S&P Global Ratings

RatingsDirect®

Research Update:

Caribbean Development Bank Ratings Affirmed At 'AA+/A-1+'; Outlook Is Stable

December 14, 2023

Overview

- In our view, the Caribbean Development Bank (CDB) has a very strong enterprise risk profile supported by its important role of providing multilateral financing to the Caribbean countries and demonstrated support from shareholders.
- CDB maintains a robust capital position even with larger lending volumes and higher concentration levels, as well as solid liquidity.
- S&P Global Ratings affirmed its 'AA+' long-term issuer credit rating and 'A-1+' short-term issuer credit rating on CDB.
- The stable outlook reflects our expectation that, over the next two years, CDB will maintain high capitalization levels to support growth in its loan book and the bank's enterprise profile will remain very strong, as we expect sovereign borrowers to treat the bank as a preferred creditor.

PRIMARY CREDIT ANALYST

Jennifer Love, CFA

Toronto

+ 1 (416) 507 3285

jennifer.love
@spglobal.com

SECONDARY CONTACTS

Julia L Smith

Toronto

+ (416) 507-3236

Julia.Smith
@spglobal.com

Alexander Ekbom

Stockholm

+ 46 84 40 5911

alexander.ekbom
@spglobal.com

Rating Action

On Dec. 14, 2023, S&P Global Ratings affirmed its 'AA+/A-1+' long- and short-term issuer credit ratings on the Caribbean Development Bank. The outlook is stable.

Outlook

The stable outlook is based on S&P Global Ratings' view that over the next two years, CDB will maintain high capitalization, even amid natural disasters that can weigh on some Caribbean economies and slowing global growth. 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 expectation that preferred creditor treatment (PCT) will not deteriorate and that CDB will continue to manage its balance sheet prudently. Furthermore, we forecast gradual growth in the bank's private sector exposure, and we expect the higher risks this entails to be contained by an appropriate strengthening of the bank's risk management.

Downside scenario

We could lower the ratings on CDB if shareholder relationships deteriorate or if doubts arise about PCT. Financial stress among 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 during the outlook horizon.

Upside scenario

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

Rationale

We affirmed our ratings on CDB based on its very strong enterprise risk profile and extremely strong financial risk profile. Although CDB benefits from extraordinary support in the form of callable capital, this does not provide additional uplift to its stand-alone credit profile (SACP) at 'aa+' given its capital position; therefore, we are keeping the long-term issuer credit rating at the same level as the SACP.

CDB's RAC ratio as of June 30, 2023, was 29%, which is well above our 23% threshold for extremely strong capital adequacy. We revised our calculation of CDB's RAC ratio this year to exclude the assets under management related to its special development funds (SDFs), which are supported outside of CDB's ordinary capital resources(OCR). We also removed a historical instance of arrears that occurred more than 10 years ago.

The bank continues to demonstrate a strong record of PCT by its members. Over the past 10 years, there have been no instances of arrears. Previously, we included a past instance of a default on a very small loan that occurred in 2012, in our PCT ratio. However, we removed it this year because it is beyond our 10-year window. 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 loans outstanding (Belize's loans outstanding represent 10% of the OCR portfolio). The same happened following Jamaica's selective default in 2010. More recently, Barbados defaulted on its external bonds in October 2018, although it has continued to make payments to CDB and this has not resulted in arrears.

We expect CDB will remain an important source of multilateral financing in the Caribbean, underpinning its policy importance. Although 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, CDB is the sole lender to other members. CDB has completed the first year of its updated strategic plan for 2022-2024. Under the revised strategic plan, the bank will focus on knowledge creation and innovation and maintain its previous objectives of sustainability and building resilience for borrowing member countries. We expect CDB will continue expanding its loan book in support of its revised strategic plan in the medium term.

The bank has been instrumental in providing financial and technical support to members, particularly when they face natural disasters. In response to the 2021 volcanic eruption in St. Vincent and the Grenadines, CDB provided grant support and an immediate response loan, as well as repurposing its lending for additional support. The bank was also active in the aftermath of the 2017 hurricane season, which severely hit some of its member countries; and after the 2020 hurricanes that hit Belize. Among other efforts, CDB deployed exceptional financing and emergency response grants to various borrowing member countries.

CDB's members have demonstrated their support for the bank. In May 2010, CDB's board of governors approved a $217 million (138% increase over the bank's capital) general capital increase in paid-in capital. In February 2021, contributors replenished the SDF, the bank's largest pool of concessionary resources, by approving a $383 million program for the 10th cycle of the SDF, an increase of 7.8% over the SDR-9 cycle.

Over the years, CDB has undertaken various partnerships that underpin its unique role. In 2021, CDB worked with the European Investment Bank to repurpose a €30 million line of credit to purchase COVID-19 vaccines and approved a second line of credit with the IADB for $50 million to build disaster and climate change resilience. The bank also entered into an agreement with the EU to implement the Caribbean Action Resilience Enhancement program. We expect CDB's increased focus on climate change will strengthen over the medium term. In fact, CDB has a pivotal role among its members in providing policy advice and technical support.

Significant support from nonregional members is also evident in the funding of CDB's special funds resources (SFR), which provide grants and concessional loans to the bank's lower-income borrowing member countries. This has helped sustain the credit quality of the OCR and is a key part of the bank's business model, with SFR 2022 approvals totaling $41.7 million compared with OCR approvals of $58.7 million.

We view the shareholder structure as presenting some agency risk because the majority of voting shares come from borrowing-eligible members (55% as of 2022) combined with, on average, a lower ranking in governance in the borrowing member countries compared with highly rated multilateral lending institution (MLI) peers. This may be counterbalanced by a longer track record of operating in a financially sustainable way during times of stress, as well as a further consolidation of its financial and risk framework.

The bank has continued to strengthen its governance by improving its risk management and monitoring over the years. CDB's board of directors sets the governance framework for the bank by determining the risk framework and the underlying policies and procedures. The bank has remained in compliance with its internal policy limits again this year.

CDB carefully manages concentration in its portfolio, balancing significant geographic (Caribbean) risk and economic (tourism-intensive and U.S. and European market-driven) risk. The exposure limit to its single largest borrower is the greater of 40% of loans or 50% of the bank's internally calculated available capital. The exposure limit to its three largest borrowers is the greater of 60% of loans or 90% of available capital. As of Dec. 31, 2022, the top three borrowers represented 38.6% of the total loan portfolio (Barbados 18%, Belize 10%, and Antigua and Barbuda 10%), compared with a peak of 50% in 2013. To offset credit risk, CDB's shareholders have enabled management to maintain high capitalization over the years, which continues to anchor the bank's creditworthiness.

CDB continues to report very low impaired and past-due loans, Impaired loans (stage 3) totaled $1.6 million as of Dec. 31, 2022--unchanged from 2021--representing 0.1% of the total loan portfolio, and these are fully provisioned.

Currently, the private sector loan book represents about 5% of the total loans outstanding, but we expect this could increase modestly in the medium term. Although expanding lending to the private sector introduces higher risk, we expect CDB will move cautiously in this venture by strengthening the organization in terms of processes and staff before ramping up lending volumes.

CDB pursues a conservative funding strategy and maintains relatively low leverage compared with that of peers. Furthermore, liquid assets as a percentage of adjusted total assets held steady at 32% in December 2022, compared with 35% in the previous year. Using June 2023 data and incorporating our updated liquidity haircuts, our 12-month liquidity ratio was 2.0x with scheduled loan disbursements, while the six-month ratio was 2.45x. Under this same stress scenario, CDB could satisfy increased demand for unplanned loan disbursements.

CDB benefits from $205 million in eligible callable capital from its 'AA+' and 'AAA' rated shareholders (Germany and Canada), which provides a buffer if CDB's RAC ratio were to fall below the extremely strong threshold.

Ratings Score Snapshot

Issuer credit rating	AA+/Stable/A-1+
Stand-alone credit profile	aa+
Enterprise risk profile:	Very strong
Policy importance	Very strong
Governance and management expertise	Adequate
Financial risk profile:	Extremely strong
Capital adequacy	Extremely strong
Funding and liquidity	Strong
Extraordinary support	0
Callable capital:	0
Group support:	0
Holistic approach	0

Related Criteria

- Criteria | Governments | General: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Jan. 31, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Supranationals Special Edition 2023, Oct. 12, 2023

Ratings List

Ratings Affirmed	
Caribbean Development Bank	
Issuer Credit Rating	
Foreign Currency	AA+/Stable/A-1+
Caribbean Development Bank	
Senior Unsecured	AA+

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.