MOODY'S RATINGS

Announcement of Periodic Review: Moody's Ratings announces completion of a periodic review of ratings of Caribbean Development Bank

11 Jun 2024

New York, June 11, 2024 -- Moody's Ratings (Moody's) has completed a periodic review of the ratings of Caribbean Development Bank and other ratings that are associated with this issuer.

The review was conducted through a rating committee held on 6 June 2024 in which Moody's reassessed the appropriateness of the ratings in the context of the relevant principal methodology(ies), and recent developments.

This publication does not announce a credit rating action and is not an indication of whether or not a credit rating action is likely in the near future. Please see the Issuer page on https://ratings.moodys.com for the most updated credit rating action information and rating history.

Key Rating considerations and rationale are summarized below.

Caribbean Development Bank (CDB) ratings, including its Aa1 long-term issuer and senior unsecured bond ratings, with stable outlook remain unchanged.

The CDB's rating reflects its strong capital adequacy, high liquidity and sound asset performance supported by its preferred creditor status. The bank also benefits from strong financial support from borrowing and non-borrowing members. However, the CDB's credit profile is constrained by high borrower concentration and the weak average credit quality of its borrowing member countries (BMCs).

CDB's credit profile is supported by its "aa3" capital adequacy, underpinned by modest leverage, sound growth and robust asset performance. CDB's "aa2" liquidity and funding score reflects well-established presence in international bond markets and strong liquidity position, the result of a conservative liquidity risk management policy. Moody's assesses the CDB's strength of member support as "High", underpinned by the availability of callable capital and demonstrated willingness to support the institution as illustrated by regular capital contributions from its membership base.

The CDB's "aa3" capital adequacy score reflects its "aa3" capital position and our expectation that leverage will decline from its 2022 level. The capital adequacy score also incorporates a "ba" development asset credit quality (DACQ), which reflects the CDB's regional development mandate and highly concentrated lending portfolio with high exposure to low credit quality sovereigns in the Caribbean. Nonetheless, the CDB's asset performance is assessed at "aaa" and remains very strong, with nonperforming assets (NPA) at only 0.1% of the total portfolio.

Moody's assesses the CDB's strength of member support as "High." The ability of the bank's members to provide support — as proxied by the ba2 weighted average shareholder rating (WASR) — is balanced by the CDB's high concentration of weak credit quality shareholders from inside the region and the participation of relatively high credit quality sovereigns from outside the region. Moody's also considers the fact that the CDB's members have a very strong willingness to support the bank if required because of CDB's important role as a key development partner in the region.

The stable outlook reflects Moody's assessment that conservative risk management practices and continued compliance with the CDB's internal risk management guidelines will help the bank maintain strong capital and liquidity metrics. The stable outlook also reflects the CDB's continued efforts to reduce portfolio concentration through ongoing efforts to attract new members, and the potential improvement in the weighted average of the credit quality of its borrowing members. Portfolio concentration is also contained by the bank's existing single exposure limits, which mitigate the credit risk and high regional concentration of its loan portfolio.

CDB is enhancing its risk management framework in response to the G20's ongoing review of multilateral development banks' capital adequacy. The bank's reform roadmap, extending through the next 3 years, addresses strengthening of capital adequacy, credit, concentration, market, liquidity, and operational risks. Under this reform, CDB is also exploring Balance Sheet Optimisation through credit risk transfer instruments. One such instrument being considered is an Exposure Exchange Agreement (EEA), involving the exchange of significant sovereign exposures with another MDB, thereby reducing concentration. Implementing schemes to reduce loan concentration, CDB's primary solvency weakness, could positively impact the assessment of its risk management and overall quality of management score.

The rating could be upgraded if the average quality of the CDB's borrowers were to improve significantly and the concentration of its loan book were to decline significantly. Given the bank's mission to serve the Caribbean, coupled with the economic and financial challenges facing the region, a rating upgrade is unlikely in the short term, notwithstanding management's plans to increase lending to higher-rated members.

The rating could be downgraded if the bank's capitalization or liquidity metrics, or both, were to deteriorate significantly for an extended period. Such a deterioration could result from significant losses or impairments on the bank's loan portfolio, or if the bank fails to comply with or weakens its prudential financial policies. A repeated breach of internal risk management targets or financial policies would signal weakening risk management and could also lead to a downgrade. Evidence of waning support from non-regional members and donors would also likely exert downward pressure on the rating.

This document summarizes Moody's view as of the publication date and will not be updated until the next periodic review announcement, which will incorporate material changes in credit circumstances (if any) during the intervening period.

The principal methodology used for this review was Multilateral Development Banks and Other Supranational Entities published in February 2024. Please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

This announcement applies only to EU rated, UK rated, EU endorsed and UK endorsed ratings. Non-EU rated, non-UK rated, non-EU endorsed and non-UK endorsed ratings may be referenced herein to the extent necessary, if they are part of the same organization list.

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Samar Maziad
Vice President - Senior Analyst
Sovereign Risk Group
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Mauro Leos
Associate Managing Director
Sovereign Risk Group
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007

U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

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