FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Caribbean Development Bank at 'AA+'; Outlook Stable

Tue 18 Feb, 2025 - 8:23 AM ET

Fitch Ratings - London - 18 Feb 2025: Fitch Ratings has affirmed Caribbean Development Bank's (CDB) Long-Term Issuer Default Rating (IDR) at 'AA+' with a Stable Outlook.

A full list of rating actions is at the end of this rating action commentary.

KEY RATING DRIVERS

Ratings Driven by SCP: CDB's 'AA+' Long-Term IDR reflects its Standalone Credit Profile (SCP) of 'aa+', underpinned by liquidity and solvency assessments of 'aaa' and 'aa+', respectively. Fitch assesses CDB's business environment as medium risk, which does not translate into any adjustment to the solvency and liquidity assessments.

New President Elected: Mr Daniel Best was recently appointed president of CDB, effective February 2025. This follows the bank's decision to place former president Dr. Hyginus Leon on administrative leave from January to April 2024, before he departed the bank later in the year. In Fitch's view, the process to transition to a new president was consistent with the bank's high governance standards. The bank has decided to delay the implementation of its new Strategic Plan from 2025 until 2026, in order for the strategic direction of the bank to be informed by the president's vision. The new strategy is expected to run from 2026-2035, which is longer than recent strategies, including the most recent update (2022-2024).

'Excellent' Capitalisation: CDB's solvency assessment is supported by its 'excellent' capitalisation. As of end-September 2024, the bank's usable capital/risk-weighted assets (FRA) ratio was 68%, comfortably above the 35% threshold for an 'excellent' assessment, and the equity/adjusted assets and guarantees ratio was 45%, also well above the 25% threshold for an 'excellent' assessment. These metrics are broadly in line with pre-pandemic levels, which highlights the resilience of the bank's capitalisation, supported by its strong loan performance.

Lending Volumes Decline: CDB's ordinary capital resource (OCR) approvals fell considerably in 2024 to USD132 million versus USD285 million the year before, representing a decline of 53%. This largely reflects that no policy-based loan (PBL) was approved in 2024, unlike 2023 when the bank approved USD193 million of loans to Bahamas and St. Lucia to support post-Covid recovery. Fitch understands that one of the reasons for the lower loan approvals was due to changes in the level of engagement between the bank and some of its borrowing member countries due to the leadership changes it was undergoing.

'Low' Credit Risk: Fitch has revised its assessment of credit risk to 'low' from 'moderate'. This reflects the bank's very strong record of loan performance (non-performing loans (NPL): 0.1% at end-September 2024) coupled with the improvement in the bank's average rating of loans (ARL) to 'B' from 'B-'. CDB continues to have no arrears with sovereign borrowers, and its sole NPL is to a small, non-sovereign exposure (around USD1.6 million). Fitch assesses CDB's preferred creditor status as 'excellent', which translates into a '+3' notch adjustment to the ARL when assessing the bank's solvency.

Caribbean Sovereign Ratings Improve: Fitch upgraded the sovereign ratings of Barbados to 'B+' from 'B' with a Stable Outlook in October 2024 (https://www.fitchratings.com/research/sovereigns/fitch-upgrades-barbados-to-b-outlook-stable-15-10-2024) and Jamaica to 'BB-' from 'B+' with a Positive Outlook in March 2024 (https://www.fitchratings.com/research/sovereigns/fitch-upgrades-jamaica-to-bb-outlook-positive-05-03-2024). Barbados and Jamaica are in the bank's top 10 exposures, accounting for 14.1% and 4.6% of loans, respectively.

Concentration Remains Key Constraint: CDB's five largest borrowers made up 61.3% of total banking exposures at end-September 2024 (56.6% at end-September 2023), which is 'high' under Fitch's criteria. The increase stemmed from the large policy-based loan the bank disbursed to Bahamas. The bank's concentration risk is inherently higher than peers, given the geographical proximity and correlation between borrowing member countries' economies. Fitch recognises CDB's on-going efforts to improve its concentration risk, as it targets loan portfolio diversification towards higher-rated sovereigns as well as exploring an Exposure Exchange Agreement with a highly-rated multilateral development bank.

Very High Liquidity: Fitch assesses CDB's liquidity at 'aaa'. This is driven by 'excellent' liquidity buffers (coverage of short-term debt was 9.0x at end-September 2024) and the 'excellent' credit quality of the bank's treasury portfolio. Fitch expects the bank to continue to operate with large and high-quality liquidity buffers.

'Medium Risk' Business Environment: Fitch continues to assess CDB's business profile as 'medium risk', given the size of its banking portfolio (USD1.5 billion at end-September 2024), its sovereign lending focus (95% of total banking exposure) and high governance standards. The importance of CDB's public mandate also contributes to this assessment. Fitch also assesses CDB's operating environment as 'medium risk', reflecting the relatively weak credit quality and moderate income levels in the bank's countries of operations.

Support Assessment Unchanged: Given the bank's SCP, our assessment of support is not a rating driver. Our assessment of support (bbb-) is unchanged from last year and reflects stability in the ratings of CDB's key shareholders, which Fitch defines as those shareholders that own the largest shares of subscribed capital and whose cumulative ownership accounts for at least 50%. The high ratio of paid-in to total capital (22%) is evidence of the bank's importance for shareholders. This translates into a 'strong' propensity to support.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

-**Solvency (Credit Risk):** An increase in credit risk potentially leading to sovereign arrears and/or higher NPLs in the non-sovereign loan book, leading to a rise in the NPL ratio above the upper bound 'very low' risk threshold of 1%.

-**Solvency (Concentration Risk):** Increased concentration risk, driven by a rise in the share of existing exposures and/or increased exposure to sovereigns in financial distress, would be negative for the rating.

-**Solvency (Capitalisation):** A significant decline in the FRA ratio relative to recent historical performance (previous three-year average: 64%). This could be driven by losses, rapid growth in banking operations and/or a significant increase in risk-weighted assets.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

-**Solvency (Concentration Risk):** A material improvement in concentration, resulting in the bank's top five exposures accounting for less than 40% of total banking exposure. This could stem from a diversification of the bank's lending operations and/or the successful execution of an Exposure Exchange Agreement.

-**Solvency (Credit Risk):** A sustained improvement in the bank's credit risk profile, potentially driven by greater exposure to higher-rated borrowers moving the bank's weighted ARL into the 'BB' category; alongside a continued 'very low' level of NPLs.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

CDB has an ESG Relevance Score of '4[+]' for Human Rights, Community Relations, Access & Affordability. CDB provides grants funded by donor contributions and that are a significant part of the bank's business model. CDB has also acted as a lender of last resort to countries that had lost market access. This supports CDB's policy importance. This has a positive impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

CDB has an ESG Relevance Score of '4' for Policy Status and Mandate Effectiveness. Geographically concentrated exposure to small Caribbean islands with economies largely interconnected and highly vulnerable due to large tourism exposure and risk of natural disasters. This has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

CDB has an ESG Relevance Score of '4' for 'Rule of Law, Institutional and Regulatory Quality'. All supranationals attract a score of '4'. Supranationals are neither subject to bank regulation nor supervised by an external authority. Instead, supranationals comply with their own set of rules. Fitch pays particular attention to internal prudential policies, including compliance with these policies.

CDB has an ESG Relevance Score of '3' for 'Exposure to Environmental Impacts'. Environmental risk is a key risk to CDB's borrowers but this is actively managed by the bank. CDB has contributed to the set up (with other partners, such as the World Bank) an insurance vehicle against natural disasters and encourages its sovereign borrowers to acquire minimum insurance cover. CDB has never suffered a loss due to the realisation of environmental risk.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visitwww.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Caribbean Development Bank	LT IDR	AA+	Affirmed	AA+
	ST IDR	F1+	Affirmed	F1+

PREVIOUS Page 1 of 1 10 rows NEXT

VIEW ADDITIONAL RATING DETAILS

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer’s available public disclosure.

APPLICABLE CRITERIA

Supranationals Rating Criteria (pub. 03 Oct 2024) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Caribbean Development Bank	UK Issued, EU Endorsed

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: https://www.fitchratings.com/understandingcreditratings. In addition, the following https://www.fitchratings.com/rating-definitions-document details Fitch's rating definitions for each rating s

READ MORE

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's Regulatory Affairs page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.