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	Rating	Outlook
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Caribbean Development Bank – Aa1 stable

Annual credit analysis

OVERVIEW AND OUTLOOK

The credit profile of the Caribbean Development Bank (CDB) reflects its strong capital adequacy ratios, higher liquidity levels than most of its multilateral development bank (MDB) peers, and strong financial support from borrowing and non-borrowing members, as reflected in its most recent general capital increase, which was successfully concluded in 2016. The credit profile is also supported by its preferred creditor status, which has ensured a strong repayment performance even from borrowing members that have gone through debt restructurings in recent years, and a strong governance and risk management framework.

CDB's strengths are balanced against the relatively weak average credit quality of its borrowing member countries and high borrower concentration. With its entire lending portfolio dedicated to the low-growth, high credit risk Caribbean, CDB is one of the most highly exposed to regional credit risk in the MDB rated universe. While it has never had nonperforming loans from its public sector lending, a handful of its borrowing member countries have entered into debt restructurings in the last decade.

The credit profile could face upward pressure if the average quality of the CDB's borrowers were to improve materially and the concentration of its loan book were to decline significantly. Given the banks mission to serve the Caribbean, coupled with the economic and financial challenges facing the region, we view this as unlikely in the medium term, notwithstanding management's plans to increase lending to higher rated members.

Conversely, the credit profile could face downward pressure if the bank's capitalization and/or liquidity metrics were to deteriorate materially. Such a deterioration could emerge as a result of significant losses or impairments on the bank's loan portfolio, or if the bank fails to comply with or weaken its prudential financial policies. Evidence of waning support from non-regional members and donors would likely also place downward pressure on the rating.

This credit analysis elaborates on the CDB's credit profile in terms of capital adequacy, liquidity and funding and strength of member support, which are the three main analytical factors in Moody's Supranational Rating Methodology.

Organizational structure and strategy

The Caribbean Development Bank (CDB) is a multilateral lending institution founded in 1969 and headquartered in Barbados (Caa1 stable). The bank's purpose is to contribute to the economic growth and development of its Caribbean member countries and to promote their economic cooperation and integration. The CDB has developed a particular niche in assisting less developed Caribbean members, where often the bank is the only source of borrowing. With a loan portfolio of $1.4 billion, the CDB is one of the smaller of the MDBs we rate. Because of its relatively small size, the CDB focuses on having a greater economic impact in smaller countries than in larger economies where other MDBs can provide more funding.

The CDB makes loans to its borrowing member countries (BMCs) from its Ordinary Capital Resources (OCR) and from various other concessional funds, which make up its Special Funds Resources (SFR), which was established to provide resources on concessional terms primarily for poverty reduction. The resources, assets and liabilities of the OCR, which account for about 60% of total lending, and the SFR are completely segregated. While the OCR is funded by a combination of debt and equity, the Special Development Fund (SDF), which is part of the SFR and the largest pool of concessionary resources, is replenished every four years through a mix of the SDF's internally resources, member countries and other external contributors. Though the SFR may be partially funded with allocations from the net income of the OCR (which are subject to governor approval), the SFR has no recourse to OCR resources. Our rating only applies to the CDB's OCR operations. As such, these are referred to as the CDB in this report.

The CDB has 18 founding member countries – 16 regional states and autonomous dependent territories of the United Kingdom (UK, Aa3 stable), and two non-regional countries. There are currently 28 members: 23 regional countries and five non-regional countries Canada (Aaa stable), China (A1 stable), Germany (Aaa stable), Italy (Baa3 stable) and the UK. Brazil (Ba2 stable) became the CDB's 28th member, and the fourth non-borrowing regional member, joining Colombia (Baa2 negative), Mexico (Baa1 negative) and Venezuela (unrated) in that category in December 2015. The most recent borrowing member is Suriname (Caa3 negative), which joined as a regional borrowing member in 2013. The CDB is also in discussions with some regional states and territories and it continues to actively pursue the expansion of its membership base beyond the Caribbean.

All powers are vested in the Board of Governors, where each member country is represented by a governor or an alternate, except for Anguilla, British Virgin Islands, Cayman Islands (Aa3 stable), Montserrat, and the Turks and Caicos Islands, which are considered as a single member for this purpose. Provided there is a quorum, most decisions of the Board of Governors are determined by a majority of the voting power of the members represented at the meeting, unless otherwise specified. Each member's voting power is directly related to its relative share of the bank's capital. Amendments to the bank's charter require a vote of not less than two-thirds of the total number of governors representing not less than three-fourths of the total voting power of the members. At its annual meeting, the bank's Board of Governors determines how to allocate net income. However, the CDB does not pay dividends to its member countries.

Office of Risk Management continues improving governance and risk management

The Board of Directors established a governance framework for the bank by setting up a risk management function and risk appetite framework, with underlying policies and procedures. Since 2013, the bank has successfully implemented a comprehensive risk management framework with underlying policies and procedures, and fully integrated it into its operational structure. The independent risk management function is headed by a Chief Risk Officer (CRO) who has direct access to the board and is responsible for developing the bank's risk assessment methodology and limit setting, as well as oversight of risk reporting and control. The bank's Office of Risk Management (ORM) manages and monitors all aspects of risk that the bank faces, such as strategic, financial, developmental and operational (including reputational) risk, governed by the bank's policies and procedures. Risks are identified, measured and managed in accordance with the bank's approved policies and risk objectives. The operational risk pillar of the framework was extended by the ORM to include environmental, climate and disaster risk management, given the bank's increasing visibility and importance to the region's sovereign risk profile.

The bank has formed an Enterprise Risk Committee (ERC) chaired by the CRO and composed of representatives of senior management from across the organization. The ERC's remit covers the gamut of risks faced by the organization. In particular, the ERC is responsible for the oversight of the bank's asset and liability management, liquidity, loan portfolio performance, capitalization and investment strategy. The bank is also in the process of significantly enhancing its risk reporting as part of this overhaul.

The bank has also developed a Risk Appetite Statement (RAS), which sets out high-level quantitative and qualitative boundaries or thresholds within which the bank's strategic initiatives are executed. The CDB's financial policies are designed to ensure that the bank maintains adequate levels of capital and liquidity while keeping leverage manageable and lending rates as low as possible. The bank continued to maintain its Enterprise Risk Management (ERM) approach with coverage including financial, strategic, operational and developmental risks. The ERM framework continues to be supported by key risk governance tools including RAS; Risk Taxonomy, Risk Control Self Assessments; Risk Registers and ERC. The bank has materially enhanced its risk reporting as part of this overhaul.

All loan proposals are recommended by the president for approval by the board, having first been technically appraised by staff and subject to the overall lending limits established by the board, compliance with which is being enforced by the CRO. The board's Oversight and Assurance Committee assesses the functions related to the ORM, Office of Independent Evaluation, Internal Audit Division, and the Office of Integrity, Compliance, Accountability. This office covers institutional integrity, compliance (AML/CFT and financial sanctions), ethics, whistle-blowing, and project accountability. All of these independent offices report to the Board of Governors.

CREDIT PROFILE

Our determination of a supranational's rating is based on three rating factors: capital adequacy, liquidity and funding and strength of member support. For Multilateral Development Banks, the first two factors combine to form the assessment of intrinsic financial strength. Additional factors that can impact the intrinsic financial strength, including risks stemming from the operating environment or the quality of management, are also considered. The strength of member support is then incorporated to yield a rating range. For more information please see our Supranational Rating Methodology.

Capital adequacy score: aa3

Factor 1: Capital adequacy

Scale	aaa	aa1	aa2	aa3	a1	a2	a3	baa1	baa2	baa3	ba1	ba2	ba3	b1	b2	b3	caa1	caa2	caa3	ca	c	
+				Assigned																		-

Sub-factor scores	
Capital position	aa2
Development asset credit quality	ba
Asset performance	aaa

Capital adequacy assesses the solvency of an institution. The capital adequacy assessment considers the availability of capital to cover assets in light of their inherent credit risks, the credit quality of the institution's development assetsand the risk that these assets could result in capital losses.

Note: In case the Adjusted and Assigned scores are the same, only the Assigned score will appear in the table above.

The CDB's "aa3" capital adequacy score reflects its "aa2" capital position and our expectation that leverage will remain stable over the coming years. The capital adequacy score also incorporates a "ba" development asset credit quality (DACQ), which reflects the CDB's regional developmental mandate and highly concentrated lending portfolio with high exposure to low-credit-quality sovereigns in the Caribbean. Nonetheless, CDB's asset performance is set to "aaa" and remains very strong, with nonperforming assets (NPAs) at just 0.1% of the total portfolio. Other MDBs with an "aa3" capital adequacy score include the Asian Development Bank (ADB, Aaa stable) and the Gulf Investment Corporation G.S.C. (GIC, A2 stable).

Capital adequacy will remain strong…

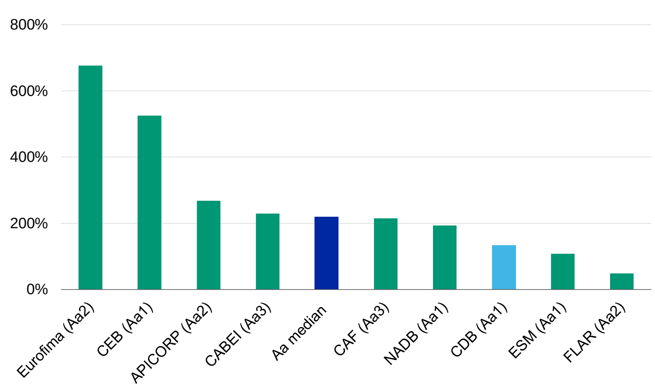
When assessing an MDB's capital adequacy, we look at the bank's loss-absorption capacity provided by its own usable equity in the face of shocks that may impair its assets, measured by the leverage ratio – the ratio of development-related assets (DRA) to useable equity.

The CDB's leverage ratio has risen marginally since 2017 after steadily declining between 2010 and 2016. Following CDB's 2010 general capital increase, the bank's leverage improved steadily through 2016, outperforming both the Aa and Aaa medians. However, leverage rose to 136.7% in 2020, up from its 2016 low of 113.2% as stronger growth in the loan portfolio outpaced paid-in capital contributions, which have slowed over the last three years.

Exhibit 1

CDB's leverage is below the median for Aa-rated peers

DRA/equity, % 2018-20 average



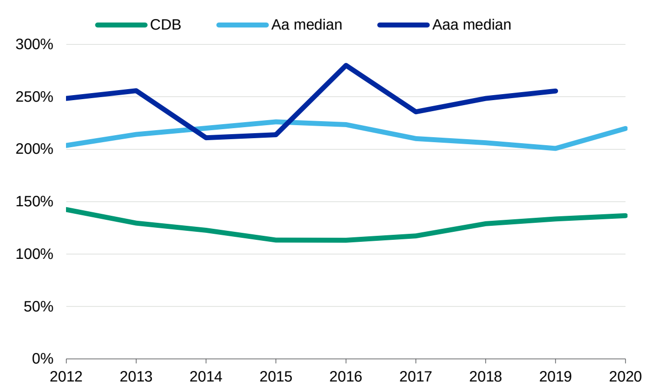
Note: Aa and Aaa medians use 3-year average

Sources: CDB and Moody's Investors Service

Exhibit 2

CDB's leverage has increased marginally since 2017

DRA/equity, %



Sources: CDB and Moody's Investors Service

Relative to its peers, the CDB continues to record a strong capital position. CDB's development-related assets averaged only 127% of usable equity, one of the lowest leveraged MDBs among Aa-rated supranationals (see Exhibit 1). While we expect this ratio to increase over the next two to three years as the CDB ramps up lending operations to support the region during the pandemic, it will likely remain comfortably below both the Aa and Aaa medians (see Exhibit 2).

...despite low development asset credit quality and high exposure to high-risk borrowers in the Caribbean

The CDB's comparatively low leverage is counterbalanced by the bank's low DACQ score, which is set to "ba" and primarily reflects the bank's high exposure to low-credit-quality borrowers. The CDB's weighted average borrowing rating (WABR) improved slightly to Caa1 in 2020, up from Caa2 the year prior, as the bank ramped up its lending operations to the Bahamas (Ba2 negative). Increased lending support for the Bahamas was driven by a combination of the government's increased need for concessional financing in the wake of the global pandemic as well as the CDB's ongoing portfolio diversification efforts. Despite this modest improvement, the overall credit quality of the CDB's loan portfolio remains low and will likely be constrained by the relatively low-rated sovereigns in the region. The CDB's low WABR underpins our DACQ score of "ba."

As a regional development bank, the CDB's mandate is limited to a region where several sovereigns have exhibited decreasing creditworthiness, or in some cases have needed to restructure their debt obligations. Such is the case for some of the CDB's largest borrowers, including Barbados (19% of loans), Jamaica (9.0%) and Belize (Caa3 stable; 9%), which together account for nearly 40% of the CDB's lending operations. Although all three sovereigns have recent histories of default, the CDB has consistently remained outside the perimeter of debt restructuring operations, a reflection of the bank's preferred creditor treatment.

Portfolio diversification efforts will likely yield benefits over the next few years. The CDB's outstanding loans to Barbados peaked at 21% of the lending portfolio in 2019 and fell to just below 20% last year. Meanwhile, loans to Jamaica fell to just 9% of the portfolio, down from a quarter of all loans outstanding in 2013. This portfolio rebalancing was driven by CDB's diversification of its lending operations and the ramping up of disbursements to the Bahamas, which grew to about 8% of the lending portfolio last year, up from just 2% the year prior. Loans to Guyana (unrated) also helped rebalance the CDB's portfolio in 2020.

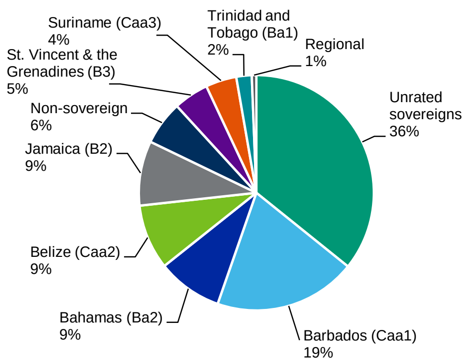
We expect lending to Barbados to continue to fall relative to the size of the total portfolio over the next few years as the CDB increases its support to other sovereigns in the region, but the country is likely to remain the bank's largest borrower for the foreseeable future. Although Barbados' tourism-dependent economy was hit hard by the global pandemic and its shuttering of international tourism flows, we believe the sovereign's early success with its IMF program, its favorable maturity profile and its adequate foreign reserve buffer reduce the likelihood of a re-default on its private debt. Like every other sovereign in the region, Jamaica has also been negatively impacted by the pandemic, but structural reforms undertaken before the shock will likely help shield the sovereign from material credit deterioration.

Notwithstanding steady improvements in Barbados' and Jamaica's institutional strength, their overall fiscal positions will continue to be negatively impacted by the pandemic and likely remain weak over the next two to three years, as international tourism flows take time to recover.

Other sovereigns in the CDB's portfolio have seen material credit deterioration, but we expect the CDB to remain exempt from debt restructurings. Last November, Belize's credit profile underwent two downgrades to Caa3 from B3 as a result of the pandemic's severe economic shock on the country's economy, which led to a structural deterioration in government finances, increased liquidity pressures and a reprofiling of the government's interest payments on its outstanding private debt. The pandemic has also had a deeply negative credit impact on Suriname, which was downgraded to Caa3 last July and accounts for about 4% of the CDB's portfolio. Although credit stress is likely to continue, the government reached an agreement for a multiyear funding program with the IMF in May, which we expect will catalyze additional multilateral financial support and support debt restructuring negotiations with private creditors.

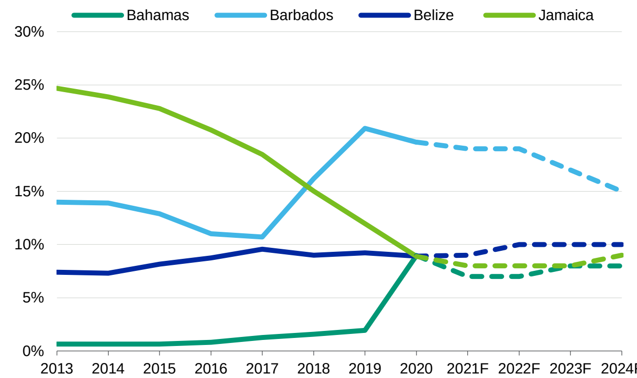
Despite increased credit stress, we expect them both to remain current on their relatively small obligations due to the CDB over the next two years, as Caribbean sovereigns in default have done in the past. Unrated borrowing member countries St. Kitts and Nevis and Grenada only account for about 5% of the loan portfolio but both defaulted on bond debt in 2013. Each remained current on obligations to the CDB throughout their defaults.

Exhibit 3
CDB's largest borrowers are low-rated
Loans outstanding, % of total (2020)



Sources: CDB and Moody's Investors Service

Exhibit 4
Diversification efforts will gradually reduce exposure to Barbados
Loans outstanding to four largest rated borrowers, % of total portfolio



Sources: CDB and Moody's Investors Service

Strong asset performance reflects preferred creditor status

Despite the aforementioned low borrower quality, the CDB's NPAs were very low at 0.1% of the total loan portfolio in 2020, down from a recent high of 1.1% in 2012. These NPLs stem from two loans disbursed to a private sector entity, the losses of which have been fully provided for and gradually recovered over the last few years. The CDB's low NPA ratio highlights the fact that even though some of its sovereign BMCs have defaulted on market debt, they are willing to remain current on their liabilities to the bank.

To date, the CDB has not experienced any public sector write-offs. The CDB provides funds for investments that are considered essential for its members' economic development, and arrears imply a loss of fresh CDB disbursements and reduced political standing for the debtor country. As such, members have generally sought to avoid arrears at all costs and thereby ensure that their relationships with the bank remain on good terms.

Consistent with practices of other MDBs, CDB's lending policy precludes the rescheduling debt obligations of its borrowing member countries. However, it is important to note that on several occasions the bank has used its SFR to refinance or restructure the OCR debt obligations of certain members. Management stresses that borrowers must make substantial fiscal adjustments before they will be considered for such treatment and the approval of the contributors to the bank's special resources is also required. Furthermore, these operations are generally limited to circumstances in which the cause of the member's financial distress was something outside its direct control, such as natural disasters.

The CDB maintains a strict arrears policy. Arrears start to accrue if payment is one day overdue. No loan to a borrower will be recommended to the Board of Directors if the borrower is in arrears or a loan guaranteed by the borrower is in arrears. After three months of arrears, disbursements can be suspended. Arrears of more than four months on a loan that a BMC guarantees can result in suspension of disbursements on all loans to or guaranteed by that BMC. The CDB also applies a late fee of 1% on all payments that are overdue.

High concentration due to regional mandate

The bank's mission to provide development support in the Caribbean region limits the geographical scope for its lending operations, resulting in a highly concentrated loan portfolio. To manage credit risks stemming from this concentration, the bank's exposure limits dictate that the maximum exposure it can have to its three largest borrowers is the greater of 90% of total available capital or 60% of outstanding loans. In addition, the bank applies exposure limits at the country level. As of December 2020, the bank's exposure remained below these limits (loans to its three largest borrowers are equal to 53.3% of total available capital or 37.5% of outstanding loans). Nonetheless, with its top 10 exposures representing 84% of the total loan portfolio, the CDB has one of the highest concentrations among Aa-rated MDBs.

The bulk of lending has been concentrated in the public sector, and all loans to government-owned entities carry a full sovereign guarantee. Most of the bank's loans are project based, but demand for its policy-based loans has increased considerably in recent years. Historically, the CDB has channeled approximately one-third of its lending to small and medium-sized enterprises (SMEs) through financial intermediaries owned by the host country governments. As such, this lending carries government credit risk.

After declining significantly, leverage increases in line with modest regional growth

The bank maintains conservative limits on total lending and borrowing to ensure that it does not become overleveraged. The charter limits the total amount of outstanding loans, equity investments and guarantees to 100% of the bank's unimpaired subscribed capital and retained earnings, net of receivables from members, derivatives, and the cumulative translation of YEN and CHF borrowings. As of the end of 2020, outstanding loans stood at 55.1% of subscribed capital and net retained earnings, down from an average of more than 70% from 2006 to 2010, due to the general capital increase.

The bank's borrowing limit is even more restrictive than its overall lending limit. The borrowing limit only permits the bank to borrow against paid-in capital, net retained earnings and the callable capital of its investment grade non-borrower members, though we note that this policy is not in the bank's charter as is the case with the lending limit. Nevertheless, the bank has modest headroom for additional borrowing. As of the end of 2020, borrowings equaled 84.7% of the limit.

A combination of debt issuance and bilateral lending arrangements with partner MDBs, including the European Investment Bank (EIB, Aaa stable) and the Inter-American Development Bank (IADB, Aaa stable), have driven leverage up slightly since 2016. In December 2019, the bank concluded its inaugural borrowing in the German capital market, with the issuance of a $275 million 20-year bond, its longest dated borrowing. We expect this additional financing to fund the projected growth of the loan portfolio over the next few years, driving the bank's leverage ratio close to the Aa median over time.

Liquidity and funding score: aa2

Factor 2: Liquidity and funding

Scale	aaa	aa1	aa2	aa3	a1	a2	a3	baa1	baa2	baa3	ba1	ba2	ba3	b1	b2	b3	caa1	caa2	caa3	ca	c	
+			Assigned																			-

Sub-factor scores

Liquid resources	**aaa**
Quality of funding	**aa**

An entity's liquidity is important in determining its ability to meet its financial obligations. We evaluate the extent to which liquid assets cover net cash flows over the coming 18 months and the stability and diversification of the institution's access to funding.
Note: In case the Adjusted and Assigned scores are the same, only the Assigned score will appear in the table above.

The CDB's "aa2" liquidity and funding is supported by a strong liquidity coverage that scores "aaa" and a quality of funding assessment of "aa." The CDB's "aa2" liquidity score is in line with the Council of Europe Development Bank (CEB, Aa1 stable) and Eurofima (Aa2 stable).

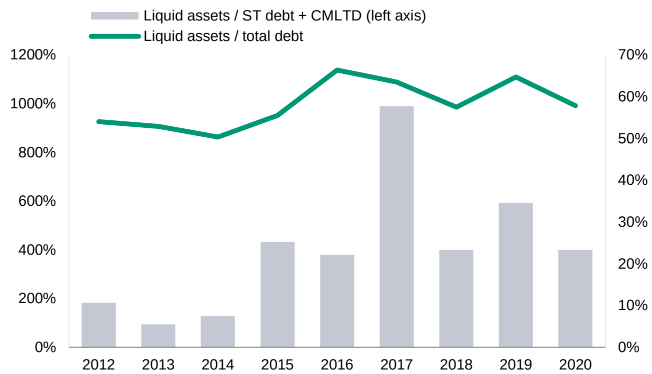
Continued compliance with liquidity policy has led to stronger liquidity position

The CDB's liquidity policy requires the bank to maintain liquid assets equivalent to the greater of (1) 40% of undisbursed loan commitments and loans not yet effective (comprising loans approved by the Board for which all conditions precedent have not yet been met) of $617 million in 2020 (2019: $660 million) or (2) three years of net funding requirements of $489 million in 2020 (2019: $538 million), including bond amortization payments. Given the small size of the bank and its high degree of geographic concentration, a conservative liquidity policy is appropriate despite the associated cost. The risk management framework is fully operational to ensure compliance with the bank's internal policies and risk management guidelines. As a result, we do not anticipate liquidity pressure in meeting payment obligations associated with its financial liabilities going forward.

We assess CDB's liquidity coverage to be strong in case of a stress scenario, which would include the bank not being able to tap financial markets. CDB's liquid resources ratio, which is the ratio of high-quality liquid assets to net outflows from uninterrupted net loan disbursements, debt repayment and administrative costs, scores "aaa" and reflects the bank's holding of enough assets to sustain its functioning for more than 18 months.

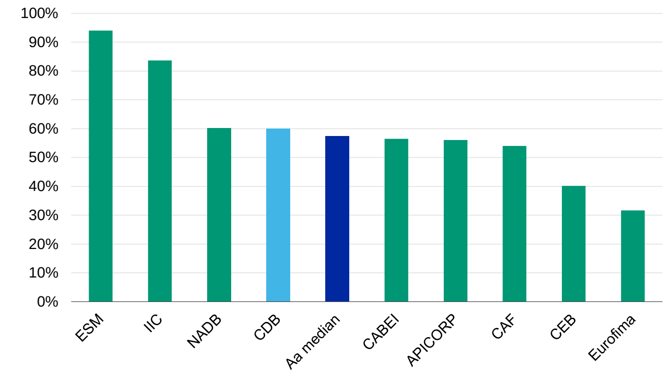
The CDB's liquidity position is strong relative to peers. On average, total liquid assets provided more than four times coverage of short-term and currently maturing long-term debt since 2015, reflecting a relatively modest debt stock and a favorable maturity profile (see Exhibit 5). Similarly, CDB's stock of liquid assets represented about 61% of total debt over the last five years, the third highest in the Aa-rated MDB universe, after the Inter-American Investment Corporation (Aa1 stable) and the European Stability Mechanism (Aa1 stable; see Exhibit 6). Overall, liquidity has steadily improved since its refinancing operation in 2016, with liquid assets totaling $633 million in 2020, up from $435 million in 2016 (a 45% increase).

Exhibit 5
CDB's liquid assets provide strong coverage of current obligations and the debt stock
Liquid assets, % of short-term obligations and % of total debt



Sources: CDB and Moody's Investors Service

Exhibit 6
CDB's liquidity compares favorably to most Aa-rated peers
Liquid assets, % of total debt (2018-20 average)

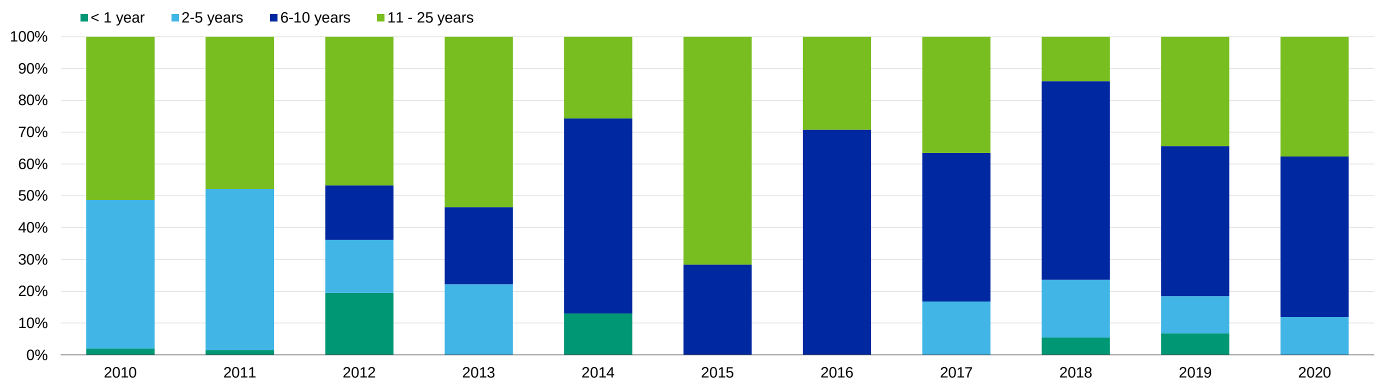


Source: Moody's Investors Service

Liability management operations have significantly reduced rollover risk

The CDB tapped global markets to refinance maturities in 2012 and 2016. In the process, the bank was able to reduce front-loaded debt repayments. Proceeds of the 2012 issuance were used to repay debt due in 2013 and 2014, and proceeds from the 2016 issuance were used for liquidity funding. This effectively pushed almost all maturities beyond five years at the time, with only $131 million (about 12% of total borrowings) due over the next five years as of the end of 2020 (see Exhibit 7). The next bullet payment is due in 2022.

Exhibit 7
Less than 15% of debt matures in the next five years, limiting rollover risk
Debt maturity by years, % of total



Sources: CDB and Moody's Investors Service

Multiple currency bond placements at low interest rates indicate strong market access

We assess the CDB's quality of funding as “aa” because of demonstrated capital market access in multiple currencies and at low cost.

The CDB's latest issuance in the capital markets took place in December 2019, when the CDB issued a EUR250 million, 20-year bond in the German market at an annual interest rate of only 0.875%. The issuance, which represents one of the bank's longest-dated borrowing thus far, marks the CDB's first foray into the German market and is an effort to further diversify its investor base. The 2019 transaction confirmed the CDB's continued market access at low cost to support its operations and we expect it to benefit from similarly advantageous pricing going forward.

Prior to this transaction, the CDB raised CHF145 million through the placement of a 12-year bond in the Swiss market in 2016 as part of its liquidity management strategy. At 0.297%, the 12-year bond offering in the Swiss market had the lowest coupon rate among international public sector issuers for this tenor in the Swiss franc market. In 2012, the bank raised $300 million through the placement of a 15-year bond in the US market. The latest issuance attests to the CDB's strong position in accessing the international capital market.

Overall, the CDB's outstanding market debt includes 5 instruments:

» 4.35% Notes - Yen ($60 million due in 2030)

» 2.75% Notes - Yen ($115 million due in 2022)

» 4.375% Bonds - USD ($300 million due between 2023-27)

» 0.297% Bonds - CHF ($150 million due in 2028)

» 0.875% Notes - EUR ($280 million due in 2039)

More recently, the CDB has leaned on its revolving loans and lines of credit from partnerships with other MDBs. The CDB has two revolving loans from the EIB and the IADB. It also has access to two lines of credit from the EIB (which expire in 2022-23), a $115 million line and a $65 million line designated specifically for climate change projects, the latter of which was drawn down on to finance projects in 2020. The CDB also benefits from a $33 million line of credit from Agence Francaise de Developpement (AFD) and a $40 million line from a highly rated commercial bank, the latter of which has a maximum limit of $75 million approved by the Board. The CDB is seeking another counterparty to conclude an agreement for the unutilized balance to meet its diversification strategy.

Qualitative adjustments

Qualitative adjustments to intrinsic financial strength

Adjustments	
Operating environment	-1
Quality of management	0

The capital adequacy and liquidity and funding factors represent the key drivers of our assessment of an institution's intrinsic financial strength (IFS). However, assessments of the operating environment and the quality of management are also important components of our analysis. To capture these considerations, we may adjust the preliminary IFS outcome that results from the capital adequacy factor and the liquidity and funding factor. The result of this analysis is the adjusted IFS outcome.

In our credit assessment of MDBs, we also take into account several other factors such as an MDB's operating environment and the quality of its management, including risk management.

Among these factors, we apply a "-1" adjustment for the operating environment, reflecting the CDB's lending exposure to the Caribbean region, which represents a challenging macro-fiscal environment, with a number of highly indebted sovereigns facing persistently low growth, some of which have histories of default on private debt.

The CDB's operating environment became more challenging in 2020 given the region's unique vulnerability to the severe macroeconomic shock caused by the coronavirus pandemic, which continues to have a deeply negative impact on economic activity and fiscal profiles for the region's tourism-dependent economies. While we expect asset performance to remain sound, the severe shock could undermine the CDB's track record of low NPAs.

As previously discussed, the CDB has conservative liquidity management policies and effective risk management practices. We make no adjustment for the quality of management.

Strength of member support score: High

Factor 3: Strength of member support

Scale	Very High	High	Medium	Low	Very Low
+		Assigned			-

Sub-factor scores

Ability to support	**ba2**
Willingness to support: Contractual	**aaa**
Willingness to support: Non-contractual	**Very High**

Shareholders' support for an institution is a function of their ability and willingness. Ability to support is reflected by the shareholders' credit quality. Willingness to support takes into consideration (1) the members' contractual obligations that primarily manifest in the callable capital pledge, a form of emergency support, and (2) other non-contractual manifestations of support to the institution's financial standing and mission. Strength of member support can increase the preliminary rating range determined by combining factors 1 and 2 by as many as three scores.

Note: In case the Adjusted and Assigned scores are the same, only the Assigned score will appear in the table above.

We assess the CDB's strength of member support as "High." The ability of the bank's membership to provide support – as proxied by the Ba2 weighted average shareholder rating (WASR) – is modest in our view, due to the balance between the CDB's high concentration of low-credit-quality shareholders from inside the region and the participation of relatively high-credit-quality sovereigns from outside the region, such as Canada and the UK. We also consider that the CDB's members have a very strong willingness to support the entity if support were required given the strong role of the CDB as a key development partner in the region.

Exhibit 8
Capital subscriptions
31 December 2020, $ millions

Regional members	FC government bond rating	Callable capital	Paid-in capital	Subscribed capital	Subscribed, % of total
Jamaica	B2/stable	227.7	64.0	291.7	16.5%
Trinidad & Tobago	Ba1/negative	227.7	64.0	291.7	16.5%
Bahamas	Ba2/negative	67.1	18.9	86.0	4.9%
Barbados	Caa1/stable	42.7	12.0	54.7	3.1%
Mexico	Baa1/negative	41.5	11.8	53.3	3.0%
Colombia	Baa2/negative	37.6	11.2	48.8	2.8%
Suriname	Caa3/negative	29.4	8.3	37.7	2.1%
Brazil	Ba2/stable	22.0	6.2	28.2	1.6%
Belize	Caa3/stable	10.1	2.8	13.0	0.7%
St. Vincent & Grenadines	B3/stable	10.1	2.8	13.0	0.7%
Cayman Islands	Aa3/stable	2.5	0.7	3.2	0.2%
Unrated		157.6	45.2	202.8	11.5%
Total regional		**876.1**	**248.0**	**1,124.2**	**63.7%**
Non-regional members					
Canada	Aaa/stable	122.4	34.4	157.0	8.9%
United Kingdom	Aa3/stable	122.4	34.4	157.0	8.9%
China	A1/stable	88.1	24.8	112.9	6.4%
Italy	Baa3/stable	83.1	23.5	106.5	6.0%
Germany	Aaa/stable	83.1	23.5	106.5	6.0%
Total non-regional		**499.0**	**140.7**	**639.9**	**36.3%**
Grand total		**1,375.1**	**388.5**	**1,763.6**	**100.0%**

Sources: CDB and Moody's Investors Service

The CDB's member base consists of borrowing regional developing members and non-borrowing members from inside and outside the region (see Exhibit 8). Although some of the borrowing members face significant credit challenges, the CDB's non-regional members are comparatively highly rated, which support the bank's Ba2 weighted average shareholder rating, a proxy for the ability of its membership base to provide extraordinary support to the bank, should it become necessary.

Shareholders' contractual support has diminished in recent years, but remains strong

As is the case with most MDBs, the CDB benefits from callable capital (CC), which can be used to pay down debt if called.

Shareholders' willingness to provide contractual support is very high as denoted by the CDB's large callable capital buffer, which provides full coverage of the bank's total debt stock. However, we note that callable capital coverage of the debt has diminished in recent years as the bank took on leverage to support the growth of its loan portfolio, with callable capital falling to 125% of total debt in 2019, down from a high of 250% in 2014. Nonetheless, the CDB's callable capital coverage of its debt stock remains more than twice the Aa median, which was about 40% last year (see Exhibit 9).

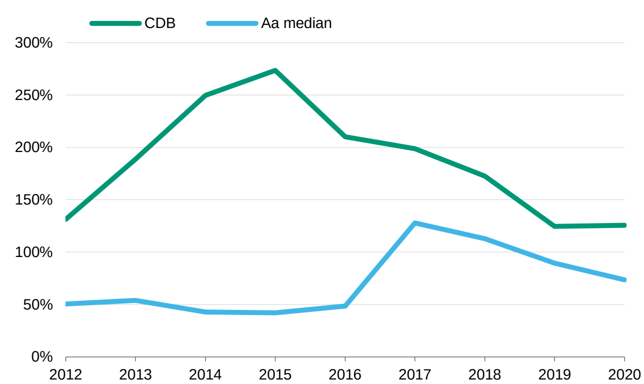
The credit quality of the callable capital buffer has also diminished over the last decade, as some of its investment-grade shareholders, like Trinidad and Tobago, Brazil and the Bahamas moved below investment grade. The proportion of CC that could be called upon from IG members has diminished commensurately, reaching 42% of total CC in 2020, down from nearly 70% in 2012 and below the Aa median (see Exhibit 10).

Nonetheless, the CDB's callable capital buffer remains a key credit support. Half of the CDB's investment-grade callable capital is provided by Canada and the UK, two sovereigns with strong credit quality and a history of demonstrated support for the bank, which we expect will persist. Meanwhile, although most of its BMCs are now rated below investment grade, 36% of the callable capital is provided by investment grade non-Caribbean members, which provides a modest buffer to the aforementioned weakening of its membership base. This distribution of ownership reduces the risks that could stem from a correlation between assets and members, which in turn improves members' ability to support the CDB.

Exhibit 9

CDB's callable capital is more than sufficient to cover its entire debt stock

Callable capital, % of total debt

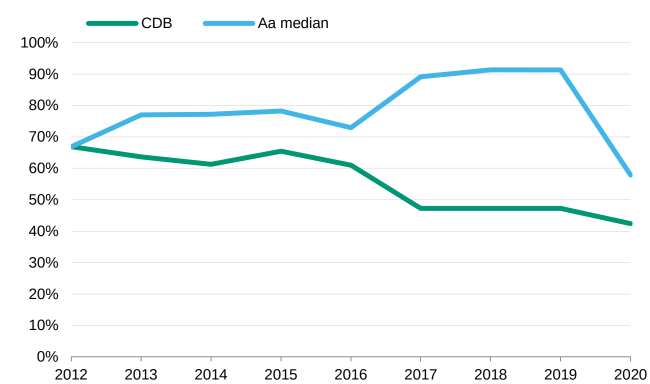


Sources: CDB and Moody's Investors Service

Exhibit 10

...but the credit quality of its membership base has weakened

Investment grade callable capital, % of total callable capital



Sources: CDB and Moody's Investors Service

Demonstrated willingness to provide non-contractual support supports our assessment

While the ability of many of its members to provide financial support may be limited, CDB shareholders' willingness to support the bank is very strong. The bank is a key development partner in the region and has a special relationship with its borrowing member countries, which collectively hold a majority of the bank's capital and therefore play an important role in determining its strategic direction. This influence drives their support for the institution and distinguishes it from many other MDBs.

Strong willingness to provide support is reflected in the May 2010 $1 billion general capital increase and the relatively high share of paid-in capital. The 2010 capital increase, the fourth since the bank's creation, increased subscribed capital by 150%. The capital increase was originally intended to enable the bank to finance planned increased lending in its 2010-14 strategic plan, but lending plans were scaled back considerably as a result of the lingering effects of the 2008 global financial crisis on the region's economies.

Nonetheless, the capital increase indicates that members remain supportive of the bank's mandate and are satisfied with its effectiveness in meeting that mandate.

Membership's non-contractual support for the CDB is also evidenced through regular donations to the bank's SDF, a subset of the SFR and the principal pool of concessional resources available to the CDB to assist BMCs in addressing poverty, sustainable development, governance, capacity development, gender inequalities, environmental sustainability, climate change, disaster risk management, and regional cooperation and integration. Between 1983-2019, pledged contributions to the SDF from the bank's membership and external entities amounted to $1.4 billion. In February 2021, contributors approved the 10th cycle of the SDF (SDF 10) for $383 million, just under half of which would be funded through donations by member countries for the 2021-24 period. The top five contributors to SDF 10 are: Canada ($59.7 million; 32% of donor contributions), the UK ($26.5 million; 14%), Germany ($13.7 million; 7%), Jamaica ($13 million; 7%) and Trinidad and Tobago ($11.3 million; 6%).

Non-regional members have also demonstrated a strong willingness to support the CDB during times of stress. In 2018, the UK and Canada, two of the CDB's founding members, both stepped up to provide the bank with $40 million to help fund recovery efforts in the region following Hurricanes Irma and Maria in 2017. Furthermore, the amount of financial support that would be necessary to support the CDB in times of stress is small in terms of the UK and Canada's financial resources given the size of the CDB: with only $1.4 billion in assets, it is one of the smaller MDBs in our rated MDB universe.

ESG considerations

How environmental, social and governance risks inform our credit analysis of the Caribbean Development Bank

Moody's takes account of the impact of environmental (E), social (S) and governance (G) factors when assessing supranational issuers' credit profile. In the case of CDB, the materiality of ESG to the credit profile is as follows:

Environmental considerations are material for the CDB's rating. The CDB's lending operations are almost exclusively dedicated to

climate-vulnerable sovereigns in the Caribbean, a region known for its seasonal climate-related shocks, which are poised to increase in frequency and severity in the context of climate change. In an event where a particularly severe hurricane season and/or multiple climate shocks result in extensive damage to several sovereigns in the CDB's lending portfolio, we expect that some governments would likely have diminished repayment capacity. However, as noted above, the CDB has a long history of managing exposures to sovereigns with weak credit profiles, and borrowers have shown strong willingness to remain current on their obligations to the CDB. We believe these mitigating factors will prove resilient during a severe, regional climate shock. In addition, donors have extended support to the region through the CDB at times of severe climate shocks to help reconstruction.

Social considerations are not material for the CDB's rating. Most of the countries in the CDB's portfolio, and in the Caribbean more broadly, are characterized by stable political systems. While high rates of inequality in some countries increase the possibility of a flare-up in social tensions, we do not think this will negatively affect the CDB's lending operations in a material way.

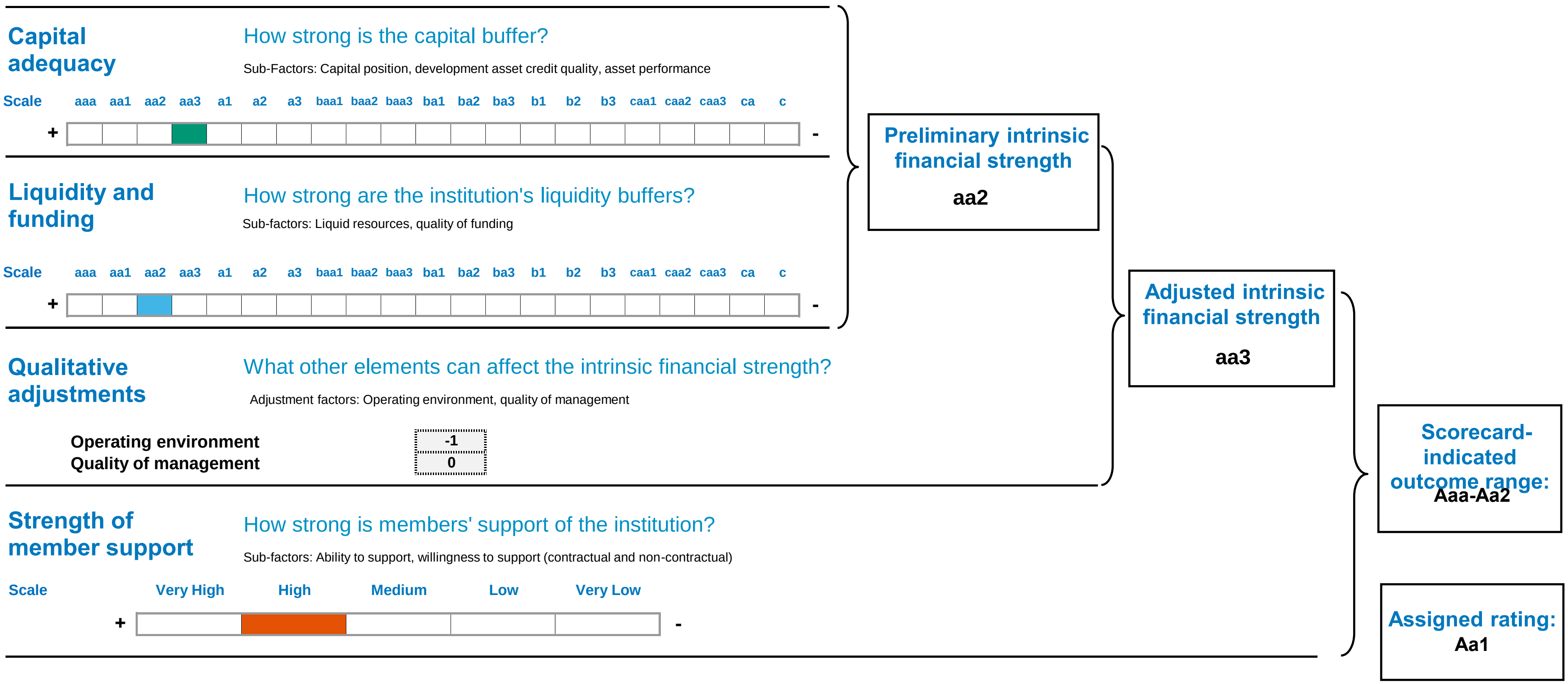
Governance is strong and while we do not make any adjustments in our scorecard for the quality of governance it remains supportive of the CDB's rating.

All of these considerations are further discussed in the "Credit profile" section above. Our approach to ESG is explained in our cross-sector methodology General Principles for Assessing ESG Risks. Additional information about our rating approach is provided in our Supranational Rating Methodology.

Rating range

Combining the scores for individual factors provides an indicative rating range. While the information used to determine the grid mapping is mainly historical, our ratings incorporate expectations around future metrics and risk developments that may differ from the ones implied by the rating range. Thus, the rating process is deliberative and not mechanical, meaning that it depends on peer comparisons and should leave room for exceptional risk factors to be taken into account that may result in an assigned rating outside the indicative rating range. For more information please see our Supranational Rating Methodology.

Exhibit 11
Supranational rating metrics: CDB



Source: Moody's Investors Service

Comparatives

This section compares credit relevant information regarding the CDB with other supranational entities that we rate. It focuses on a comparison with supranationals within the same rating range and shows the relevant credit metrics and factor scores. With $2.1 billion in total assets in 2020, the CDB is relatively small compared to the Aa-rated median ($7.9 billion in total assets) as well as most select peers. On the other hand, its capital adequacy stands out among most peers with DRA-to-usable equity at 136.7% in 2020, below the Aa-rated median (219.7%) and almost all select peers. Its liquidity is also strong with liquid assets providing about four times coverage of short-term debt and currently maturing long-term debt, reflective of a relatively small debt stock and favorable maturity profile. Despite these strengths, low development asset credit quality remains a challenge.

Exhibit 12

CDB key peers

	Year	CDB	NADB	CAF	CEB	IADB	IDB Invest	Aa Median
Rating/Outlook		**Aa1/STA**	**Aa1/NEG**	**Aa3/STA**	**Aa1/STA**	**Aaa/STA**	**Aa1/STA**	
Total assets (US$ million)	2020	2,121	--	46,846	34,309	151,737	6,424	7,893
Factor 1: Capital adequacy		**aa3**	**a3**	**a2**	**a2**	**a2**	**a2**	
DRA / Usable equity[1] [2] [4]	2020	136.7	--	219.7	572.1	313.4	206.7	219.7
Development assets credit quality score (year-end)	2020	ba	--	ba	aa	baa	ba	ba
Non-performing assets / DRA[1]	2020	0.1	--	0.3	0.0	0.6	0.4	0.4
Return on average assets[4]	2020	1.6	--	0.5	0.3	0.4	0.1	0.5
Net interest margin (X)[4]	2020	2.0	--	0.9	0.6	1.0	1.9	1.2
Factor 2: Liquidity and funding		**aa2**	**aa3**	**aa2**	**aa2**	**aa1**	**aa2**	
Quality of funding score (year-end)	2020	aa	--	aa	aa	aaa	aa	aa
Liquid assets / ST debt + CMLTD[3][4]	2020	399.7	--	295.6	255.2	203.5	248.1	295.6
Liquid assets / Total assets[4]	2020	29.9	--	31.4	30.0	23.7	33.0	31.4
Preliminary intrinsic financial strength (F1+F2)		**aa2**	**a2**	**aa3**	**a1**	**aa3**	**aa3**	
Adjusted intrinsic financial strength		**aa3**	**a2**	**aa3**	**aa3**	**aa2**	**aa3**	
Factor 3: Strength of member support		**H**	**H**	**L**	**M**	**VH**	**M**	
Weighted average shareholder rating (year-end)	2020	ba2	--	b2	baa1	ba1	ba3	ba2
Callable capital / Total debt	2020	125.7	--	5.6	21.4	150.0	--	73.5
Callable capital (CC) of Baa3-Aaa members/Total CC[4]	2020	42.4	--	54.7	87.3	66.7	--	57.9
Scorecard-indicated outcome range (F1+F2+F3)		**Aaa-Aa2**	**Aa2-A1**	**Aa2-A1**	**Aa1-Aa3**	**Aaa-Aa2**	**Aa1-Aa3**	

[1] Development related assets
[2] Usable equity is total shareholder's equity and excludes callable capital
[3] Short-term debt and currently-maturing long-term debt
[4] Ratio not used in Scorecard
Source: Moody's Investors Service

DATA AND REFERENCES

Rating history

Exhibit 13

CDB[1]

	Issuer Rating		Senior Unsecured	Outlook	
	Long-term	Short-term			Date
Outlook Changed			Aa1	Stable	Nov-13
Rating Lowered/Outlook Changed			Aa1	Negative	May-12
Outlook Changed			Aaa	RUR-	Feb-12
Outlook Assigned			Aaa	Stable	Nov-03
Rating Assigned			Aaa		Mar-92

Notes: [1] Table excludes rating affirmations. Please visit the issuer page for CDB for the full rating history.
Source: Moody's Investors Service

Annual statistics

Exhibit 14
CDB

Balance Sheet, USD Millions	2014	2015	2016	2017	2018	2019	2020
Assets							
Cash & Equivalents	34	65	94	86	127	292	95
Securities	233	214	340	353	331	422	538
Derivative Assets	52	56	70	62	59	63	94
Net Loans	972	983	1,008	1,050	1,149	1,233	1,317
Net Equity Investments	0	0	0	0	0	0	0
Other Assets	76	79	77	79	67	69	62
Total Assets	**1,379**	**1,407**	**1,599**	**1,641**	**1,748**	**2,096**	**2,121**
Liabilities							
Borrowings	530	503	655	692	796	1,103	1,094
Derivative Liabilities	0	0	0	0	0	0	0
Other Liabilities	27	30	48	50	53	59	59
Total Liabilities	**557**	**533**	**703**	**741**	**849**	**1,162**	**1,153**
Equity							
Subscribed Capital	1,699	1,764	1,764	1,764	1,764	1,764	1,764
Less: Callable Capital	1,325	1,375	1,375	1,375	1,375	1,375	1,375
Less: Other Adjustments	0	0	0	0	0	0	0
Equals: Paid-In Capital	299	343	382	384	386	387	388
Retained Earnings (Accumulated Loss)	509	517	502	503	506	540	574
Accumulated Other Comprehensive Income (Loss)	0	0	0	0	0	0	0
Reserves	13	13	13	13	6	6	6
Other Equity	0	0	0	0	0	0	0
Total Equity	**822**	**874**	**897**	**900**	**899**	**934**	**968**

Source: Moody's Investors Service

Exhibit 15
CDB

Income Statement, USD Millions	2014	2015	2016	2017	2018	2019	2020
Net Interest Income	**30**	**28**	**18**	**21**	**25**	**34**	**38**
Interest Income	41	37	32	39	51	61	60
Interest Expense	11	9	14	19	26	27	22
Net Non-Interest Income	**30**	**3**	**-9**	**-5**	**-6**	**25**	**21**
Net Commissions/Fees Income	3	3	3	4	4	5	5
Income from Equity Investments	0	0	0	0	-2	3	7
Other Income	27	0	-12	-9	-9	17	9
Other Operating Expenses	**10**	**15**	**16**	**18**	**15**	**19**	**23**
Administrative, General, Staff	10	15	16	18	15	19	23
Grants & Programs	0	0	0	0	0	0	0
Other Expenses	0	0	0	0	0	0	0
Pre-Provision Income	**50**	**16**	**-7**	**-3**	**3**	**40**	**36**
Loan Loss Provisions (Release)	8	6	6	2	2	2	3
Net Income (Loss)	**43**	**10**	**-13**	**-5**	**1**	**38**	**33**
Other Accounting Adjustments and Comprehensive Income	-8	-1	-3	4	3	-6	-2
Comprehensive Income (Loss)	**35**	**9**	**-16**	**-1**	**4**	**32**	**31**

Source: Moody's Investors Service

Exhibit 16
CDB

Financial Ratios	2014	2015	2016	2017	2018	2019	2020
Capital Adequacy, %							
DRA / Usable Equity	122.8	113.2	113.2	117.4	128.9	133.5	136.7
Development Assets Credit Quality (Year-End)	--	--	--	--	ba	ba	ba
Non-Performing Assets / DRA	0.5	0.5	0.5	0.5	0.6	0.2	0.1
Return On Average Assets	3.0	0.7	-0.8	-0.3	0.1	2.0	1.6
Net Interest Margin	2.4	2.2	1.3	1.4	1.5	1.7	2.0
Liquidity, %							
Quality of Funding Score (Year-End)	--	--	--	--	aa	aa	aa
Liquid Assets / ST Debt + CMLTD	128.5	433.3	379.7	989.0	400.3	593.1	399.7
Liquid Assets / Total Debt	50.3	55.5	66.4	63.5	57.5	64.7	57.9
Liquid Assets / Total Assets	19.4	19.8	27.2	26.8	26.2	34.1	29.9
Strength of Member Support, %							
Weighted Average Shareholder Rating (Year-End)	Ba2	Ba2	Ba2	Ba2	Ba2	Ba2	Ba2
Callable Capital / Gross Debt	249.8	273.5	210.1	198.8	172.7	124.7	125.7
Callable Capital (CC) of Baa3-Aaa Members/Total CC	61.3	65.4	60.9	47.3	47.3	47.3	42.4

Source: Moody's Investors Service

Moody's related publications

» **Credit Opinion**: Caribbean Development Bank - Aa1 stable: Update following rating and outlook affirmation, 24 May 2021

» **Rating Action**: Moody's affirms CDB's Aa1 rating; maintains stable outlook, 20 May 2021

» **Sector In-Depth**: Sovereigns - Global: Lack of economic diversification and fiscal space leave small, island economies vulnerable to a sustained drop in tourism, 22 June 2020

» **Rating Methodology**: Multilateral Development Banks and Other Supranational Entities, 28 October 2020

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Related websites and information sources

» Sovereign and supranational risk group web page

» Sovereign and supranational rating list

» Caribbean Development Bank Website

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