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Research Update:

Business Development Bank of Canada Rating Affirmed At 'AAA'; Outlook Is Stable

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Research Update:

Business Development Bank of Canada Rating Affirmed At 'AAA'; Outlook Is Stable

Overview

- We are affirming our 'AAA' long-term issuer credit and senior unsecured debt ratings and our 'A-1+' short-term rating on Business Development Bank of Canada (BDC).
- The ratings reflect our assessment of BDC's critical role in supporting Canadian entrepreneurship by providing financial and management services to small and medium enterprises and its integral link with the federal government.
- The stable outlook reflects that on Canada.

Rating Action

On Dec. 7, 2018, S&P Global Ratings affirmed its 'AAA' long-term issuer credit and senior unsecured debt and 'A-1+' short-term ratings on Business Development Bank of Canada (BDC). The outlook is stable.

Outlook

The stable outlook on BDC mirrors that on Canada, and reflects S&P Global Ratings' expectation that, over the next two years, the bank will continue to play a critical role in the government's economic policy, and the link with the government will remain integral to BDC.

Changes in policy that could result in a material weakening of the government's support for the bank's role could lead us to reassess our view of BDC's role and link. This, in turn, could lead us to detach the ratings on the bank from those on the government and assign a stand-alone credit profile to BDC. A downgrade to Canada would also lead to a downgrade to the bank under our government-related entities (GRE) criteria.

Rationale

The ratings on BDC reflect S&P Global Ratings' assessment of the following factors:

- The bank's critical role in supporting Canadian entrepreneurship by providing financial and management services to small and medium enterprises (SMEs) and its integral link with the Government of Canada

(AAA/Stable/A-1+);

- The likelihood of BDC receiving timely and sufficient extraordinary government support being almost certain; and
- The bank's status as a Crown corporation (an agent of Her Majesty in right of Canada).

We view BDC as a GRE because we believe it would benefit from extraordinary government support if it were in financial distress. Following our GRE criteria, we view the likelihood of the bank receiving extraordinary government support as almost certain. We base this on our assessment of the BDC's critical role in supporting Canadian SMEs and entrepreneurs, and their importance to the national economy. The likelihood also reflects our assessment of the integral link between the government and bank, as seen in the government's appointment of the board of directors and approval of BDC's strategic direction and direct call on the government for the bank's borrowings.

Based on the Business Development Bank of Canada Act, the Canada Financial Administration Act, and other relevant laws, we believe BDC's borrowings benefit from a timely, irrevocable, and unconditional government support similar to a guarantee, but stronger. Although we understand nonborrowing liabilities arising from the bank's business activities do not enjoy the same legal status as its borrowings, we nevertheless judge the likelihood of government support for nonborrowing liabilities as almost certain under our GRE criteria.

We have not assigned a stand-alone credit profile to BDC because of our assessment of the almost certain likelihood of extraordinary government support. We believe the bank's operations are strategically important to the government and that the government's support is not subject to transition risk. Accordingly, we have equalized our ratings on BDC's debt with those on its parent entity, Canada. BDC's operations are aligned with the Government of Canada's priorities, including building the country's economy as a center of global innovation, supporting high-tech businesses and women entrepreneurs.

Liquidity

At fiscal year-end 2018, BDC held cash and cash equivalents totaling more than C\$672.9 million, which was up from the previous year's C\$649.2 million. The bank maintains a level of liquid investments equivalent to net outflow of the next five working days at a minimum. About 99% of its total borrowing is short-term debt. BDC receives all of its borrowings directly from the government, which is also ultimately responsible for all of the bank's borrowings.

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Ratings Affirmed

Business Development Bank of Canada

Issuer credit rating	AAA/Stable/A-1+
Senior unsecured	AAA

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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