

Credit Opinion: Business Development Bank of Canada

Business Development Bank of Canada

Montreal, Quebec, Canada

Ratings

Category	Moody's Rating
Outlook	Stable
Deposit Note/CD Program -Dom Curr	Aaa/--
Senior Unsecured	Aaa
Bkd Commercial Paper	P-1

Contacts

Analyst	Phone
Peter Routledge/Toronto	1.416.214.1635
Steven A. Hess/New York	1.212.553.1653
Gregory W. Bauer/New York	

Opinion

Rating Rationale

The Business Development Bank of Canada (BDC) is rated Aaa for senior unsecured obligations and P-1 for commercial paper, reflecting its status as an Agent of Her Majesty in right of Canada. As such, its obligations constitute direct, unconditional obligations of Canada (country ceiling for foreign currency debt Aaa / P-1, government bonds Aaa) and are payable out of the consolidated revenue fund of Canada.

BDC, a Crown corporation, was created in 1974 to succeed a previously established, public-sector development bank. Its mandate is to promote and assist small- and medium-sized business enterprises in Canada through loans, venture capital investments, management training and information. Borrowers are usually in troubled sectors of the economy, or in those sectors that might have difficulty obtaining financing elsewhere. Term lending is the heart of BDC's business; manufacturing, wholesale and retail trade, and tourism are the largest sectors.

Canada's foreign-currency country ceilings were upgraded to Aaa from Aa1 in May 2002. The government of Canada's local currency rating was also upgraded.

Canada's ratios of general government debt to GDP and to revenue have moved significantly downward over the past four years, although they are still higher than the median for Aaa-rated countries. The ratios of net debt to GDP and to revenue are also declining, although these are closer to the median for such countries.

Moody's believes that these ratios' downward trends will continue into the medium term, due to the political consensus in Canada that supports balanced budgets and paying off government debt. Canada's government has announced its goal of reducing the ratio of debt to GDP to 25% over the next 10 years, and this could be achieved even sooner.

Canada's current account balance has been in surplus since the 1996/1997 budget, and most medium-term projections indicate that it will remain there for some time to come, even if there could be an occasional, small deficit due to cyclical factors. The return to surpluses has caused the net external liability position to decline significantly. Moody's expects this trend to continue, greatly lessening vulnerability to shocks coming from external developments, especially from the US, or from events within Canada.

Rating Outlook

Consistent with Canada's outlook, the outlook on BDC's ratings is stable, supported by Moody's expectation of further improvements in both the country's external financial position and general government debt ratios.

(together, "MOODY'S"). All rights reserved.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY COPYRIGHT LAW AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, such information is provided "as is" without warranty of any kind and MOODY'S, in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such information. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The credit ratings and financial reporting analysis observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER. Each rating or other opinion must be weighed solely as one factor in any investment decision made by or on behalf of any user of the information contained herein, and each such user must accordingly make its own study and evaluation of each security and of each issuer and guarantor of, and each provider of credit support for, each security that it may consider purchasing, holding or selling.

MOODY'S hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MOODY'S have, prior to assignment of any rating, agreed to pay to MOODY'S for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,400,000. Moody's Corporation (MCO) and its wholly-owned credit rating agency subsidiary, Moody's Investors Service (MIS), also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually on Moody's website at www.moody's.com under the heading "Shareholder Relations - Corporate Governance - Director and Shareholder Affiliation Policy."