

Business Development Bank of Canada

November 9, 2022

This report does not constitute a rating action.

Credit Highlights

Overview

Key strengths

Status as an agent Crown corporation and ownership by the Government of Canada.

The debt the company has issued in its own name is a direct obligation of the government's consolidated revenue fund.

Almost certain likelihood of Business Development Canada (BDC) receiving timely, extraordinary government support in a period of financial distress.

Key risks

Changes in policy could result in a material weakening of the government's support for the bank's role in developing business enterprises.

A downgrade of Canada would lead to a downgrade of BDC under our government-related entities (GRE) criteria.

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

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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

BDC plays a significant role as a shock absorber for Canadian SMEs across all sectors through economic cycles. Most recently, the bank was a tool to support businesses during the COVID-19 pandemic, which reinforced our view of its critical role in supporting Canadian entrepreneurship. The bank created programs to support and sustain businesses directly and indirectly affected by the pandemic. For example, under the Business Credit Availability Program, a total of C\$1.1 billion was lent in partnership with the federal government and private sector financial institutions to close to 800 companies from the launch of the program in 2020 until Dec. 31, 2021, when it ended. In the Highly Affected Sectors Credit Availability Program (HASCAP), BDC collaborated with over 50 financial institutions to support businesses in sectors hardest hit by the pandemic. The bank provided a 100% guarantee to financial institutions to extend loans of up to C\$1 million to eligible businesses in tourism, accommodation, food service, arts and culture, and the airline industry. A total of C\$3.6 billion was deployed to close to 16,000 companies under HASCAP from its launch in February 2021 until March 31, 2022, when the program ended.

BDC, established in 1974 as the Federal Business Development Bank, has operated under its current name since 1995. The bank was created to promote and assist in the establishment and development of business enterprises in Canada, particularly those that are small and midsize. To accomplish this goal, it provides debt and equity financing and consulting services to SMEs, complementing the lending available from commercial financial institutions. Canadian commercial banks generally limit their long-term loan exposure to small enterprises, which are considered high risk. Therefore, BDC fills the gap by lending at longer maturities to smaller, less-established borrowers. The embedded credit risk of its loan portfolio is therefore higher than that of Canadian commercial banks. 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 capital injection of C\$7.5 billion 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.

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 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 2022, BDC held cash and equivalents totaling about C\$906 million, up from the previous fiscal year's C\$800 million. These holdings decreased to just over C\$865 million as of June 30, 2022. 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, 2022. BDC receives all its borrowings directly from the government, which is also ultimately responsible for all the bank's borrowings, past and present.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Canada 'AAA/A-1+' Ratings Affirmed; Outlook Is Stable, April 28, 2022
- S&P Global Ratings Definitions, Nov. 10, 2021

Ratings Detail (as of November 09, 2022)*

Business Development Bank of Canada

Issuer Credit Rating AAA/Stable/A-1+

Issuer Credit Ratings History

11-Mar-2003 AAA/Stable/A-1+

Sovereign Rating

Canada AAA/Stable/A-1+

Related Entities

Canada

Issuer Credit Rating AAA/Stable/A-1+

Transfer & Convertibility Assessment AAA

Commercial Paper

Foreign Currency A-1+

Senior Unsecured AAA

Short-Term Debt A-1+

Canada Mortgage and Housing Corp.

Issuer Credit Rating AAA/Stable/A-1+

Export Development Canada

Issuer Credit Rating AAA/Stable/A-1+

Commercial Paper A-1+

Senior Unsecured AAA

Farm Credit Canada

Issuer Credit Rating AAA/Stable/A-1+

Commercial Paper *Local Currency* A-1+

Halifax Port Authority

Issuer Credit Rating A+/Positive/--

Ratings Detail (as of November 09, 2022)*

Vancouver Fraser Port Authority

Issuer Credit Rating

AA/Stable/--

*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.

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