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+

Credit Highlights

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

Overview

Enterprise risk profile	Financial risk profile
Caribbean Development Bank has a strong record of fulfilling its mandate through the credit cycle.	Capital and liquidity are robust.
--Key partner for the region that has faced challenges from hurricanes, volcanic eruptions, and COVID-19	--Low leverage and conservative lending policies, which we believe can counterbalance credit stress in the region
--Established preferred creditor treatment, which we expect it will uphold despite growing credit stress in the region	--Concessional lending window complements ordinary capital resources
--Conservative financial and risk management practices, although the balance sheet shows significant concentration risk	--Funding and liquidity position provides flexibility to increase disbursements, even during stressed market conditions

Caribbean Development Bank (CDB) has played an instrumental role as its members have faced challenges such as natural disasters and the COVID-19 pandemic. The bank provided support to mitigate the impact of the volcanic eruption in St. Vincent and the Grenadines and two hurricanes in Belize in 2020. Amid the pandemic, CDB repurposed some of its lending and assumed an important role alongside other multilateral lending institutions (MLIs) to support the region. In 2021 CDB approved a total of $161.4 million from both its ordinary capital resources (OCR) and concessional window (Special Development Fund)--of which $90.2 million took the form of grants--and disbursed a total of $254.9 million. Total net flows to the region declined last year (to $24 million, from $120 million in 2020), stemming from COVID-19's particularly severe impact on counterparties' and government agencies' implementing capacity. That said, we view this as an extraordinary one-off event and expect a reversal in 2022.

CDB has maintained a strong record of preferred creditor treatment (PCT) despite increased stress in its borrowing member countries and has strengthened its risk management functions. While many borrowing member countries experienced a sharp downturn in revenue as tourism plummeted in 2020 and 2021, they continued to make full and timely payments to CDB. To some extent, this was made possible by CDB providing debt service support through its concessional window for some of its members' ordinary capital obligations, although this program expired by the end of 2021. This initiative, proposed by CDB's management and supported by its board, was intended to provide borrowing member countries with fiscal space to address the negative social and economic impacts of COVID-19. We believe CDB has carefully managed its portfolio, carefully balancing the use of regular and concessional resources and managing concentrations.

Our view of CDB's financial risk is based on its ample capital and liquidity buffers, which enable the bank to mitigate economic stress for its primary borrowing members. Its risk-adjusted capital (RAC) ratio, based on year-end 2021 financial data and using rating parameters as of May 2022, remained relatively stable compared with year-end 2020 at 26.5%. Moreover, CDB's eligible callable capital provides it with an additional buffer against unexpected deterioration in its RAC ratio after adjustments.

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 the lingering COVID-19 pandemic. We expect the 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 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.

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 over 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 grow its loan book substantially.

Environmental, Social, Governance

CDB's borrowing member countries are disproportionately vulnerable to natural disasters because of their location. 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.

In April 2021, the eruption of the volcano in St. Vincent and the Grenadines caused significant damage to infrastructure and agriculture, and in 2020, Belize experienced damage from two hurricanes. Some borrowing members 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 borrowing member countries 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. In 2021, it approved a second line of credit with the Inter-American Development Bank (IADB) to build disaster and climate change resilience, and in 2021 it entered into an agreement with the EU to implement the Caribbean Action for Resilience Enhancement program. Environmental sustainability and climate change have become key to CDB's lending. As of Dec. 31, 2021, the environmental and disaster risk-reduction category accounted for 9% of its loan portfolio, policy-based loans accounted for 37%, and transportation loans made up 24%. 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. The bank 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 borrowing member countries have limited capacity to access ordinary capital to fund their climate-related investment needs. Supporting borrowing members in accessing concessional funds for climate action has been a priority reflected in the bank's "climate resilience" strategy. CDB also actively supports borrowing member countries 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 borrowing member countries 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

Policy importance: Cornerstone lender in the Caribbean

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, 2021, 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 remain 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 IADB and the International Bank for Reconstruction and Development, it is the sole lender to other members.

The bank has been instrumental in providing financial and technical support to members, particularly as they face natural disasters. 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 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.

In the face of COVID-19 and the resulting severe economic stress for many members, CDB proved an important player and provided leadership and broader coordination efforts to support the region alongside other MLIs, such as the World Bank, the IADB, and the IMF. CDB 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%; it represented 37% as of year-end 2021 and is expected to be within policy limits by 2023. CDB also provided debt service support to seven Special Development Fund (SDF)-eligible countries to cover OCR debt service for four quarters over 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.

CDB has a somewhat smaller balance sheet, and growth remained flat in 2021 with $1.33 billion in loans outstanding as of December. Net flows to the region were $23.6 million in 2021, far lower than $123.4 million in 2020, largely due to the pandemic's impact on government agencies' execution constraints. OCR approvals were $37 million, compared with $224 million in 2020, and SFR approvals were $125 million. We believe approvals will increase over the coming years, largely supported by large MLIs that can provide intermediate resources to CDB that it can deploy to members.

Over the years, CDB has attracted various partnerships that underpin its unique role. In 2021, CDB worked with the European Investment Bank (EIB) 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 continue to strengthen over the medium term. In fact, CDB has a pivotal role among its members in providing policy advice and technical support.

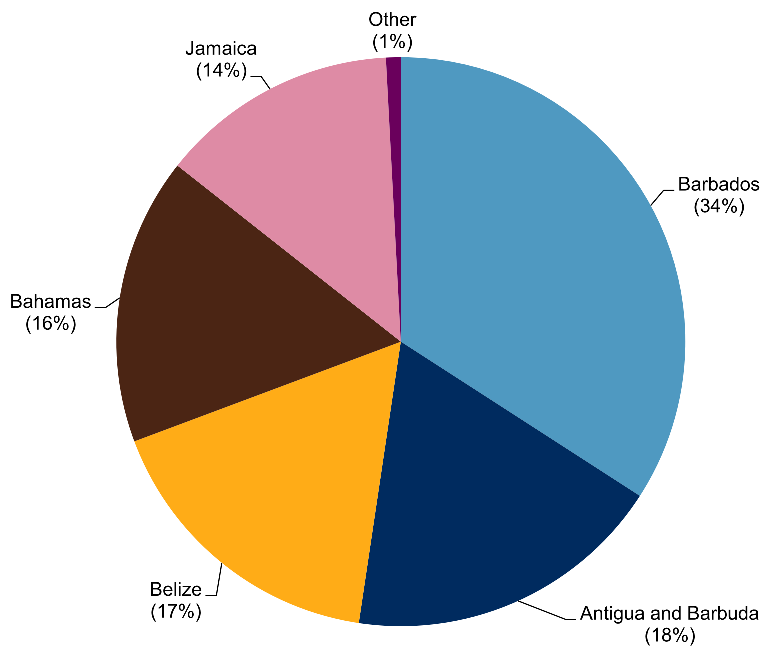
The bank's private-sector financing has remained around 5%, though this could grow over time. The private sector's relative share within the portfolio remains small, with total exposure at $79 million. Impaired loans (stage 3) totaled $1.6 million as of Dec. 31, 2021--unchanged from 2020--representing 0.2% of the total loan portfolio, and these 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. 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, which was an increase of 7.8% over the SDR-9 cycle.

The bank has a strong record of PCT by its members, which our arrears-calculated PCT ratio of 0.71% 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'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.

Governance and management expertise: Diverse shareholding structure

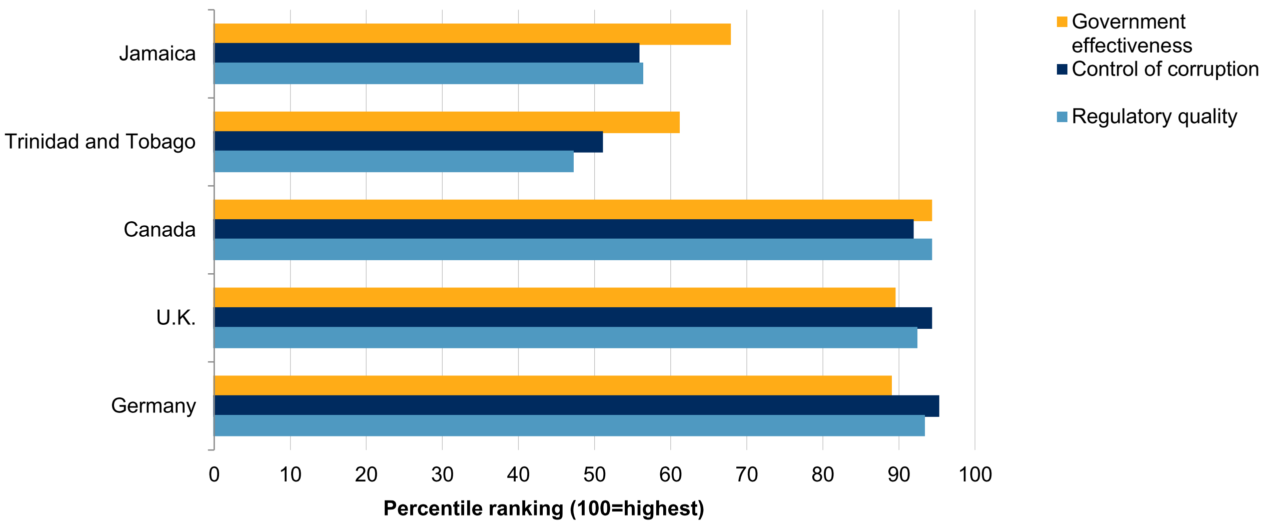
The bank has a diverse shareholding structure; its members include 19 borrowing member countries in the Caribbean and nine nonregional, nonborrowing countries. We view the shareholder structure, with the majority of voting shares (55% as of 2021) coming from borrowing-eligible members, as potentially 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 rankings in World Bank indicators for 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

Five Largest Shareholders
Selected World Bank governance indicators



Source: S&P Global Ratings.

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.

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 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 2021, 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. 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.

Financial Risk Profile

Capital adequacy: Resilient despite a buildup in economic pressures in 2021

CDB's RAC ratio remained unchanged at 26.5% in 2021, well above our 23% threshold for extremely strong capital adequacy. 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.

Table 1

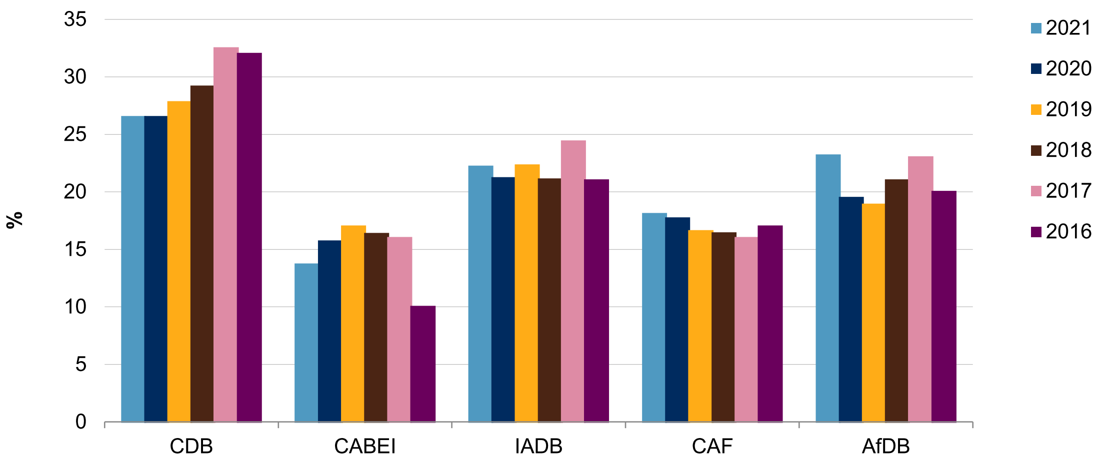
CDB Risk-Adjusted Capital Framework Data: December 2021

(Mil. US$)	Exposure	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk			
Government and central banks	1,701	2,864	168
Institutions	407	88	22
Corporate	231	266	116
Retail			
Securitization			
Other assets	45	23	52
Total credit risk	2,384	3,241	136
Credit valuation adjustment			
Total credit valuation adjustment			
Market risk			
Equity in the banking book			
Trading book market risk			
Total market risk			
Operational risk			
Total operational risk		219	
Risk transfer mechanisms			
Risk transfer mechanisms RWA			
RWA before MLI Adjustments		3,460	100
MLI adjustments			
Single name (on corporate exposures)		263	99
Sector (on corporate portfolio)		(10)	(2)
Geographic		(136)	(4)
Preferred creditor treatment (on sovereign exposures)		(1,548)	(54)
Preferential treatment (on FI and corporate exposures)		-21	-6
Single name (on sovereign exposures)		1,570	55
Total MLI adjustments		118	3
RWA after MLI adjustments		3,578	103
		Total adjusted capital	**S&P Global Ratings RAC Ratio (%)**
Capital ratio before adjustments		949	27.4
Capital ratio after adjustments		949	26.5

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

Chart 3

Risk-Adjusted Capital Ratio Peer Comparison



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

Funding and liquidity

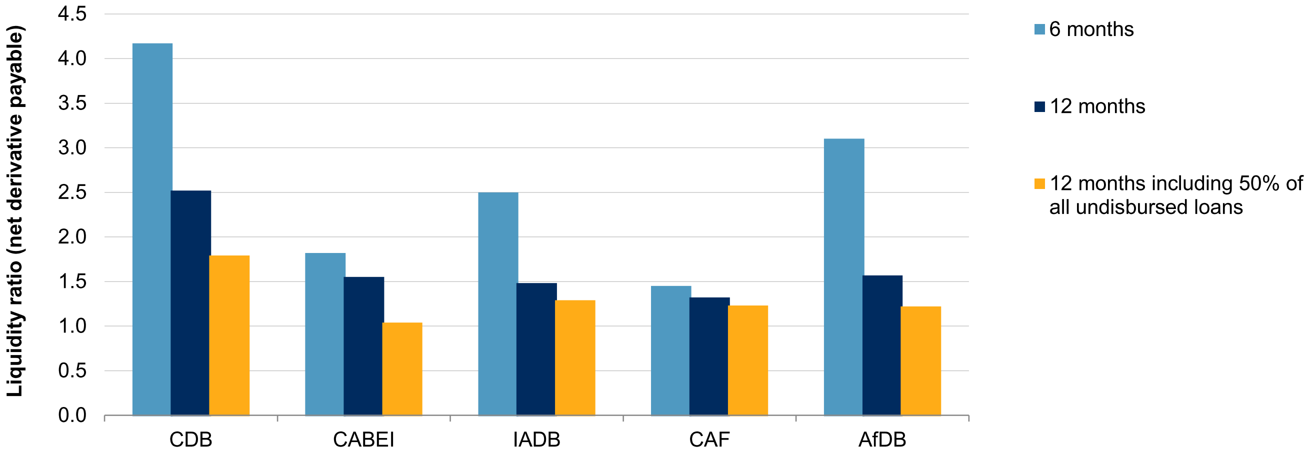
Funding: CDB pursues a conservative funding strategy and has low leverage (liabilities to equity was 1.28x in 2021, compared with 1.16x in 2020). In general, we view the bank as having adequate access to capital markets, though its global investor base is less developed than that of some of the more established MLIs.

Of CDB's total borrowings of $1.2 billion as of December 2021, 86% are market borrowings and the remainder comes from other MLIs and development agencies, which helps maintain its low-cost funding. Last year CDB issued a $150 million fixed-rate bond in the German capital market, which followed another raising of €250 million in November 2019, and continued drawing down on its IDB Global loan and its EIB loan. As of year-end 2021, the static funding gap at one year with loan disbursements was robust at 4.0x.

Liquidity: CDB has historically had solid liquidity, and liquid assets as a percentage of adjusted total assets were 30% in December 2021, from 30% in December 2020. Using year-end 2021 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 4.2x. Under this same stress scenario, CDB could satisfy increased demand for unplanned loan disbursements.

Chart 4

Liquidity Stress Test Ratios Peer Comparison



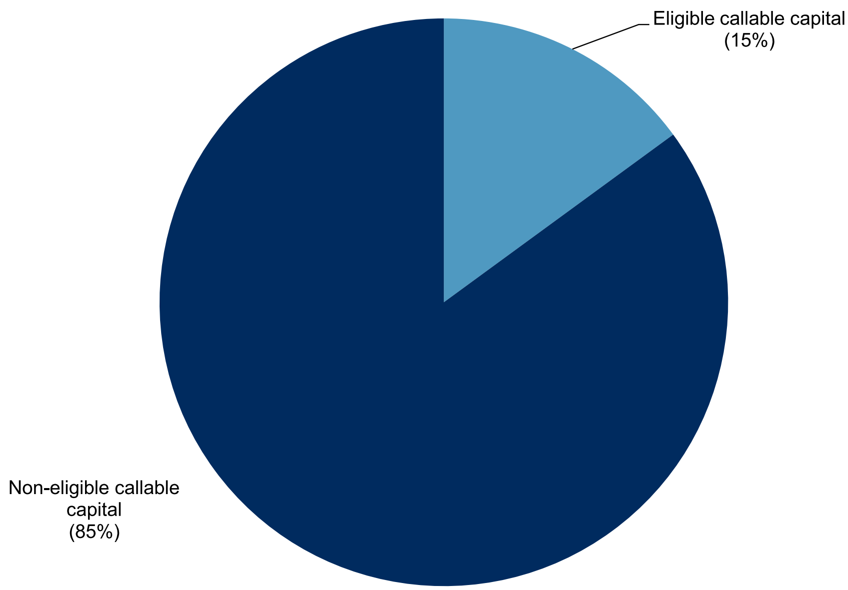
Source: S&P Global Ratings.

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

Callable Capital
As a percentage of total callable capital



Source: S&P Global Ratings.

Table 2

CDB Selected Indicators

	2021	2020	2019	2018	2017
ENTERPRISE PROFILE					
Policy importance					
Total purpose-related exposure (loans, equity, etc.) (mil. $)	1,353	1,351	1,274	1,186	1,078
Public-sector (including sovereign-guaranteed) loans/purpose-related exposure (%)	94.1	94.1	94.1	96.0	96.1
Private-sector loans/purpose-related exposures (%)	5.9	5.9	5.9	4.0	3.9
Gross loan growth (%)	0.1	6.1	7.6	10.1	4.2
Preferred creditor treatment ratio (%)	0.7	0.8	0.8	0.88	0.98
Governance and management expertise					
Share of votes controlled by eligible borrower member countries (%)	64.8	64.8	64.8	64.8	64.8
Concentration of top two shareholders (%)	34.3	34.3	34.3	34.3	34.3
Eligible callable capital (mil. curr)	205	205	205	205	205
FINANCIAL RISK PROFILE					
Capital and earnings					
RAC ratio (%)	26.5	26.5	27.8	29.2	32.5

Table 2

CDB Selected Indicators (cont.)

	2021	2020	2019	2018	2017
Net interest income/average net loans (%)	2.0	2.9	3.4	3.0	2.2
Net income/average shareholders' equity (%)	2.3	3.1	2.7	1.6	0.9
Impaired loans and advances/total loans (%)	0.1	0.1	0.2	0.4	0.5
Liquidity ratios					
Liquid assets/adjusted total assets (%)	36.0	30.3	34.8	26.9	27.7
Liquid assets/gross debt (%)	66.7	58.3	65.1	58.0	64.0
Liquidity coverage ratio (with planned disbursements):					
Six months (net derivate payables) (x)	4.2	5.3	3.8	2.3	3.6
12 months (net derivate payables) (x)	2.5	2.5	2.0	1.7	2.4
12 months (net derivate payables) including 50% of all undisbursed loans (x)	1.8	1.6	1.3	1.7	1.9
Funding ratios					
Gross debt/adjusted total assets (%)	54.0	51.9	53.5	46.3	43.2
Short-term debt (by remaining maturity)/gross debt (%)	1.4	2.0	8.0	6.6	1.3
Static funding gap (with planned disbursements)					
12 months (net derivate payables) (x)	4.0	14.1	7.1	5.5	18.6
SUMMARY BALANCE SHEET					
Total assets (mil. $)	2,217	2,121	2,096	1,748	1,641
Total liabilities (mil. $)	1,268	1,153	1,162	849	741
Shareholders' equity (mil. $)	949	968	934	899	900

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+/Positive/A-1	AAA/Stable/A-1+
Total purpose-related exposure (mil.$)	1,353	8,306	109,567	30,005	31,830
Preferred creditor treatment ratio (%)	0.7	0.0	1.9	2.8	1.2
Risk-adjusted capital ratio (%)	26.5	13.7	22.2	18.1	23.2
Liquidity ratio 12 months (net derivative payables; %)	2.5	1.5	1.5	1.3	1.6
Funding gap 12 months (net derivative payables; %)	4.0	1.6	1.3	1.8	1.5

PRE and PCT ratio for CABEI is as of end-December 2020. Source: S&P Global Ratings.

Rating Component Scores

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, 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: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Introduction To Supranationals Special Edition 2021, Oct. 27, 2021
- Supranationals Edition 2021: Comparative Data For Multilateral Lending Institutions, Oct. 27, 2021
- Supranationals Special Edition 2021 Says Boost In Multilateral Lending Support May Not Last, Oct. 27, 2021
- ESG Industry Report Card: Supranationals, Feb. 11, 2020

Ratings Detail (As Of May 31, 2022)*		
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 31, 2022)*(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.