S&P Global Ratings

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Caribbean Development Bank

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Caribbean Development Bank

Stand-alone credit profile	aa+	+	Extraordinary shareholder support	0	+	Holistic approach	0

Enterprise risk profile

Extremely strong	Very strong	**Strong**	Adequate	Moderate	Weak	Very weak

Financial risk profile

Extremely strong	Very strong	Strong	Adequate	Moderate	Weak	Very weak

Issuer credit rating

AA+/Stable/A-1+

Outlook

Issuer Credit Rating

Foreign Currency

AA+/Stable/A-1+

The stable outlook is based on our view that over the next two years, Caribbean Development Bank (CDB) will maintain high capitalization, even amid growing economic pressures from COVID-19. We expect the risk-adjusted capital (RAC) ratio to remain well above 23%, even if the asset quality of the loan book weakens or CDB experiences losses in its derivative book. The stable outlook incorporates our expectation that preferred creditor treatment (PCT) will not deteriorate and CDB will continue to manage its balance sheet prudently. Furthermore, we expect gradual growth in its private-sector exposure, and the higher risks contained and supported by an appropriate strengthening of the bank.

We could consider raising the ratings on CDB if its policy importance strengthens, accompanied by further capital increases that could allow CDB to grow its loan book substantially, or if the bank continues to strengthen its governance and management expertise and continues to build on a track record of conservative financial and risk management.

We could lower the ratings on CDB if shareholder relationships deteriorate, or if doubts arise about the PCT. Financial stress in borrowing members and downgrades of highly rated shareholder callable capital could also lead S&P Global Ratings to lower the ratings. Fast growth of private-sector exposure with high risk would also be a negative rating factor. We consider these events unlikely in the medium term.

Rationale

CDB has a record of fulfilling its public policy mandate as an important source of multilateral financing in the Caribbean, has maintained a strong track record of PCT despite increased stress in its borrowing member countries, and has strengthened its risk management. In the context of COVID-19, CDB has repurposed some of its lending and is assuming an important role alongside other multilateral lending institutions (MLIs) to support the region.

We assess CDB's financial risk profile as extremely strong, based on its ample capital and liquidity buffers, which enable the bank to mitigate economic stress on its primary borrowing members. Moreover, CDB's eligible callable capital provides it with an additional buffer against unexpected deterioration in its RAC ratio after adjustments.

Environmental, Social, And Governance

CDB's borrowing member countries (BMC) are disproportionately vulnerable to national disasters because of their location and geography. They are particularly susceptible to seismic and climate-related events. Hurricanes and high-intensity rainfall-related disasters are increasingly frequent and hurt GDP significantly. In 2017, the Emergency Events Database reported the economic cost of Hurricanes Irma and Maria in British Virgin Islands as 369% of GDP, 76% for Anguilla, and 270% for Dominica. These three countries account for 16% of CDB's lending book. Some BMCs have higher debt and limited fiscal space to address these types of emergencies.

On the other hand, CDB responds well to these natural disasters, having robust capital and access to multiple funding sources. It uses a variety of financial instruments for this purpose, including emergency response grants, immediate response loans, exogenous shock loans, and rehabilitation and reconstruction loans. Increasingly, CDB's BMCs have been strengthening their financial risk management for natural disasters by using instruments such as contingent lines, fiscal buffers, and parametric insurance.

CDB also attracts funding from donors and strategic partnerships. The most notable are the U.K. Caribbean Infrastructure Partnership Fund and the European Investment Bank Climate Action Line of Credit, which addresses infrastructure gaps and climate risk, and the EU and Global Affairs Canada resources to support capacity building for comprehensive disaster risk management. Environmental sustainability and climate change have become key to CDB's lending. As of March 31, 2020, the environmental and disaster risk reduction category accounted for 7% of its loan portfolio, policy-based loans accounted for 34%, and transportation loans made up 25%. These loans are typically associated with moderate environmental and social risks.

All of CDB's projects incorporate a climate lens and include supporting resilient infrastructure initiatives and, where applicable, support for renewable energy and energy efficiency. CDB has procedures that help minimize environmental and social risks from its lending activities and respond to complaints of alleged environmental and social harm. Some BMC's have limited capacity to access ordinary capital to fund their climate-related investment needs. The bank can further its agenda by supporting members to access concessional resources for climate change projects. CDB's shareholder structure is somewhat less diverse and largely influenced by BMCs that tend to have lower rankings in terms of World Bank governance effectiveness indicators, which is a limiting factor; however, decisions are taken by consensus. That said, we view its financial and risk management as conservative.

Enterprise Risk Profile: Strong Record Of Fulfilling Its Mandate Through The Credit Cycle

- CDB has been fulfilling its public policy mandate through credit cycles and extreme weather events, and we expect the institution to be a key partner as its members weather the health and economic effects of COVID-19.
- The bank has an established PCT track record, which we expect will be upheld despite growing credit stress in the region.
- CDB adheres to conservative financial and risk management practices, although there is significant concentration risk on the balance sheet.

Policy importance

Since it was established in 1969, CDB has been prominent as the cornerstone lender enabling Caribbean governments to contribute to economic growth and development. CDB provides loans and guarantees to the public and private sector, although as of Dec. 31, 2019, 96% of its loans were to sovereigns. The bank also provides grants and concessional loans to its poorest members via its soft loan window, the Special Funds Resources (SFR).

We expect that CDB will continue to be an important source of MLI financing in the Caribbean, underpinning its policy importance. While the bank's lending to some of its borrowers is surpassed by the Inter-American Development Bank and the International Bank for Reconstruction and Development, to other members, it is the sole lender.

The bank's board of directors (BOD) approved the 2015-2019 strategic plan endorsing the goal of reducing inequality and halving the incidence of extreme poverty in its borrowing member countries by 2025. This, combined with growth of CDB's ordinary capital resources (OCR) loan book over the past few years, is indicative of a consolidation of its position in the region. We expect CDB to continue expanding its loan book over the medium term.

CDB's efforts in the aftermath of the 2017 hurricane season, which severely hit some of its member countries, continue to be a theme in its lending activities. This is evidence of CBD's importance for its member nations. Among other efforts, CDB deployed exceptional financing and emergency response grants to various borrowing member countries. CDB is also supporting Barbados' economic recovery and transformation plan with two policy-based loans of $75 million each in 2018 and 2019.

Similarly, CDB demonstrated its ability to lend countercyclically in the wake of the Great Recession. The bank increased its net loans outstanding by 6% and 21% during 2009 and 2010, respectively.

In the face of COVID-19 and the severe economic stress many of its members will face, CDB will continue to be an important player and provide leadership and broader coordination efforts alongside other MLIs such as the World Bank, the Inter-American Development Bank (IADB), and the IMF in support of the region. Given the somewhat smaller balance sheet, with $1.25 billion in loans outstanding as of December 2019, its efforts will largely center on resource mobilization, whereby large MLIs can provide intermediate resources to CDB, which can be deployed to members.

At the same time, CDB is repositioning its current lending portfolio to better respond to the crisis by fast tracking a number of projects and temporarily increasing its policy-based lending instrument limit to 38% from 33%. This will provide fast-disbursing loans to address immediate fiscal challenges of its members. This is counterbalanced by repurposing other investment loans and undisbursed balances, which we expect will limit any capital shortfalls.

CDB will continue supporting its members through grant and concessional lending from its SFR window. Significant support from nonregional members has materialized through funding CDB's SFR, which has helped sustain the credit quality of the OCR and is a key part of the bank's business model. SFR 2019 approvals totaled $15.6 million, compared with OCR approvals of $281 million. We expect concessional lending will be a key part of CDB's crisis response as it considers extending concessional financing to a broader set of borrowing member countries, with SFR approvals expected to increase to $80 million in 2020.

Over the years, CDB has attracted various partnerships, which underpins its unique role. This includes, notably, the U.K. giving CDB the mandate to administer a £330 million fund (U.K. Caribbean Infrastructure Partnership Fund) for restoration following the hurricanes, as well as other trust funds, many of which address climate change and other disaster risk management efforts. We expect that CDB's increased focus on climate change will continue to strengthen over the medium term. In fact, CDB has a pivotal role among its members in terms of providing policy advice and technical support.

The bank's focus on the private sector has gained more prominence over the past years as a key method to achieve development outcomes, growing by 56% in 2019. However, the relative share within the portfolio remains small, with total exposure at $75 million. Impaired loans (stage 3) declined to $3.0 million as of Dec. 31, 2019, from $4.9 million as of Dec. 31, 2018, which represents 0.3% of the total loan portfolio.

CDB's members have demonstrated their support for the bank. In May 2010, CDB's board of governors approved a $217 million general capital increase in CDB's paid-in capital, by nearly 138%. The payment occurred in six annual and equal installments from 2011 to 2016. As of December 2019, the amount of due and unpaid capital subscriptions was $1.9 million, or 0.5% of total matured subscriptions (in line with the previous year).

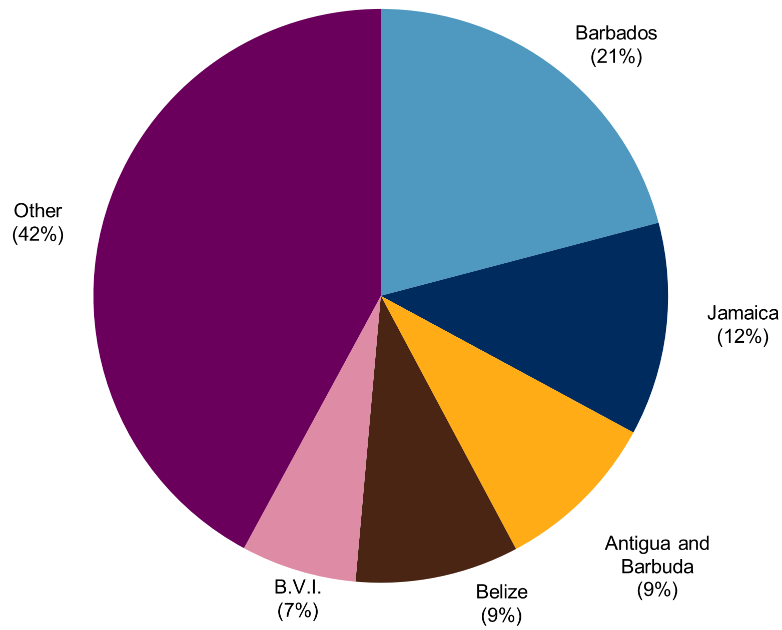
The bank's borrowing members extend beyond the English-speaking Caribbean and include Haiti and Suriname which joined in 2013. Brazil joined in 2015 as a non-borrowing member. CDB maintains discussions with sovereigns interested in joining, which we view as positive.

The bank has a strong track record of PCT by its members, which our arrears-calculated ratio of 0.82% reflects. Over the past 10 years, there was one instance in which arrears exceeded 180 days--in 2012, when a borrowing member country defaulted on a very small loan. The amount in arrears was subsequently cured before year-end 2012, and so the bank did not report any impairment in the full-year accounts.

Belize's selective default in February 2017--caused by a missed coupon payment on its external bonds and following its debt rescheduling--did not result in arrears to CDB's outstanding loans (Belize outstanding loans represent 9% of the OCR portfolio). The same happened following Jamaica's selective default in 2010. Most recently, Barbados defaulted on its external bonds in October 2018, though it has continued to make payments to CDB, and this has not resulted in arrears.

Chart 1

CDB's Five Largest Countries Purpose-Related Exposures
As a percentage of gross purpose-related assets plus guarantees



Source: S&P Global Ratings.

Governance and management expertise

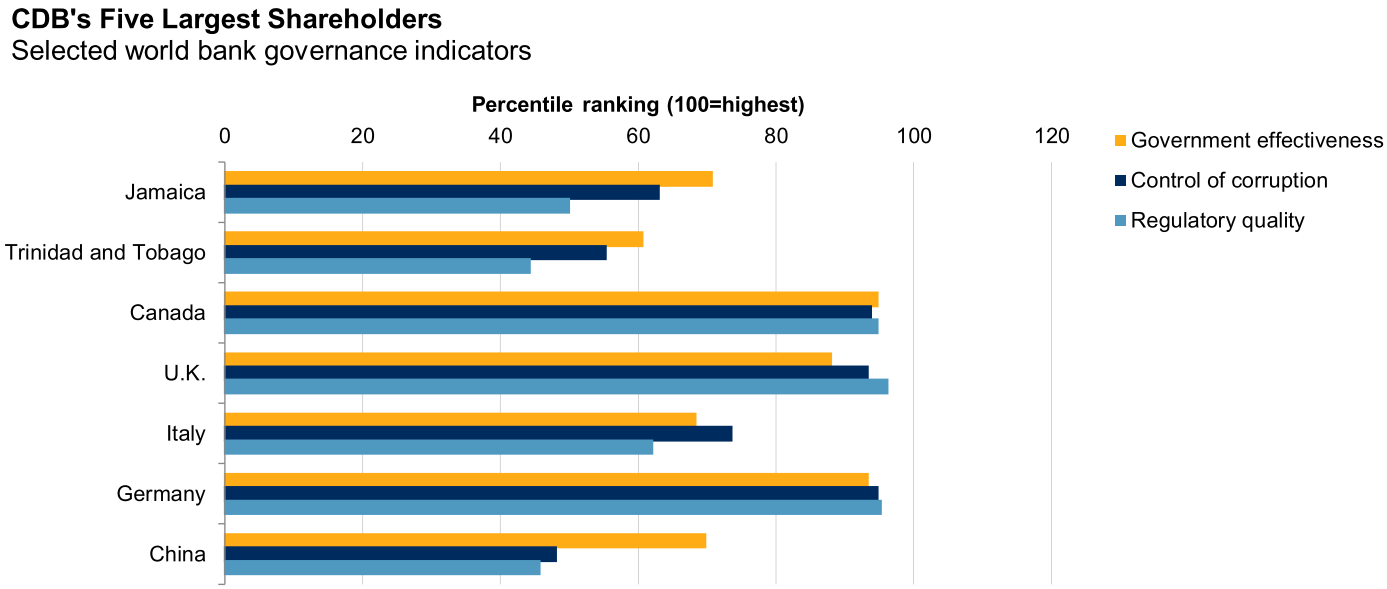
The bank has a diverse shareholding structure--its members include 19 borrowing member countries in the Caribbean and nine non-regional, non-borrowing countries. We view the shareholder structure, with the majority of voting shares (55% as of 2019) coming from borrowing-eligible members, as potentially vulnerable to agency risk, meaning the interests of borrowing members could differ from those of creditors.

Furthermore, CDB's shareholders, on average, have somewhat lower ranking in terms of World Bank indicators on governance effectiveness compared with other highly rated peers. Jamaica (17%), Trinidad and Tobago (17%), and The Bahamas (5%) are the largest regional shareholders, while Canada and the U.K. (each 9%) are the largest non-regional shareholders.

However, CDB's culture of consensus-based voting on major issues has largely mitigated the agency risk of borrowing-eligible members' majority control.

CDB does not pay dividends. It has traditionally maintained high earnings retention as shareholders have forgone dividend payouts.

Chart 2



Source: S&P Global Ratings.

CDB continues to strengthen its governance by improving its risk management and monitoring over the years. CDB's BOD approved a new strategic framework in May 2015, with an emphasis on whistleblowing, integrity, ethics, compliance, and accountability through the new independent Office of Integrity, Compliance and Accountability, established in December 2015.

In October 2015, the BOD also approved its own code of conduct and a new charter for the internal audit division. The oversight and assurance committee is now operational under its new mandate as well.

CDB's BOD sets the governance framework for the bank by determining the risk framework and the underlying policies and procedures. In 2013, CDB established the office of risk management to monitor and manage all risks that CDB faces, including strategic, financial, operational, and developmental risks.

CDB has complied with its portfolio exposure limits over the last three years and has reduced its loan concentration to the top three borrowers over the last five years. However, we view these limits as more expansive than development banks' with more diversified exposure. The exposure limit to its single largest borrower is either 40% of loans or 50% of the banks' internally calculated available capital--whichever is greater. The exposure limit to its three largest borrowers is either 60% of loans or 90% of available capital--whichever is greater. As of December 2019, the top three borrowers represented 42% of the total loan portfolio (Barbados 21%, Jamaica 12%, and Belize 9%), compared with a peak of 50% in 2013.

CDB's large sovereign loan portfolio also has significant geographic (Caribbean) risk and economic (tourism-intensive and U.S.- and European-market driven) risk. To offset this credit risk, CDB's shareholders have enabled management to maintain a high level of capitalization over the years, which continues to anchor the bank's creditworthiness.

Financial Risk Profile: CDB Maintains Robust Capital And Liquidity

- CDB's extremely strong capital adequacy reflects its low leverage, combined with conservative lending policies, which we believe can counterbalance additional credit stress in the region.
- The funding and liquidity position provides flexibility to increase disbursements, even during stressed market conditions.

Capital adequacy

CDB's RAC ratio as of year-end 2019 declined to 28.0% from 29.1% in 2018 but is still well above our 23% threshold for extremely strong capital adequacy. The reduction stems from portfolio growth of 8%, with outstanding loans at $1.25 billion as of 2019. This is compounded by the effects of higher concentrations, as exposure to Barbados increased to 21% of the overall portfolio share from 16% the year prior, given the support provided by CDB for Barbados' economic recovery and transformation plan

The COVID-19 pandemic has led to lower ratings in some borrowing member countries such as the Bahamas and Belize, though this is somewhat balanced by Barbados as we raised our foreign currency ratings on the country to 'B-' from 'SD' in January 2020. We believe CDB's capital base would be resilient if there were additional economic pressures in the region, especially given its large concessional window that could provide liquidity support to distressed members and the callable capital buffer from highly rated shareholders. If its borrowing members were to not maintain the PCT, this could weigh on our rating on CDB.

The quality of CDB's cash capital is robust. It is composed primarily of paid-in capital and retained earnings. However, the accounting treatment of CDB's derivative positions generates volatility in CDB's comprehensive income, which factored strongly in the $34 million comprehensive gain the bank reported in 2019. CDB's derivatives are not traded and are being held until maturity--accordingly, this volatility remains unrealized and is not included in the operating income.

Table 1

Caribbean Development Bank Risk-Adjusted Capital Framework As Of Dec. 31, 2019

($000s)	Exposure	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk			
Government and central banks	1,704,175	2,628,952	154
Institutions	297,256	78,621	26
Corporate	134,877	186,092	138
Retail			
Securitization			
Other assets	3,013	10,169	338
Total credit risk	2,139,321	2,903,834	136
Credit valuation adjustment			
Credit valuation adjustment RWA	--	--	--

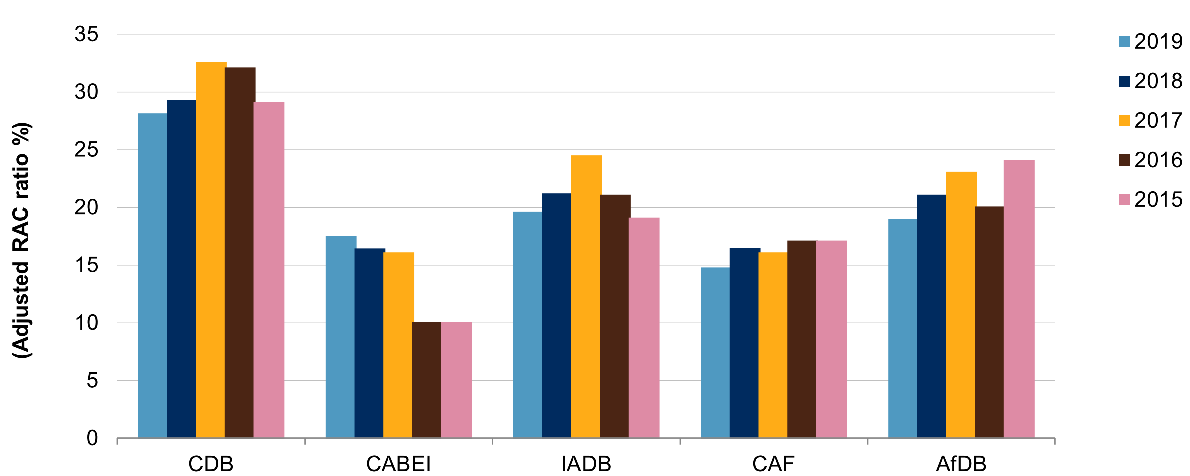
Table 1

Caribbean Development Bank Risk-Adjusted Capital Framework As Of Dec. 31, 2019 (cont.)			
Market risk			
Equity in the banking book			--
Trading book market risk	--	--	--
Total market risk	--	--	--
Operational risk	--	218,713	--
Total exposures	2,139,321		
RWA before MLI adjustments		3,122,546	100
MLI adjustments			
Single name (on corporate exposures)		185,149	99
Sector (on corporate portfolio)		18,562	5
Geographic		(113,737)	(4)
Preferred creditor treatment (on sovereign exposures)		(1,479,466)	(56)
Preferential treatment (on FI & corporate exposures)		(22,722)	(9)
Single name (on sovereign exposures)		1,621,499	62
Total MLI adjustments		209,285	7
RWA after MLI adjustments		3,331,831	107
		Total adjusted capital	**S&P Global Ratings RAC ratio (%)**
Capital ratio before adjustments		933,583	29.9
Capital ratio after adjustments			28.0

MLI--Multilateral lending institutions. RW--Risk weight. RWA-- Risk-weighted assets.

Chart 3

CDB--Risk-Adjusted Capital Ratio Peer Comparison



Source: S&P Global Ratings.

Funding and liquidity

Our funding and liquidity ratios for CDB indicate that the bank would be able to fulfil its mandate for at least one year, even under extremely stressed market conditions and without access to the capital markets.

Funding. CDB pursues a conservative funding strategy and has low leverage (2019 liabilities to equity is 1.24x, compared with 0.94x in 2018). In general, we view it as having adequate access to capital markets, though its global investor base is less developed than some of the more established MLIs.

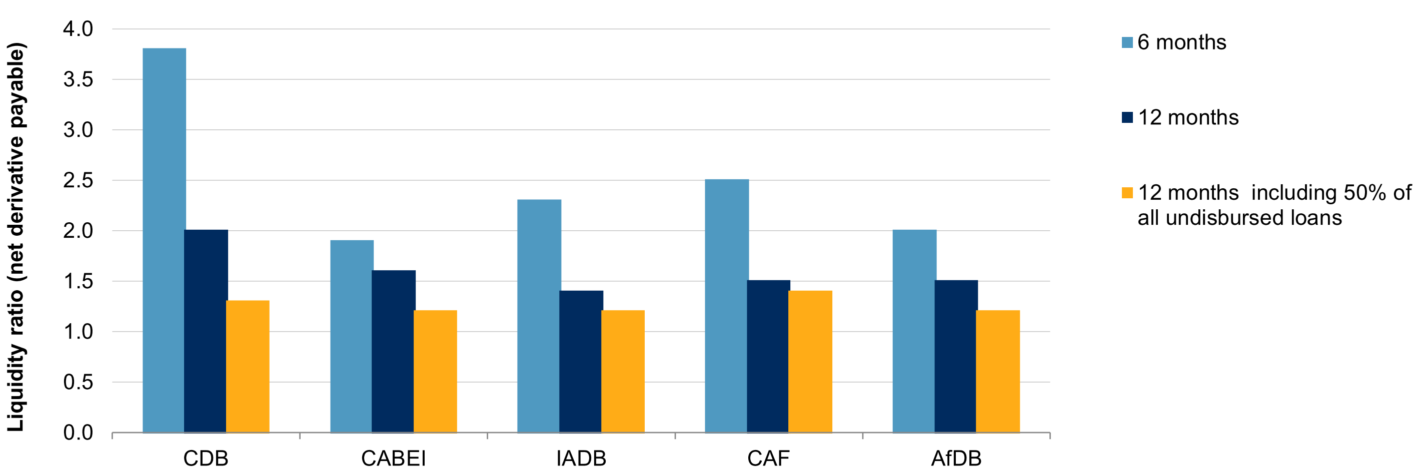
Of CDB's total borrowings of $1.1 billion as of December 2019, 87% are market borrowings and the remainder comes from other MLIs and development agencies, which helps maintain its low-cost funding. In 2019, CDB issued an inaugural €250 million 20-year bond in the German capital market.

As of year-end 2019, the static funding gap at one year with loan disbursements was robust at 1.74x, and without loan disbursements, it was 7.10x.

Liquidity. CDB has historically had solid liquidity, and liquid assets as a percentage of adjusted total assets increased to 35% in December 2019, from 27% in December 2018 and 28% in December 2017. For year-end 2019 data and incorporating our updated liquidity haircuts, our 12-month liquidity ratio was 2.0x with scheduled loans disbursements, while the six-month ratio was 3.8x. Under this same stress scenario, CDB could satisfy increased demand for unplanned loan disbursements.

Chart 4

CDB--Liquidity Stress Test Ratios Peer Comparison



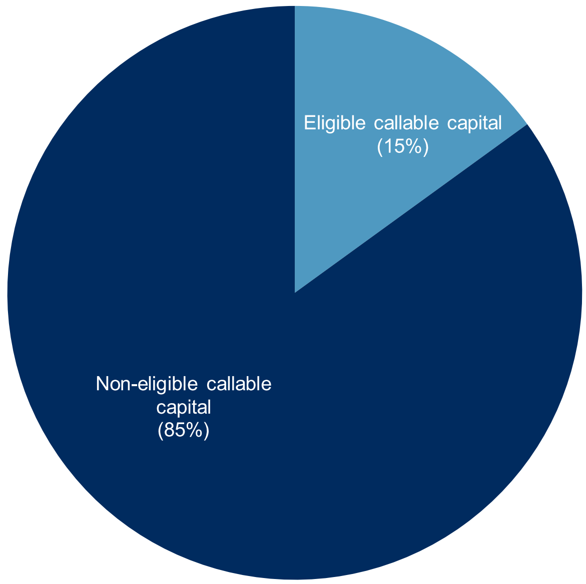
Source: S&P Global Ratings.

Extraordinary Shareholder Support

CDB benefits from $196 million in eligible callable capital from its 'AA+' and 'AAA' rated shareholders (Canada and Germany), which provides a buffer if CDB's RAC ratio were to fall below the extremely strong threshold.

Chart 5

CDB's Callable Capital
As a percentage of total callable capital



Source: S&P Global Ratings.

Table 2

Caribbean Development Bank Selected Indicators	2019	2018	2017	2016	2015
ENTERPRISE PROFILE					
Policy importance					
Total purpose-related exposure (loans, equity, etc.)	1,274	1,186	1,078	1,035	1,039
Public-sector (including sovereign-guaranteed) loans/purpose-related exposure (%)	94.1	96.0	96.1	97.1	96.4
Private-sector loans/purpose-related exposures (%)	5.9	4.0	3.9	2.9	3.6
Gross loan growth (%)	7.6	10.1	4.2	2.4	1.0
PCT ratio	0.8	0.9	1.0		
Governance and management expertise					
Share of votes controlled by eligible borrower member countries (%)	65	65	65	65	65
Concentration of top two shareholders (%)	34	34	34	34	34
Eligible callable capital	196	196	196	196	196
FINANCIAL RISK PROFILE					
Capital and earnings					
RAC ratio	28.0	29.2	32.5	32.0	29.0

Table 2

Caribbean Development Bank Selected Indicators (cont.)					
	2019	**2018**	**2017**	**2016**	**2015**
Net interest income/average net loans (%)	3.4	3.0	2.2	1.5	2.0
Net income/average shareholders' equity (%)	2.7	1.6	0.9	0.2	1.3
Impaired loans and advances/total loans (%)	0.2	0.4	0.5	0.5	0.5
Funding and liquidity					
Liquidity ratios					
Liquid assets/adjusted total assets (%)	34.8	26.9	27.7	28.2	18.9
Liquid assets/gross debt (%)	65.1	58.0	64.0	66.0	51.0
Liquidity coverage ratio (with planned disbursements):					
Six months (net derivate payables)	3.8	2.3	3.6	3.8	3.1
12 months (net derivate payables)	2.0	1.7	2.4	2.5	2.1
12 months (net derivate payables) including 50% of all undisbursed loans	1.3	1.7	1.9		
Funding ratios					
Gross debt/adjusted total assets (%)	53.5	46.3	43.2	42.7	37.0
Short-term debt (by remaining maturity)/gross debt (%)	8.0	6.6	1.3	1.1	1.2
Static funding gap (with planned disbursements)					
12 months (net derivate payables)	7.1	5.5	18.6	38.2	14.4
SUMMARY BALANCE SHEET					
Total assets	2,095.5	1,747.7	1,641.0	1,599.2	1,407.1
Total liabilities	1,161.9	849.1	741.3	702.7	533.1
Shareholders' equity	933.6	898.6	899.8	896.5	874.0

PCT--Preferred creditor treatment. RAC--Risk-adjusted capital.

Table 3

Caribbean Development Bank Peer Comparison					
	CDB	**CABEI**	**IADB**	**CAF**	**AfDB**
Issuer credit rating	AA+/Stable/A-1+	AA/Stable/A-1+	AAA/Stable/A-1+	A+/Negative/A-1+	AAA/Stable/A-1+
Fiscal year ended	Dec. 31, 2019	Dec. 31, 2019	Dec. 31, 2019	Dec. 31, 2019	Dec. 31, 2019
Total purpose-related exposure	1,274	7,801	97,221	27,024	31,384
PCT	0.8	0.0	2.2	4.3	1.7
RAC	28.0	17.4	19.5	14.7	18.9
Liquidity ratio 12 months (net derivate payables)	2.0	1.6	1.4	1.5	1.5
Funding gap 12 months (net derivate payables)	7.1	1.9	1.2	1.4	1.4

PCT--Preferred creditor treatment. RAC--Risk-adjusted capital.

Ratings Score Snapshot

Enterprise Risk Profile	Extremely strong	Very strong	**Strong**	Adequate	Moderate	Weak	Very weak
Policy Importance	Very strong	**Strong**	Adequate	Moderate	Weak		
Governance and Management	Strong	**Adequate**	Weak				
Financial Risk Profile	**Extremely strong**	Very strong	Strong	Adequate	Moderate	Weak	Very weak
Capital Adequacy	**Extremely strong**	Very strong	Strong	Adequate	Moderate	Weak	Very weak
Funding and Liquidity	Very strong	**Strong**	Adequate	Moderate	Weak	Very weak	

Related Criteria

- Criteria | Governments | General: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Dec. 14, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Abridged Supranationals Interim Edition 2020: Comparative Data For Multilateral Lending Institutions, May 8, 2020
- ESG Industry Report Card: Supranationals, Feb. 11, 2020
- Supranationals Special Edition 2019: Report Says MLIs Are Focusing On Sustainable Development Goals, Oct. 25, 2019
- Supranationals Special Edition 2019: Comparative Data For Multilateral Lending Institutions, Oct. 17, 2019
- Introduction To Supranationals Special Edition 2019, Oct. 17, 2019

Ratings Detail (As Of May 26, 2020)*		
Caribbean Development Bank		
Issuer Credit Rating		
Foreign Currency		AA+/Stable/A-1+
Senior Unsecured		AA+
Issuer Credit Ratings History		
09-May-2017	*Foreign Currency*	AA+/Stable/A-1+

Ratings Detail (As Of May 26, 2020)*(cont.)	
16-May-2014	AA/Stable/A-1+
12-Dec-2012	AA/Negative/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.