MOODY'S
RATINGS

Rating Action: Moody's Ratings affirms the Aa1 ratings of the CDB, maintains stable outlook

20 Jun 2025

New York, June 20, 2025 -- Moody's Ratings (Moody's) has today affirmed the Caribbean Development Bank (CDB)'s Aa1 long-term issuer and foreign-currency senior unsecured bond ratings. The outlook remains stable.

The decision to affirm the ratings and maintain the stable outlook reflects CDB's strong capital and liquidity metrics, prudent risk management and robust shareholder support. It also reflects CDB's ongoing efforts to improve its asset quality and reduce portfolio concentration through balance sheet optimization. We expect these efforts will, over the coming years, materially diversify the portfolio and reduce concentration and credit risk on the CDB's balance sheet, while also allowing the bank to continue delivering on its mandate as a key development institution for the Caribbean region. These diversification efforts balance risks related to the relatively weak credit quality of CDB's borrowing members and susceptibility to shocks. The CDB has also been implementing important updates to its risk and capital adequacy framework and has continued to enhance its Enterprise Risk Management Framework (ERMF) to guide the Bank's evolution and expansion, while also preserving its credit strengths.

RATINGS RATIONALE

RATIONALE FOR THE RATING AFFIRMATION

The CDB's credit profile is underpinned by strong capital and liquidity metrics. While leverage has been rising, standing at 1.6x at the end of 2024 compared to 1.4x in 2021, it remains low compared with Aa-rated Multilateral Development Banks (MDBs). We expect leverage to remain broadly in line with similarly-rated peers over the coming years.

Concentration of the CDB's development assets has been a key constraint on the Bank's credit profile, given its regional mandate. In addition, relatively weak credit profiles of its borrowing members and their exposure to recurring climate shocks add to the Bank's credit risk. However, despite recent defaults, members have consistently remained current on their debt obligations to the CDB, a reflection of the Bank's strong role in the region and preferred creditor status.

In addition, the CDB has recently taken important steps to materially reduce its portfolio concentration. In May 2025, the bank entered into a $450 million Exposure Exchange Agreement (EEA) with CABEI to reduce portfolio concentration. As a result, single-name exposure is expected to decline to 9% in 2025 from 17% in 2024, and top 10 exposures to 68% from 87%. The CDB's portfolio concentration could potentially improve further as it expands its operations to new borrowers with higher credit quality.

Additionally, CDB is negotiating a $200 million Portfolio Credit Guarantee with the Government of Canada (Aaa stable) to efficiently transfer credit risk, reduce its risk-weighted assets and create headroom for new lending.

Secondly, CDB's liquidity position is strong, which reflects the Bank's holding of ample liquidity which has steadily improved over the past five years. In 2024, the bank's availability of liquid resources rose to over 400% of net outflows from 200% in 2022. Access to liquidity is further strengthened by a diversified funding base and auxiliary access to liquidity facilities from large commercial banks and other MDBs. In addition, the CDB is planning to increase its market presence through a regular issuance program, which will support its funding sources and diversify its investor base.

Thirdly, CDB benefits from solid shareholder support. Non-regional members, such as Canada and the UK have demonstrated their support and channeled assistance to the region through the CDB during times of stress, such as hurricanes. In March 2025, member countries increased their concessional funding through the 11th replenishment of the Special Development Fund (SDF), approving a $460 million program to finance social, economic and environmental resilience. Although borrowing members are constrained in providing additional paid-in capital, they have remained current on their payment obligations to the CDB.

RATIONALE FOR THE STABLE OUTLOOK

The stable outlook captures the relatively weak credit quality of CDB's borrowing members, balanced against CDB's efforts to reduce portfolio concentration and diversify its credit exposure. The CDB has taken important steps through Exchange Exposure Agreements and potential credit enhancements to reduce its portfolio concentration and credit risk of its development assets.

Institutionally, CDB has begun implementing its Enterprise Risk Management Framework (ERMF), which introduces reforms across capital adequacy, concentration, market, liquidity, and operational risks. This framework aligns the bank with international best practices and MDB standards, while also strengthening strategic planning, resource allocation, and risk culture. These reforms will mitigate risks related to the Bank's operating environment and will increase its ability to respond to various shocks.

ENVIRONMENTAL, SOCIAL, GOVERNANCE CONSIDERATIONS

CDB's credit impact score (CIS-2) reflects moderately negative exposure to environmental risks mitigated by robust governance and financial support from CDB's committed shareholder base and other funding sources.

Environmental considerations are material for the CDB's rating. CDB's environmental issuer profile score (E-3) signals exposure to climate risks. This reflects primarily exposure to physical climate risk because of portfolio concentration in the Caribbean region that is subject to extreme weather events, which may weaken CDB's asset quality. The CDB conducts systematic screening of all investment projects for climate and disaster risks, and finances programs that provide structural and nature-based solutions to climate risks, and assists borrowing members develop climate resilience strategies.

CDB's neutral-to-low social issuer profile score (S-2) reflects strong customer relations with its borrowers and its financial relevance to the region where its lending products have effectively addressed specific needs of its members.

CDB's governance issuer profile score of neutral-to-low (G-2) is based on conservative risk management policies that have proved effective in limiting and managing risks associated with its lending portfolio. Risk management practices also mitigate some of the CDB's portfolio exposure to climate risk. Ongoing efforts to implement a comprehensive and robust enterprise risk management framework will also support the CDB's governance strength and credit quality.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

The rating of the CDB would likely be upgraded if implementation of the balance sheet optimization proceeds, providing a longer-track record of portfolio diversification, and leads to higher asset quality. Efforts to strengthen risk management and implementation of the enterprise risk management framework to maintain the CDB's liquidity and capital buffers in line with similarly rated peers would also support an upgrade. Evidence of stronger member support, potentially through actions that make the capital structure more robust such as the contingent capital facility that the Bank is currently exploring, would further support the CDB's ability to scale up its operations and increase its resiliency to shocks.

The CDB's rating could be downgraded if its capitalization or liquidity metrics were to deteriorate significantly on a sustained basis. This deterioration could result from significant losses or impairments on the bank's loan portfolio, or from a failure to comply with, or a weakening of, its prudent financial policies. Evidence of waning support from non-regional members and donors is also likely to exert downward pressure on the rating.

The principal methodology used in these ratings was Multilateral Development Banks and Other Supranational Entities published in February 2024 and available at https://ratings.moodys.com/rmc-documents/414557. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

The net effect of any adjustments applied to rating factor scores or scorecard outputs under the primary methodology(ies), if any, was not material to the ratings addressed in this announcement.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

For any affected securities or rated entities receiving direct credit support/credit substitution from another entity or entities subject to a credit rating action (the supporting entity), and whose ratings may change as a result of a credit rating action as to the supporting entity, the associated regulatory disclosures will relate to the supporting entity. Exceptions to this approach may be applicable in certain jurisdictions.

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For provisional ratings, the Credit Rating Announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating.

Moody's does not always publish a separate Credit Rating Announcement for each Credit Rating assigned in the Anticipated Ratings Process or Subsequent Ratings Process.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website https://ratings.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

At least one ESG consideration was material to the credit rating action(s) announced and described above. Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/rmc-documents/435880.

The Global Scale Credit Rating(s) discussed in this Credit Rating Announcement was(were) issued by one of Moody's affiliates outside the EU and UK and is(are) endorsed for use in the EU and UK in accordance with the EU and UK CRA Regulation.

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