S&P Global Ratings

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Caribbean Development Bank

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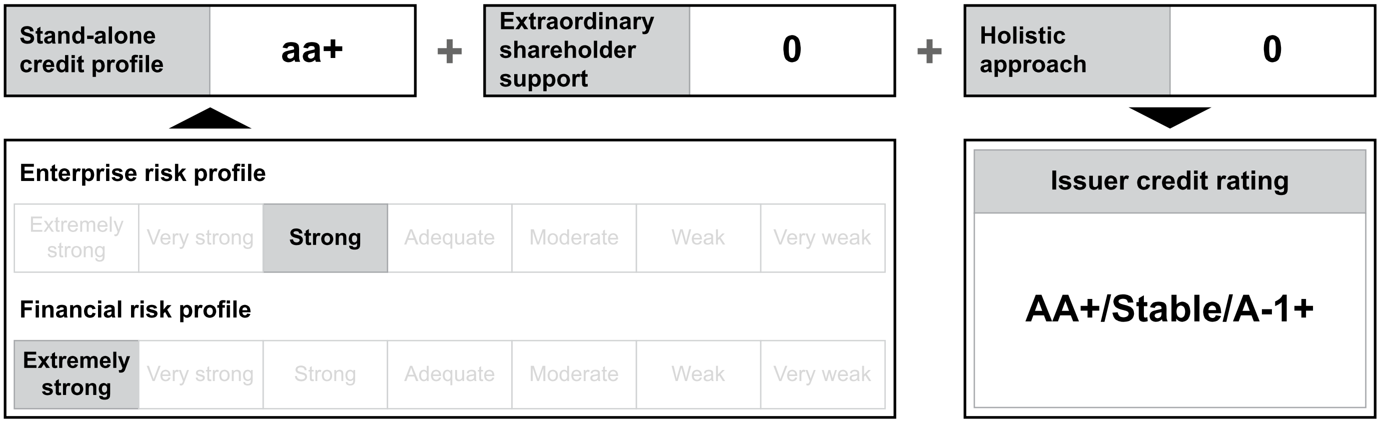


Outlook

Issuer Credit Rating
Foreign Currency
AA+/Stable/A-1+

The stable outlook on Caribbean Development Bank (CDB) is based on S&P Global Ratings' view that over the next two years, CDB will maintain high capitalization, even amid the unprecedented health and economic crisis from COVID-19 as well as natural disasters that have weighed on some Caribbean economies. We expect the risk-adjusted capital (RAC) ratio to remain well above 23%, even if the asset quality of the loan book weakens. The stable outlook also incorporates our expectations that preferred creditor treatment (PCT) will not deteriorate and that CDB will continue to manage its balance sheet prudently. Furthermore, we expect gradual growth in its private-sector exposure, and we expect the higher risks this entails to be contained by an appropriate strengthening of the bank's risk management.

We could consider raising the ratings on CDB if its policy importance strengthens, accompanied by further capital increases that could allow it to grow its loan book substantially.

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 us to lower the ratings. Fast growth of high-risk private-sector exposure 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 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. While many borrowing member countries (BMCs) have experienced a sharp downturn in revenue as tourism has plummeted during the pandemic, they have continued to make full and timely payments to CDB. To some extent, this has been made possible by CDB providing debt service support through its concessional window for some of its members' ordinary capital obligations.

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 for 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 BMCs are disproportionately vulnerable to natural 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 at 369% of GDP for the British Virgin Islands, 76% for Anguilla, and 270% for Dominica. These three countries account for 15% of CDB's lending book. More recently, the eruption of the volcano in St. Vincent and the Grenadines caused significant damage to infrastructure and agriculture. Some BMCs have higher debt and limited fiscal space to address these types of emergencies, and COVID-19 has exacerbated these constraints.

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, as well as 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 Dec. 31, 2020, the environmental and disaster risk-reduction category accounted for 10% of its loan portfolio, policy-based loans accounted for 30%, and transportation loans made up 21%. These loans are typically associated with moderate environmental and social risks.

All of CDB's projects incorporate a climate lens and aim to support resilient infrastructure initiatives and, where applicable, renewable energy and energy efficiency. CDB has procedures that help minimize environmental and social risks from its lending activities and help it respond to complaints of alleged environmental and social harm. Some BMCs have limited capacity to access ordinary capital to fund their climate-related investment needs.

Supporting BMCs in accessing concessional funds for climate action has been a priority reflected in the bank's Climate Resilience strategy. In addition to its strategic partnerships, the bank is actively supporting BMCs in accessing concessional financing through the Green Climate Fund and the Adaptation Fund.

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. 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 natural disasters, 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 record, which we expect it will uphold 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 sectors, although as of Dec. 31, 2020, 95% 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 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 that of the Inter-American Development Bank (IADB) and the International Bank for Reconstruction and Development, to other members, it is the sole lender.

In the face of COVID-19 and the resulting severe economic stress many of its members have faced, CDB will remain an important player and provide leadership and broader coordination efforts to support the region alongside other MLIs such as the World Bank, the IADB, and the IMF. Given CDB's somewhat smaller balance sheet, with $1.33 billion in loans outstanding as of December 2020, its efforts have largely centered on resource mobilization, whereby large MLIs can provide intermediate resources to CDB that it can deploy to members.

At the same time, CDB has repositioned its lending portfolio to better respond to its members' immediate fiscal challenges by fast-tracking a number of projects and temporarily increasing its policy-based lending instrument limit to 38% from 33%. This has been counterbalanced by repurposing other investment loans and undisbursed balances, which has limited any capital shortfalls. CDB has also provided debt service support to seven Special Development Fund-eligible countries through its concessional lending window to cover ordinary capital resources (OCR) debt service for four quarters over the period 2020-2021.

CDB also continues 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. In February 2021, contributors replenished the Special Development Fund (SDF), the bank's largest pool of concessionary resources, by approving a $383 million program for the 10th cycle of the SDF.

SFR loan approvals increased to $173 million in 2020 from $15.6 million in 2019, compared with OCR approvals of $224 million in 2020. We expect concessional lending will continue to be a key part of CDB's crisis response

In response to the volcanic eruption in St. Vincent and the Grenadines, CDB provided grant support and an immediate response loan, as well as repurposed its lending for additional support. The bank has also been active during past natural disasters, notably in the aftermath of the 2017 hurricane season, which severely hit some of its member countries. Among other efforts, CDB deployed exceptional financing and emergency response grants to various BMCs. CDB is also supporting Barbados' economic recovery and transformation plan via its policy-based loans.

Over the years, CDB has attracted various partnerships that underpin its unique role. These include, 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 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 past years as a key method to achieve development outcomes. However, the private sector's relative share within the portfolio remains small, with total exposure at $81 million. Impaired loans (stage 3) declined to $1.6 million as of Dec. 31, 2020, from $3.0 million as of Dec. 31, 2019, representing 0.2% of the total loan portfolio, and they are fully provisioned.

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 (nearly 138%) in CDB's paid-in capital. The payment occurred in six annual and equal installments from 2011 to 2016 and has been fully paid in.

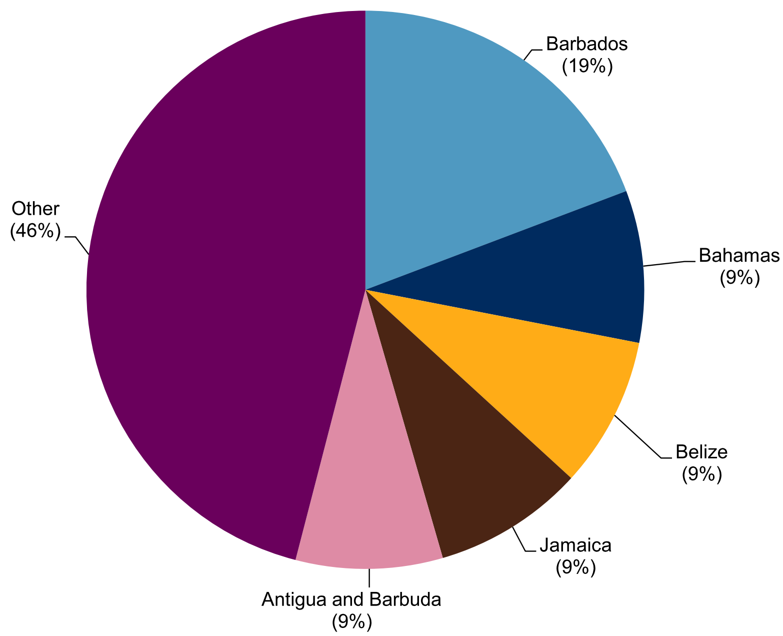
The bank's borrowing members extend beyond the English-speaking Caribbean and include Haiti and Suriname, which joined in 2013. Brazil joined in 2015 as a nonborrowing member. As of December 2020, the amount of due and unpaid capital subscriptions was $2.9 million. CDB maintains discussions with sovereigns interested in joining, which we view as positive.

The bank has a strong record of PCT by its members, which our arrears-calculated PCT ratio of 0.78% reflects. Over the past 10 years, there was one instance in which arrears exceeded 180 days--in 2012, when a BMC 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's 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 Five Largest Countries Purpose-Related Exposures
As a percentage of gross purpose-related assets plus guarantees



Source: S&P Global Ratings.
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Governance and management expertise

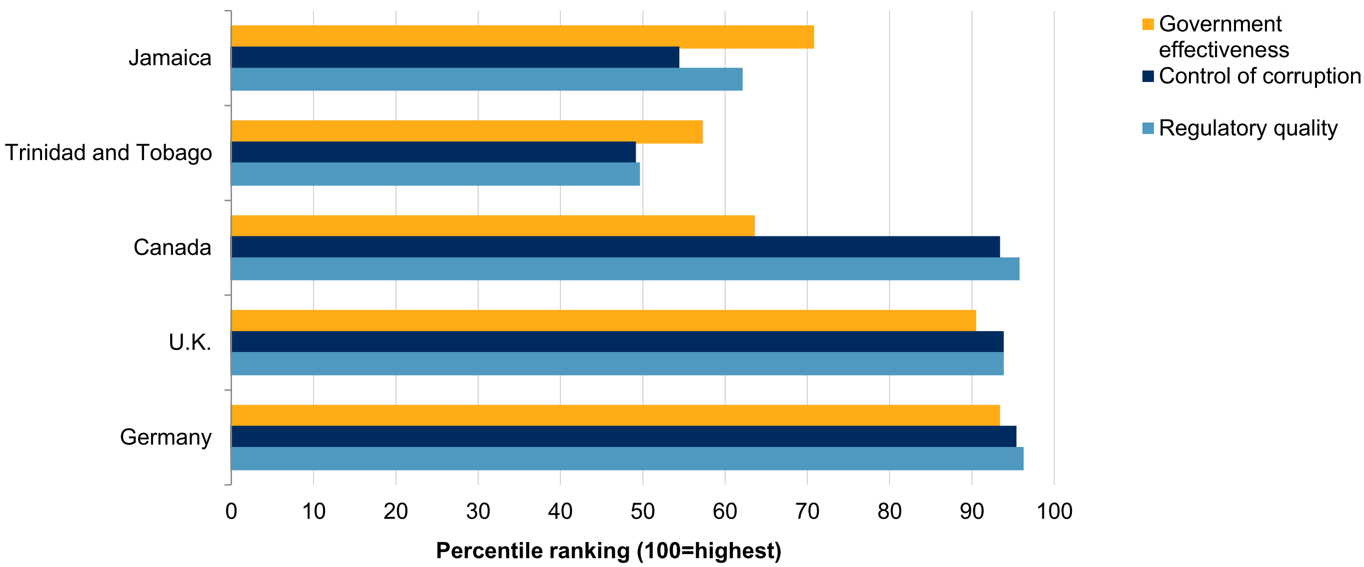
The bank has a diverse shareholding structure; its members include 19 BMCs in the Caribbean and nine nonregional, nonborrowing countries. We view the shareholder structure, with the majority of voting shares (55% as of 2020) coming from borrowing-eligible members, as potentially vulnerable to agency 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 than 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 nonregional 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 full earnings retention as shareholders have forgone dividend payouts.

Chart 2

CDB Five Largest Shareholders
Selected World Bank governance indicators



Source: S&P Global Ratings.

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The bank has continued 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 it faces, including strategic, financial, operational, and developmental risks.

CDB has complied with its portfolio exposure limits over the past three years and reduced its loan concentration to the top three borrowers over the past 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 bank's 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 2020, the top three borrowers represented 38% of the total loan portfolio (Barbados 20%, Bahamas 9%, and Jamaica 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 high capitalization over the years, which continues to anchor the bank's creditworthiness.

Financial Risk Profile: Robust Capital And Liquidity

- CDB's extremely strong capital adequacy reflects its low leverage and conservative lending policies, which we believe can counterbalance 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 declined to 26.5% as of year-end 2020 from 28% in 2019 but remained well above our 23% threshold for extremely strong capital adequacy. The drop stemmed from lower ratings in some BMCs, such as the Bahamas, Suriname, and Belize. We believe CDB's capital base would be resilient if there were additional economic pressures in the region, especially given its large concessional window, which has provided liquidity support to distressed members, and the callable capital buffer from highly rated shareholders. If borrowing members were to not maintain PCT with CDB, this could weigh on our ratings.

The quality of CDB's cash capital is robust. However, the accounting treatment of CDB's derivative positions generates volatility in comprehensive income, which factored strongly in the $33 million comprehensive gain the bank reported in 2020. CDB's derivatives are not traded and are being held until maturity--accordingly, this volatility remains unrealized and is not included in operating income.

Table 1

CDB Risk-Adjusted Capital Framework Data: December 2020

(Mil. US$)	Exposure	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk			
Government and central banks	1,518	3,008	198
Institutions	366	182	50
Corporate			
Retail			
Securitization			
Other assets	108	51	47
Total credit risk	2,160	3,455	160
Credit valuation adjustment			
Total credit valuation adjustment			
Market risk			
Equity in the banking book			
Trading book market risk			
Total market risk			
Operational risk			

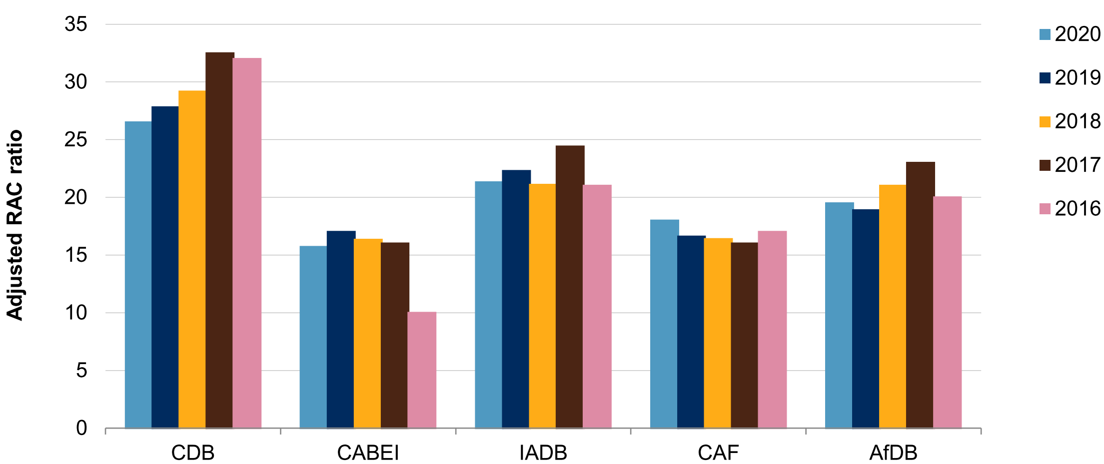
Table 1

CDB Risk-Adjusted Capital Framework Data: December 2020 (cont.)		
Total operational risk	220	
Risk transfer mechanisms		
Risk transfer mechanisms RWA RWA before MLI Adjustments	3,675	100
MLI adjustments		
Single name (on corporate exposures)	156	73
Sector (on corporate portfolio)	(26)	(7)
Geographic	(147)	(4)
Preferred creditor treatment (on sovereign exposures)	(1,568)	(52)
Preferential treatment (on FI and corporate exposures) Single name (on sovereign exposures)	1,595	53
Total MLI adjustments	(17)	(0)
RWA after MLI adjustments	3,659	100
	Total adjusted capital	**S&P Global Ratings RAC Ratio (%)**
Capital ratio before adjustments	968	26.3
Capital ratio after adjustments	968	26.5

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

Chart 3

CDB Risk-Adjusted Capital Ratio Peer Comparison



RAC ratio for AfDB is as of mid-June 2020. Source: S&P Global Ratings.

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Funding and liquidity

Our funding and liquidity ratios for CDB indicate the bank would be able to fulfill 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 (2020 liabilities to equity was 1.19x, compared with 1.24x in 2019). In general, we view it as having adequate access to capital markets, though its global investor base is less developed than that of some of the more established MLIs.

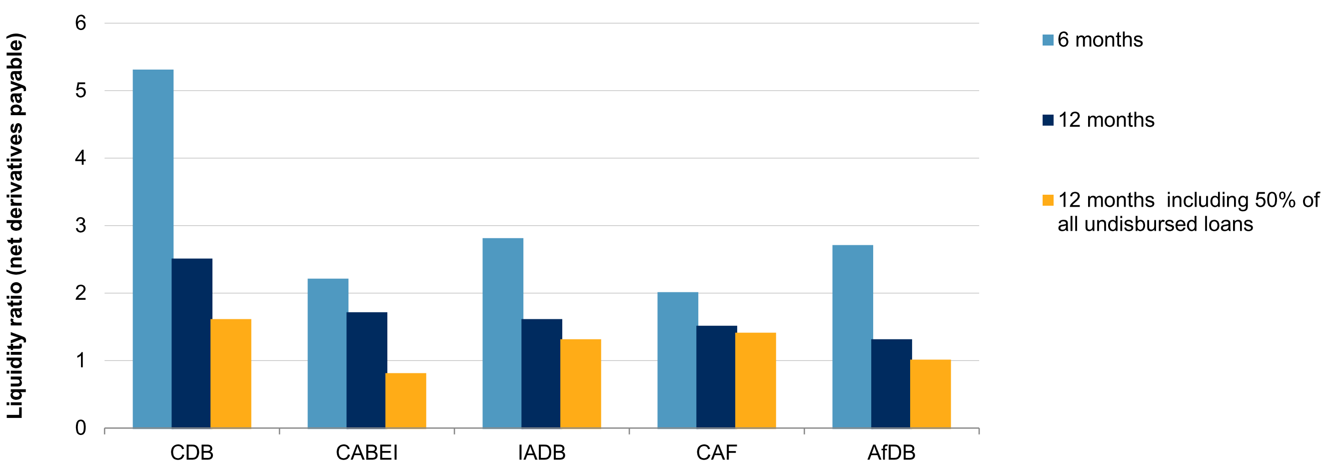
Of CDB's total borrowings of $1.1 billion as of December 2020, 86% are market borrowings and the remainder comes from other MLIs and development agencies, which helps maintain its low-cost funding. In 2019, CDB issued an inaugural €250 million 20-year bond in the German capital market.

As of year-end 2020, the static funding gap at one year with loan disbursements was robust at 14.1x.

Liquidity. CDB has historically had solid liquidity, and liquid assets as a percentage of adjusted total assets were 30% in December 2020, from 35% in December 2019. Using year-end 2020 data and incorporating our updated liquidity haircuts, our 12-month liquidity ratio was 2.5x with scheduled loan disbursements, while the six-month ratio was 5.3x. 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.

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Extraordinary Shareholder Support

CDB benefits from $205 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 Callable Capital
As a percentage of total callable capital

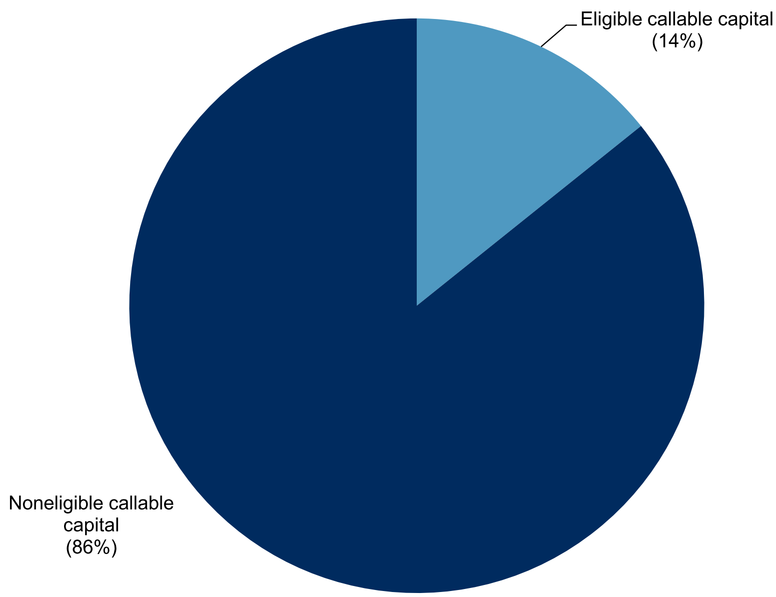

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Table 2

CDB Selected Indicators

	2020	2019	2018	2017	2016
ENTERPRISE PROFILE					
Policy importance					
Total purpose-related exposure (loans, equity, etc.) (mil. $)	1,351	1,274	1,186	1,078	1,035
Public-sector (including sovereign-guaranteed) loans/purpose-related exposure (%)	94.1	94.1	96.0	96.1	97.1
Private-sector loans/purpose-related exposures (%)	5.9	5.9	4.0	3.9	2.9
Gross loan growth (%)	6.1	7.6	10.1	4.2	2.4
Preferred creditor treatment ratio (%)	0.8	0.8	0.88	0.98	N.A.
Governance and management expertise					
Share of votes controlled by eligible borrower member countries (%)	64.8	64.8	64.8	64.8	N.A.
Concentration of top two shareholders (%)	34.3	34.3	34.3	34.3	N.A.
Eligible callable capital (mil. curr)	205	205	205	205	N.A.
FINANCIAL RISK PROFILE					
Capital and earnings					
RAC ratio (%)	26.5	27.8	29.2	32.5	32.0

Table 2

CDB Selected Indicators (cont.)

	2020	2019	2018	2017	2016
Net interest income/average net loans (%)	2.9	3.4	3.0	2.2	1.5
Net income/average shareholders' equity (%)	3.1	2.7	1.6	0.9	0.2
Impaired loans and advances/total loans (%)	0.1	0.2	0.4	0.5	0.5
Liquidity ratios					
Liquid assets/adjusted total assets (%)	30.3	34.8	26.9	27.7	28.2
Liquid assets/gross debt (%)	58.3	65.1	58.0	64.0	66.0
Liquidity coverage ratio (with planned disbursements):					
Six months (net derivate payables) (x)	5.3	3.8	2.3	3.6	3.8
12 months (net derivate payables) (x)	2.5	2.0	1.7	2.4	2.5
12 months (net derivate payables) including 50% of all undisbursed loans (x)	1.6	1.3	1.7	1.9	N.A.
Funding ratios					
Gross debt/adjusted total assets (%)	51.9	53.5	46.3	43.2	42.7
Short-term debt (by remaining maturity)/gross debt (%)	2.0	8.0	6.6	1.3	1.1
Static funding gap (with planned disbursements)					
12 months (net derivate payables) (x)	14.1	7.1	5.5	18.6	38.2
SUMMARY BALANCE SHEET					
Total assets (mil. $)	2,121	2,096	1,748	1,641	1,599
Total liabilities (mil. $)	1,153	1,162	849	741	703
Shareholders' equity (mil. $)	968	934	899	900	897

Source: S&P Global Ratings.

Table 3

CDB Peer Comparison

	Caribbean Development Bank	Central American Bank for Economic Integration	Inter-American Development Bank	Corporacion Andina de Fomento	African Development Bank
Issuer credit ratings	AA+/Stable/A-1+	AA/Stable/A-1+	AAA/Stable/A-1+	A+/Negative/A-1+	AAA/Stable/A-1+
Total purpose-related exposure (mil.$)	1,351	8,306	105,549	28,547	34,079
Preferred creditor treatment ratio (%)	0.8	0.0	2.0	3.4	1.4
Risk adjusted capital ratio (%)	26.5	15.7	21.3	18.0	19.5
Liquidity ratio 12 months (net derivative payables; %)	2.5	1.7	1.6	1.5	1.3
Funding gap 12 months (net derivative payables; %)	14.1	2.0	1.5	2.1	1.0

RAC ratio and PCT ratio for AfDB are as of end-June 2020. Source: S&P Global Ratings.

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 2021: Comparative Data For Multilateral Lending Institutions, May 11, 2021
- Supranationals Edition 2020: Comparative Data For Multilateral Lending Institutions, Oct. 20, 2020
- Supranationals Special Edition 2020 Says Multilateral Lenders Are Addressing Challenges From COVID-19, Oct. 20, 2020
- Introduction To Supranationals Special Edition 2020, Oct. 19, 2020
- Can Multilateral Lenders' Capital Bases Hold Up Against COVID-19?, June 9, 2020
- How Multilateral Lending Institutions Are Responding To The COVID-19 Pandemic, June 9, 2020
- ESG Industry Report Card: Supranationals, Feb. 11, 2020

Ratings Detail (As Of May 25, 2021)*		
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+
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.

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