



# ANNUAL REPORT 2024

## SECTION 4

## RISK REVIEW







## PERFORMANCE HIGHLIGHTS

CDB strengthened its risk management framework, reinforcing financial resilience and ensuring stability in an evolving economic landscape. The Bank maintained a strong credit profile with no non-performing loans and increased its S&P risk-adjusted capital (RAC) ratio to 29.7%.

### Strengthening Risk Management for Resilience and Growth

In 2024, CDB made significant strides in refining its risk management framework to align with international best practices and enhance its resilience in an increasingly complex financial landscape. By strengthening risk oversight and reinforcing financial stability, the Bank continues to safeguard its AA+/Aa1 (stable outlook) credit rating and optimise capital allocation in response to evolving economic conditions.

### Advancing Enterprise Risk Management

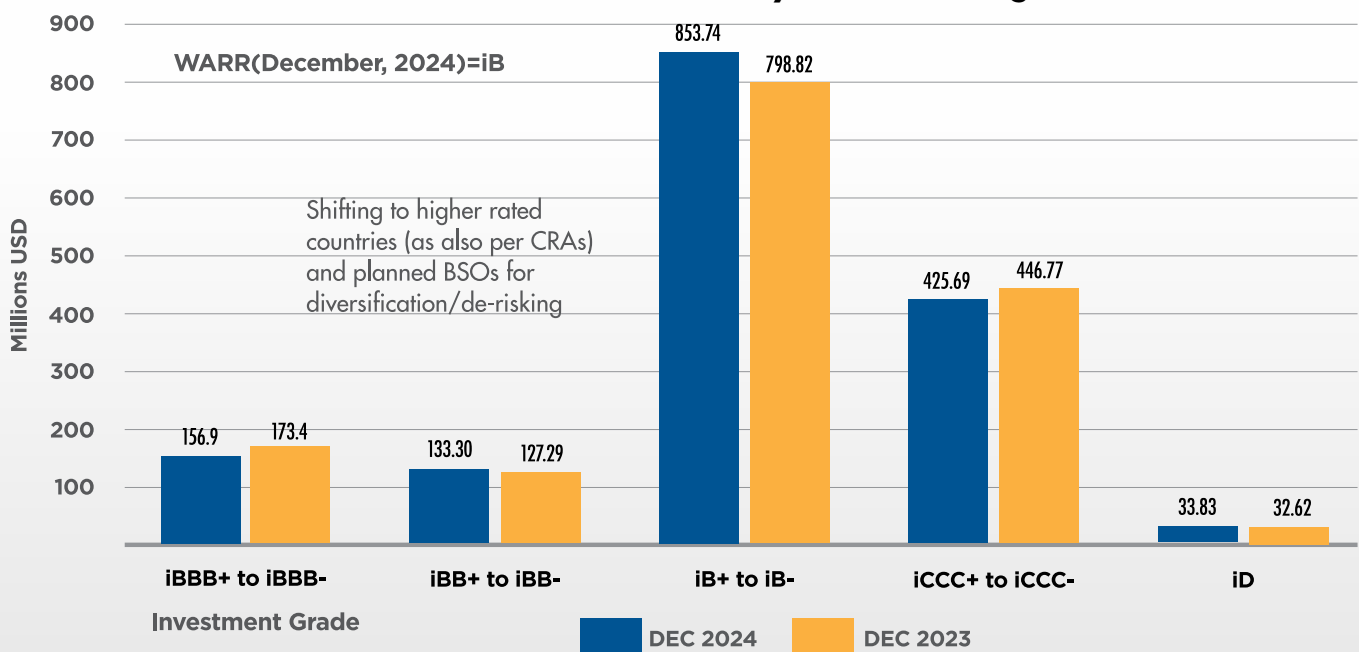
The Office of Risk Management (ORM) upscaled CDB's Enterprise Risk Management Framework, ensuring a structured and systematic approach to risk governance. This framework remains central to the Bank's ability to assess and mitigate risks while supporting strategic decision-making. In 2024, CDB completed its Enterprise Risk Taxonomy, establishing

a comprehensive classification system for risk exposure. Additionally, the development of the Risk Rating Criteria standardised risk assessments, enabling more robust, data-driven decision-making. The Bank also finalised its Enterprise Risk Assessment process, further strengthening its ability to proactively manage risks.

### Mitigating Market and Liquidity Risks

CDB actively managed market risks, including interest rate volatility and foreign exchange fluctuations, by employing dynamic hedging strategies and making strategic balance sheet adjustments. The Bank applied hedge accounting frameworks to minimise currency and interest rate mismatches, preserving asset value and ensuring financial stability. Stringent liquidity risk management measures remained in place, with internal policy thresholds requiring a minimum of three years' net funding availability and robust liquidity reserves.

**Chart 5: OCR Portfolio Distribution by Internal Rating Classes**



### Ensuring Credit Risk Stability

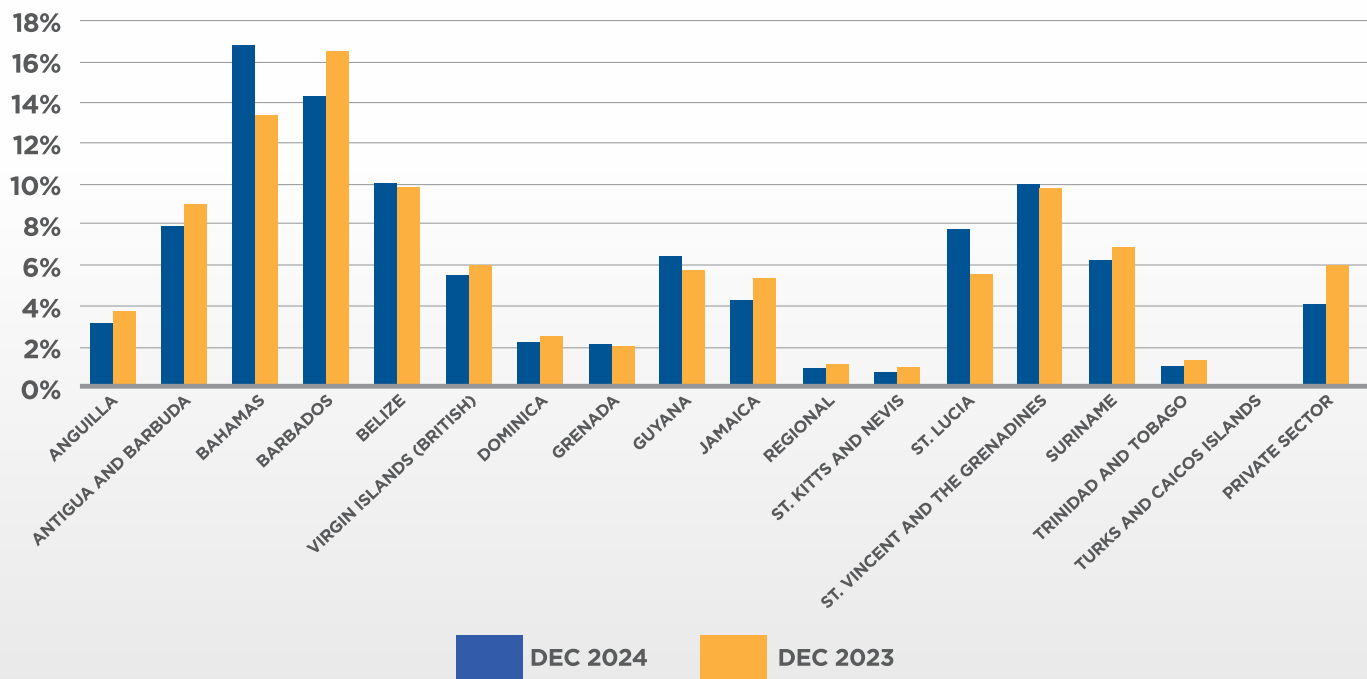
CDB maintained a stable credit risk profile through a disciplined credit risk assessment framework designed to protect against external shocks. The Weighted Average Risk Rating (WARR) for BMCs remained within the B category, reflecting moderate creditworthiness. To reduce single-borrower and sectoral concentration risks, the Bank diversified its loan portfolio and upheld rigorous standards for credit risk pricing, collateralisation, and exposure monitoring. Notably, CDB reported no non-performing loans in 2024, underscoring the effectiveness of its credit risk management approach. Moreover, the Bank expanded its private sector lending, with private sector exposure reaching 4.1% of total OCR exposure. Notably, CDB approved its

first non-OCR-funded geothermal project, a \$34.8 mn investment that highlights its commitment to sustainable energy financing.

### Managing Portfolio Concentration

CDB continued to address portfolio concentration risks by diversifying its lending portfolio while maintaining strong support for BMCs, with The Bahamas and Barbados representing the largest exposures at 16.8% and 14.3%, respectively. While Barbados saw a 13% reduction in exposure, The Bahamas experienced a 26% year-on-year increase. To further mitigate risks, the Bank prioritised approvals for stronger-rated BMCs and implemented targeted portfolio reviews to ensure a balanced distribution of new lending.

Chart 6: OCR Portfolio Exposure by Country



## Strengthening Capital Adequacy

CDB enhanced its capital adequacy framework by developing a new economic capital model, which underwent initial testing in 2024 and is scheduled for full implementation in 2025. The Bank's capital adequacy remained strong, with the S&P RAC ratio increasing to 29.7%, while the internal RAC ratio stood at 26%. The equity-to-total-assets ratio rose to 45.2%, reinforcing the Bank's capacity to absorb financial shocks. Additionally, CDB formalised its callable capital framework, further strengthening its ability to leverage additional financial resources when needed.

## Optimising the Balance Sheet

To enhance capital efficiency and expand lending capacity, CDB advanced its balance sheet optimisation initiatives in line with global best practices. Key developments in 2024 included the following:

- **Exposure Exchange Agreement:** CDB is pursuing an Exposure Exchange Agreement to facilitate the synthetic exchange of top sovereign exposures, reducing concentration risks and improving portfolio diversification.
- **Portfolio Credit Guarantee:** The Bank is exploring a Portfolio Credit Guarantee to provide credit protection on sovereign exposures, lowering capital requirements while preserving its preferred creditor status.

These initiatives align with MDBs' best practice risk transfer mechanisms and the recommendations of the G20 CAF Report, reinforcing financial stability and strengthening the Bank's ability to support development financing.

## Enhancing Operational Risk Management

As part of the operationalisation of the new Enterprise Risk Management Framework (ERMF), the Bank has undertaken significant reforms to strengthen its operational risk management practices. Key developments include the introduction of new risk

criteria and an expanded risk taxonomy that captures Level 2 and Level 3 risks, along with their associated risk drivers. Operational risk procedures, tools and systems have been updated under a structured multi-year implementation plan to be led by the Operational Risk Officer. These enhancements are designed to improve the Bank's ability to identify, assess and manage operational risks in a more comprehensive and proactive manner. In alignment with the Risk Management Roadmap, the Bank will also initiate efforts in 2025 to refine its approach to developmental risk management, thereby further embedding risk oversight into both strategic and operational decision-making.

## Integrating Sustainability Risk Management

Recognising the growing impact of climate-related risks, CDB is developing a sustainability risk management framework to enhance resilience and risk-informed decision-making. This framework aligns with the recommendations of the Task Force on Climate-related Financial Disclosures and integrates environmental, social, and governance principles into the Bank's risk management approach.

The Bank identified key sustainability risks, including the following:

- Environmental risks such as rising sea levels, extreme weather events, and biodiversity loss
- Social risks including inequalities in resource access, migration pressures, and community resilience challenges
- Governance risks related to regulatory compliance, institutional capacity, and transparency

To address these risks, ORM conducted a climate-contingent survey across BMCs, assessing the feasibility of incorporating climate-contingent clauses into financing arrangements. These efforts position CDB at the forefront of climate risk management, ensuring its operations remain sustainable and responsive to emerging global challenges.

**Table 1- Policy Ratio Analysis:**

CDB RISK MEASURES & POLICY RATIOS SCORECARD		RAG STATUS			
		THRESHOLD	DEC 2023	DEC 2024	RAG STAUS
<b>CAPITAL ADEQUACY</b>					
Risk Adjusted Capital <sup>8</sup>		<b>24%</b>	25.6%	26.0%	✓
<b>CREDIT RISK</b>					
SINGLE SOVEREIGN EXPOSURE	<b>GREATER OF:</b>				
	40% of Outstanding Loans	<b>40%</b>	15.9%	16.7%	✓
	50% of Total Available Capital	<b>50%</b>	22.6%	24.3%	✓
EXPOSURE TO 3 LARGEST BORROWERS	60% Of Outstanding Loans	<b>60%</b>	40.1%	39.9%	✓
	90% of Total Available Capital	<b>90%</b>	56.9%	58.0%	✓
NON-SOVEREIGN EXPOSURE LIMIT	<b>GREATER OF:</b>				
Single Exposure	6% of Total Available Capital	<b>6%</b>	3.5%	3.2%	✓
Portfolio Limit	43% of Total Available Capital	<b>43%</b>	7.5%	6.6%	✓
<b>INVESTMENT RISK</b>					
Single Entity Limit	Maximum - 10% of Total Investment Portfolio	<b>10%</b>	2.1%	3.3%	✓
Single Entity Limit - US Treasury or Government Agency	Maximum - 35% of Total Investment Portfolio	<b>35%</b>	27.5	28.6%	✓
Commercial Entity Exposure Limit	Maximum - 50% of Total Investment Portfolio	<b>50%</b>	28.7%	28.8%	✓
<b>LIQUIDITY RISK</b>					
LIQUIDITY RISK	<b>GREATER OF:-</b>				
	40% of Undisbursed & Loans not yet effective	<b>40%</b>	129.1%	148.6%	✓
	3 Years of Net Funding Requirements	<b>100%</b>	114.2%	162.2%	✓
Policy Based Loans & Guarantees	Maximum - 38% of Total Outstanding Loans & Guarantees	<b>38%</b>	33.1%	33.5%	✓
Limit on Operations (Article 14.1)	Equal to or less than Limit	<b>100%</b>	62.5%	64.7%	✓
Borrowing Limit – Proforma	Equal to or Less than 100% Capital Limit (as defined)	<b>100%</b>	66.1%	63.1%	✓
Borrowing Limit – Capitalisation	Equal to or Less than 65% of Capitalisation	<b>65%</b>	50.2%	49.0%	✓

### Maintaining Compliance with Risk Policies

As of December 31, 2024, CDB remained fully compliant with its internal risk policy thresholds. The S&P RAC ratio exceeded the 24% internal limit, standing at 29.7%<sup>9</sup>, affirming the Bank's strong capital adequacy position. International credit rating improvements in Barbados, Belize, Jamaica and Suriname contributed to this performance, alongside continued portfolio

diversification efforts. In addition, Guyana and St. Kitts and Nevis received internal rating upgrades, reflecting their strong economic performance.

Through proactive risk management and strategic financial planning, CDB continues to strengthen its ability to navigate uncertainties, sustain its development mandate, and enhance its resilience in an evolving global financial environment.

<sup>8</sup> Internal RAC Ratio

<sup>9</sup> based on RAC calculation by S&P in their 2024 Rating Review