

Global Credit Research - 13 Sep 2011

Quebec, Canada

Ratings

Category	Moody's Rating
Outlook	Stable
Senior Unsecured	Aaa
Bkd Commercial Paper	P-1

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Opinion

SUMMARY RATING RATIONALE

Business Development Bank of Canada (BDC) is an Agent of Her Majesty in Right of Canada, and a Crown corporation, with a mandate to promote the development of small and medium-sized Canadian enterprises through lending, investing and consulting services. Due to its status as an Agent, BDC's obligations carry the full faith and credit of the Government of Canada. As such, BDC's Aaa long-term senior unsecured ratings and short-term P-1 ratings mirror those of the Government of Canada. As a crown corporation with Agent status, BDC can bind the crown by its actions, with the crown ultimately fully liable for those actions undertaken by BDC within its mandate.

Rating Outlook

The rating outlook is stable

What Could Change the Rating - Down

The key driver of a downgrade for BDC's ratings would be any negative rating actions with respect to the Government of Canada. BDC's rating would also likely be lowered should it ever lose its status as an Agent. However, even in this scenario, the benefits of Agent status would remain fully applicable to all debt entered into by BDC until the date of such revocation.

Issuer Profile

Business Development Bank of Canada (BDC)

BDC has a mandate to promote the development of small and medium-sized Canadian enterprises through lending, investing and consulting services, which it provides on a commercial basis. BDC was established as a Crown corporation by an Act of Parliament in 1974 and reports to Parliament through the Minister of Industry. At June 30, 2011, BDC had a gross loan portfolio of C\$14.6 billion and also held C\$2.7 billion of asset backed securities.

BDC is funded primarily through its share capital and retained earnings, capital markets debt and direct borrowing from the federal government under the Crown Borrowing Program (CBP). Since April 21, 2008, all debt funding has been obtained under the CBP. At June 30, 2011, approximately 95% of BDC's debt was owed to the Government of Canada, leaving approximately \$0.8 billion owing to third-party investors.

BDC's debt to equity of 3.5:1 at March 31, 2011 was well within the maximum 12:1 limit set out in the BDC Act. BDC also complies with minimum capital ratios set by the Treasury Board of Canada, which require that BDC maintains capital of at least 5% for asset backed securities and 10% for term loans (net of allowance for credit losses). Higher levels of capital are required for junior-ranking forms of financing. BDC's actual capital at March 31, 2011 of \$4.0 billion was 1.8x greater than the minimum requirement.

Canada

Canada's Aaa ratings are based on the country's very high degree of economic resiliency, its high government financial strength, and its low susceptibility to event risk. The economy's resiliency is demonstrated by very high per capita income, the large scale of the economy, and its diversity. Natural resource industries, a competitive manufacturing sector, and a well-developed financial market all support the

country's resiliency.

On the public finance front, Canada's ratios of general government debt to GDP and to revenue moved significantly downward over the decade through 2008. Thus, in facing the global crisis the federal government's balance sheet started from a strong position. Although the crisis/recession caused a reversal of the improvement in the debt ratios, they did not deteriorate as much as in most other Aaa-rated countries. The debt levels and outlook remain compatible with the Aaa rating.

DETAILED RATING CONSIDERATIONS

The Aaa/Prime-1 ratings of Business Development Bank of Canada's obligations reflect the application of Moody's rating methodology for government-related issuers (GRIs). Since BDC's status as an Agent makes its obligations direct obligations of the Government of Canada, we do not assign an independent baseline credit assessment but instead use a credit substitution approach where BDC's ratings are tied to those of Canada.



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