
A full list of rating actions is at the end of this rating action commentary.
medium-risk, which does not translate into any adjustment to the solvency and liquidity assessments.

**Excellent Capitalisation:** CDB's solvency assessment is supported by the bank's 'excellent' capitalisation. As of end-September 2022, the bank's equity-to-adjusted-assets and guarantees ratio was 43.0%, comfortably above the 25% threshold for an 'excellent' assessment. Fitch's usable capital to risk-weighted assets ratio was 62.5%, also well above the 35% threshold for an 'excellent' assessment. These metrics are broadly in line with pre-pandemic levels, which highlights the limited impact of the pandemic on the bank's capitalisation, given strong loan performance and the bank's recourse to off-balance sheet concessional financing.

**Resilient Loan Performance:** The performance of CDB's loan portfolio continues to exceed our previous expectations, with no new non-performing loans (NPLs) incurred since the start of the Covid-19 crisis. The bank's overall NPL ratio is 'very low' (defined as less than 1%), with no sovereign arrears and only one non-sovereign NPL, accounting for 0.1% of loans at end-September 2022.

**Very High Liquidity:** Fitch assesses CDB's liquidity at 'aaa'. This is driven by the bank's 'excellent' liquidity buffers (coverage of short-term debt was 8.0x at end-Sept22) and the 'excellent' credit quality of the bank's treasury portfolio. Fitch expects the bank to continue to operate with large and high-quality liquidity buffers. Conservative policies on asset liability management, and the long-term and staggered structure of its borrowings should support the liquidity buffer remaining well above the 1.5x threshold we deem as 'excellent' over the medium term.

**Concentration Remains Key Rating Constraint:** CDB's five largest borrowers accounted for 53.3% of total banking exposures at end-2022 (54% at end-June 2021). This is a 'moderate' level based on Fitch's Supranational Rating Criteria. However, Fitch notes that concentration risk is inherently higher than peers with comparable metrics, given the geographical proximity and correlation between BMCs' economies. Fitch expects concentration risk to marginally decline over the medium term as the bank targets loan portfolio diversification towards higher-rated sovereigns.
against its vulnerability to external shocks due to its heavy reliance on tourism, high public debt levels and limited appetite for domestic debt from local commercial banks.

This rating serves as an input into Fitch's calculation of CDB's average rating of loans (noting that Barbados accounted for 18% of total loans at end-2022) as well as in Fitch's assessment of CDB's operating environment.

**Business Environment 'Medium Risk':** Fitch continues to assess CDB's business profile as 'medium risk', given the size of its banking portfolio (USD1.4 billion at end-Sept 2022), its sovereign lending focus (94% of total banking exposure at end-Sept 2022) and high governance standards. The importance of CDB's public mandate further contributes to this assessment. CDB's operating environment is also assessed as 'medium risk', reflecting the relatively weak credit quality and moderate income levels in its countries of operations.

**Support Assessment Unchanged:** Given the bank's SCP, our assessment of support is not a rating driver for CDB. Our assessment of support (bbb-) is unchanged from last year and reflects stability in the ratings of CDB's key shareholders, which Fitch defines as those shareholders that own the largest shares of callable capital and whose cumulative ownership accounts for at least 50%. The high ratio of paid-in to total capital (22%) is evidence of the importance of the bank for the shareholders. This translates into a 'strong' propensity to support.

**RATING SENSITIVITIES**

**Factors that could, individually or collectively, lead to negative rating action/downgrade:**

- **Solvency (Risk):** An increase in credit risk potentially leading to sovereign arrears and/or higher NPLs in the non-sovereign loan book leading to a rise in the NPL ratio above the upper bound 'very low' risk threshold of 1%. Increased concentration risk, driven by a rise in the share of existing exposures and/or increased exposure to sovereigns in financial distress, would also be negative for the rating.
- **Liquidity**: Significant reduction in liquidity buffers and/or continued decline in the credit quality of the bank's treasury portfolio with the share of 'AAA'-'AA' rated assets in the treasury portfolio falling close to 40%.

**Factors that could, individually or collectively, lead to positive rating action/upgrade:**

- **Solvency (Risk)**: A material improvement in concentration and credit risk, potentially driven by greater exposure to higher rated borrowers.

**BEST/WORST CASE RATING SCENARIO**

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [https://www.fitchratings.com/site/re/10111579](https://www.fitchratings.com/site/re/10111579).

**REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING**

The principal sources of information used in the analysis are described in the Applicable Criteria.

**ESG CONSIDERATIONS**

CDB has an ESG Relevance Score of '4[+]' for Human Rights, Community Relations, Access & Affordability. CDB provides grants funded by donor contributions and that are a significant part of the bank's business model. CDB has also acted as a lender of last resort to countries that had lost market access. This supports CDB's policy importance. This has a positive impact on the credit profile, and is relevant to the ratings in conjunction with other factors.
Caribbean Development Bank has an ESG Relevance Score of '4' for Policy Status and Mandate Effectiveness. Geographically concentrated exposure to small Caribbean islands with economies largely interconnected and highly vulnerable due to large tourism exposure and risk of natural disasters. This has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

CDB has an ESG Relevance Score of '4' for 'Rule of Law, Institutional and Regulatory Quality'. All supranationals attract a score of '4'. Supranationals are neither subject to bank regulation nor supervised by an external authority. Instead, supranationals comply with their own set of rules. Fitch pays particular attention to internal prudential policies, including compliance with these policies.

CDB has an ESG Relevance Score of '3' for 'Exposure to Environmental Impacts'. Environmental risk is a key risk to CDB's borrowers but this is actively managed by the bank. CDB has set up (with other partners, such as the World Bank) an insurance vehicle against natural disasters and requires its sovereign borrowers to acquire minimum insurance cover. CDB has never suffered a loss due to the realisation of environmental risk.

Except for the matters discussed above, the highest level of ESG credit relevance, if present, is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or to the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg).

**RATING ACTIONS**

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APPLICABLE CRITERIA
Supranationals Rating Criteria (pub. 11 Apr 2022) (including rating assumption sensitivity)

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Dodd-Frank Rating Information Disclosure Form
Solicitation Status
Endorsement Policy

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