This report does not constitute a rating action.

Credit Highlights

Overview

<table>
<thead>
<tr>
<th>Key strengths</th>
<th>Key risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Status as an agent Crown corporation and ownership by the Government of Canada.</td>
<td>Changes in policy could result in a material weakening of the government’s support for the bank’s role in developing business enterprises.</td>
</tr>
<tr>
<td>The debt the company has issued in its own name is a direct obligation of the government's consolidated revenue fund.</td>
<td>A downgrade of Canada would lead to a downgrade of BDC under our government-related entities (GRE) criteria.</td>
</tr>
<tr>
<td>Almost certain likelihood of BDC receiving timely, extraordinary government support in a period of financial distress.</td>
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</tr>
</tbody>
</table>

The long-term issuer credit, senior unsecured debt, and short-term ratings on Business Development Bank of Canada (BDC) are 'AAA', 'AAA', and 'A-1+', respectively. The ratings reflect our assessment of BDC’s critical role in supporting Canadian entrepreneurship by providing financial and management services to small and medium-size enterprises (SMEs) and its integral link with the federal government. We do not believe the almost certain likelihood of extraordinary support from the federal government is subject to transition risk, given BDC’s strategic public policy role and close relationship with the government.

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 key role in the government's economic policy and the link between the government and BDC will remain integral.
Downside scenario

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 (SACP) to BDC. A downgrade on Canada would also lead to a downgrade on the bank under our GRE criteria.

Rationale

The federal government has used BDC as a tool to support Canadian SMEs during the COVID-19 pandemic, which reinforces our view of the bank’s critical role in supporting Canadian entrepreneurship. The bank has created programs to support and sustain businesses directly and indirectly affected by the pandemic, including the Business Credit Availability Program. In addition, in fiscal 2021 the federal government provided a capital injection of about C$7.5 billion to BDC to support the delivery of its programs.

We view BDC as a GRE because we believe it benefits from the government’s willingness to provide extraordinary support in situations of financial distress. Following our GRE criteria, we view the likelihood of the bank receiving timely extraordinary government support as almost certain. We base this on our assessment of 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 the bank, as seen in the government’s appointment of the board of directors and establishment of BDC’s strategic direction, and direct call on the government for its borrowings. The federal government’s recent financial injection is an example of such extraordinary support, in our view.

Based on the Business Development Bank of Canada Act, the Canada Financial Administration Act, and other relevant laws, we believe BDC’s borrowings outstanding benefit from timely, irrevocable, and unconditional government support similar to a guarantee, but stronger. Although we understand non-borrowing 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 non-borrowing liabilities as almost certain under our GRE criteria.

We have not assigned an SACP 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 in line to support the goals set by the Government of Canada with regard to SMEs.

Liquidity

At fiscal year-end 2021, BDC held cash and equivalents totaling about C$800 million, which was less than the previous fiscal year’s C$1.8 billion. These holdings increased to just over C$907 million as of June 30, 2021. The bank maintains a level of liquid investments equivalent to net outflow of the next five working days at a minimum. About 73% of total borrowings are short-term debt; as of June 30, 2021. BDC receives all of its borrowings directly from the government, which is also ultimately responsible for all of the bank’s borrowings, past and present.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Published Oct. 10, 2021
- General Criteria: Methodology For Linking Long-Term And Short-Term Credit Ratings, Published April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, Published March 25, 2015
- General Criteria: Principles Of Credit Ratings, Published Feb. 16, 2011
Related Research

- S&P Global Ratings Definitions, Published Nov. 10, 2021
- Canada Ratings Affirmed At 'AAA/A-1+'; Outlook Remains Stable, Published April 26, 2021

Ratings Detail (as of November 18, 2021)*

**Business Development Bank of Canada**

<table>
<thead>
<tr>
<th>Issuer Credit Rating</th>
<th>AAA/Stable/A-1+</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issuer Credit Ratings History</td>
<td>11-Mar-03</td>
</tr>
<tr>
<td></td>
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</tr>
</tbody>
</table>

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.