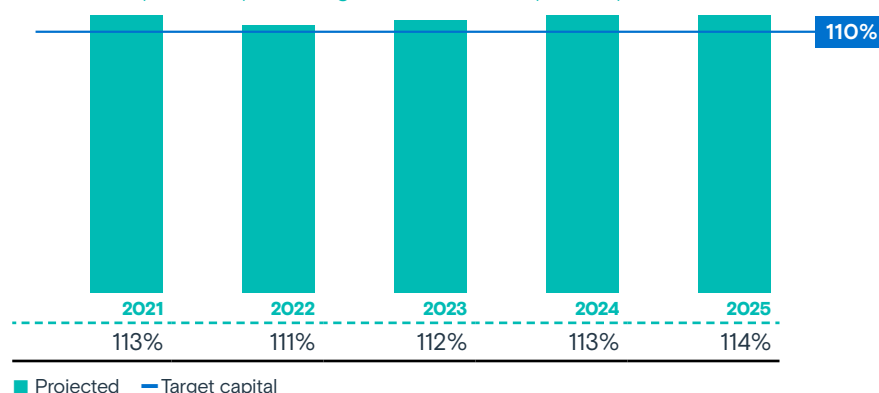
BDC's key measure for determining and assessing its capital adequacy is its internal capital ratio, which is expressed as the level of available capital over the required capital.

The internal capital ratio is used to set BDC's target capital level as well as measure its capital adequacy risk appetite measures. BDC's target capital is revised annually based

on BDC's Corporate Plan forecasts for internal capital requirements and the management operating range, as well as any capital required by a potential stress testing capital shortfall identified as part of the enterprise wide stress testing program.

**Table 24—Internal capital ratio**

(available capital as a percentage of economic capital required)



## Dividend Policy

BDC's Dividend Policy is aligned with the dividend methodology included in the Capital and Dividend Policy Framework for Financial Crown Corporations. Excess capital is calculated as the difference between available

capital and required capital, less management operating range, and is declared as dividends and distributed to the shareholder in the following fiscal year, subject to the discretion of the Board of Directors.

## Statutory limitations

The *Business Development Bank of Canada Act* requires that the aggregate of borrowings and contingent liabilities in the form of guarantees provided by BDC may not exceed 12 times its equity. The debt-to-equity ratio is projected to be 2.7:1 in fiscal 2020, meaning that for every \$2.70 of debt, BDC has \$1 of equity. The ratio is expected to increase slightly over the planning period due to the new capital framework implementation which will enable BDC to operate with a smaller capital base while remaining within the statutory limit of 12.0:1 (Table 5).

As shown in Table 21, BDC's paid-in capital is expected to reach \$3.1 billion in fiscal 2020, increasing to \$3.5 billion following capital injections required for VCIP and Cleantech Practice. Paid-in capital, contributed surplus and any proceeds that have been prescribed as equity (such as hybrid capital instruments) must at no time exceed \$4.5 billion.

**Table 27—Paid-in capital**

(\$ in millions)

	2019	2020	2021	2022	2023	2024	2025
Opening paid-in capital	2,478	2,603	3,065	3,313	3,463	3,373	3,418
Capital injections (repurchase of shares)							
VC incentive programs	–	185	50	150	–	115	–
Cleantech Practice	125	277	198	–	(90)	(70)	(60)
Closing paid-in capital	2,603	3,065	3,313	3,463	3,373	3,418	3,358

## Legislative authorities

BDC's funding activities are governed by section 18 of the *Business Development Bank of Canada Act* and section 127 of the *Financial Administration Act*. The activities must also comply with the Minister of Finance's *Financial Risk Management Guidelines for Crown Corporations*.

Under section 30 of the *Business Development Bank of Canada Act*, BDC is subject to a statutory borrowing authority constraint that limits the direct and contingent liabilities of the corporation to 12 times its equity.

Since 2008, BDC's Canadian dollar borrowings have been consolidated with the borrowing program of the Government of Canada. The Department of Finance, through the Crown Borrowing Program, provides this funding on a timely basis, at the government's estimated cost of funds and under flexible terms. This arrangement is consistent with section 19 of the *Business Development Bank of Canada Act*, which allows BDC to request that the Minister of Finance lend money out of the Consolidated Revenue Fund to BDC on such terms and conditions as the Minister may fix. BDC also has the option to borrow in U.S. dollars on the open market.

## Overview of borrowing plan

BDC's borrowing activities are an integral part of its operations and an important element of its risk management strategies. Requirements for new debt reflect the business needs for new financing of its clients and the borrowing portfolio is closely matched against the asset portfolio to ensure sound asset and liability management.

BDC closely manages the mix of fixed and variable rate borrowings daily, in accordance with BDC's Treasury Risk Policy, which requires matching of debt cash flow streams to the maturity profiles of client loan repayments. Through borrowing activities and first-hand knowledge of financial markets, BDC's Treasury plays an important role in the pricing strategy to reflect market conditions and avoid volatility in BDC's operating margin.

BDC's Asset Liability Committee meets at least quarterly to evaluate market trends, movements in interest rates, borrowing strategies and operating margins, as well as the compliance of BDC's treasury activities with its Treasury Risk Policy. Such compliance is reported quarterly to BDC's Board of Directors.

The assumptions and estimates used in this borrowing plan are highly sensitive to the economic environment, the interest rate environment and customer preferences. BDC routinely updates the Department of Finance on borrowing requirements.

## Short-term borrowing

By the end of fiscal 2020, short-term borrowings will make up over 80% of total debt outstanding. BDC is projecting the proportion of short-term to long-term debt outstanding will decrease to 76% over the planning period. External economic factors may drive changes in customer preferences for long-term fixed-rate borrowing versus short-term borrowing, which could impact the projected proportion.

## Long-term borrowing

As shown in Table 24 long-term borrowings are projected at \$5.9 billion in fiscal 2021. An increase in long-term borrowing is forecast as more clients are choosing fixed-rate loans. Long-term borrowings are expected to increase over the planning period to \$8.9 billion in fiscal 2025.

**Table 29—Projected outstanding borrowings at year end**

(\$ in millions)

	2019	2020	2021	2022	2023	2024	2025
Short-term borrowings	20,952	19,663	20,702	22,374	24,363	26,504	28,794
Long-term borrowings	1,443	4,181	5,892	6,936	7,631	8,199	8,913
<b>Total</b>	<b>22,395</b>	<b>23,844</b>	<b>26,594</b>	<b>29,310</b>	<b>31,994</b>	<b>34,703</b>	<b>37,707</b>

**Table 30—Short-term borrowings**

(\$ in millions)

	2019	2020	2021	2022	2023	2024	2025
Canadian dollar borrowings	20,952	19,663	20,702	22,374	24,363	26,504	28,794
US dollar borrowings	-	-	-	-	-	-	-
<b>Total</b>	<b>20,952</b>	<b>19,663</b>	<b>20,702</b>	<b>22,374</b>	<b>24,363</b>	<b>26,504</b>	<b>28,794</b>

**Table 32—Outstanding long-term borrowings**

(\$ in millions)

	2019	2020	2021	2022	2023	2024	2025
Opening balance	1,443	1,443	4,181	5,892	6,936	7,631	8,199
Maturities	-	(3)	(7)	(351)	(996)	(2,218)	(2,285)
New issuances	-	2,741	1,718	1,395	1,691	2,786	2,999
<b>Total</b>	<b>1,443</b>	<b>4,181</b>	<b>5,892</b>	<b>6,936</b>	<b>7,631</b>	<b>8,199</b>	<b>8,913</b>
Fixed rate	1,307	4,047	5,766	6,936	7,631	8,199	8,913
Variable rate	136	134	126	-	-	-	-
<b>Total</b>	<b>1,443</b>	<b>4,181</b>	<b>5,892</b>	<b>6,936</b>	<b>7,631</b>	<b>8,199</b>	<b>8,913</b>

## Liquidity Risk Management

BDC's liquidity management practices and processes reinforce its risk mitigation strategies by assigning prudent liquidity levels, concentration requirements and maturity profile requirements.

The minimum liquidity level covers at least the net outflows scheduled for the next five working days. The maximum liquidity level is not to exceed 15 days of net cash outflows.

Table 25 shows the results of BDC's liquidity risk management as at March 31, 2019 and 2018.

**Table 34—Liquidity levels**

(\$ in millions)

	Minimum	Actual	Maximum
<b>As at March 31, 2019</b>	<b>147</b>	<b>650</b>	<b>1,194</b>
As at March 31, 2018	258	648	1,482