Caribbean Development Bank 'AA/A-1+' Ratings Affirmed; Outlook Remains Stable

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- CDB's capital adequacy continues to improve, and we expect it to remain extremely strong despite negative outlooks on a couple of sovereigns to which CDB has significant loan exposure.
- CDB's strong business profile, which reflects its role as the cornerstone lender to Caribbean governments, complements its high capitalization.
- We are affirming our long- and short-term issuer credit ratings on CDB at 'AA/A-1+'.
- The stable outlook reflects our view that CDB will retain its high capital adequacy levels and sufficient liquidity, and that its sovereign borrowers will treat the bank as a preferred creditor.

MEXICO CITY (S&P Global Ratings) May 4, 2016--S&P Global Ratings today said it affirmed its 'AA/A-1+' long- and short-term issuer credit ratings on the Caribbean Development Bank (CDB). The outlook remains stable.

"The ratings on CDB, which pertain only to CDB's ordinary capital resources, reflect its strong business profile and extremely strong financial profile," said S&P Global Ratings credit analyst Abril Canizares. Although CDB benefits from $328 million in eligible callable capital from its higher-rated shareholders, CDB's own balance sheet capital adequacy is extremely strong, which is why we do not incorporate any uplift above the 'aa' stand-alone credit profile in deriving the 'AA' long-term issuer credit rating.

CDB was established in 1969 and is one of the most prominent lenders in the Caribbean, maintaining a very strong public policy role and the ability to lend to sovereigns throughout the credit cycle, with 96% of its loans issued to the public sector as of December 2015. This role was reaffirmed in its 2015-2019 strategic plan in which the bank's board of directors endorsed the goal of reducing inequality and halving the incidence of extreme poverty within its borrowing member countries by 2025.

CDB generally provides long-term financing with grace periods and below-market rates of interest, as well as guarantees, a role that, in our view, cannot be fulfilled by another private or domestic public institution in the Caribbean. CDB's board has the flexibility to change the interest rates on all loans every six months. Also reflecting the importance of the bank's role in the region, CDB provides technical assistance to its regional borrowing member countries that require enhanced policy support.

CDB's strong business profile also reflects our view of a strong shareholder relationship, which was reinforced when Brazil joined the bank as a new member on Dec. 31, 2015, and fully paid its cash capital subscription at that time. Significant support from non-regional members also materializes in the funding of CDB's special funds resources (SFR; not rated), which provide grants and concessional loans to the bank's lower-income borrowing member countries. This has helped sustain the credit quality of the OCR.

CDB's extremely strong financial profile reflects its strengthening capital adequacy, though this is partially offset by its less-diversified funding profile. CDB's risk-adjusted capital (RAC) ratio after adjustments rose to 29% in 2015 (from 26% in 2014 and 23% the year before) because of shareholder payments of general capital increase installments, the paid subscription from its new member, Brazil, and internal capital generation from retained earnings (though retained earnings were down from last year following lower profitability stemming from the bank's decision to lower the interest rates its loans). The bank's high capitalization offsets the correlation risk of borrowing members. Therefore, we do not expect this ratio to deteriorate very much, even if the creditworthiness of some of the largest borrowing member countries worsens.

"The stable outlook is mainly based on our view that, in the next two years, CDB will maintain an extremely strong financial profile with a high level of capitalization that would not decline significantly, even if the creditworthiness of the sovereigns where CDB has the largest concentration were to deteriorate," said Ms. Canizares. Furthermore, CDB's callable capital provides a buffer to compensate if CDB's own balance sheet RAC, after adjustments, were to decline to below what we view as extremely strong. The outlook reflects our opinion that, despite actions management has taken to enhance its governance, CDB's business profile would not strengthen significantly beyond our expectations over the next two years.

We could raise the ratings on CDB in the next two years if the bank consistently strengthens its relations with shareholders so that new members with stronger creditworthiness join the charter, members that are delinquent on the payment of their subscriptions become current, and the bank effectively enhances its governance and risk management through the cycle.

On the contrary, we could lower the ratings on CDB if, in the next two years, CDB's relationship with shareholders or preferred creditor treatment deteriorates, resulting in a weakening of our business profile assessment. We could also lower the rating if the financial profile weakens, for example if liquidity buffers were to shrink.