



## RATING ACTION COMMENTARY

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

Wed 21 Feb, 2024 - 1:56 pm ET

Fitch Ratings - London - 21 Feb 2024: 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.

**CDB's President On Administrative Leave:** Dr. Hyginus Leon, president of CDB appointed in 2021, has been placed on 'administrative leave' from 15 January to 14 April 2024 pending the outcome of an on-going independent, internal administrative process. In Fitch's view, the ongoing administrative process is consistent with the bank's high governance standards and the agency does not anticipate there to be any rating impact.

**Excellent Capitalisation:** CDB's solvency assessment is supported by the bank's 'excellent' capitalisation. As of end-September 2023, the bank's equity/adjusted assets and guarantees ratio was 45%, comfortably above the 25% threshold for an 'excellent' assessment. Fitch's usable capital/risk-weighted assets (FRA) ratio was 65%, also well above the 35% threshold for an 'excellent' assessment. These metrics are broadly in line with pre-pandemic levels, which highlights the limited impact of the pandemic on the bank's capitalisation, given strong loan performance.

**Resilient Loan Performance:** The performance of CDB's loan portfolio continues to exceed our previous expectations during the pandemic, with no new non-performing loans (NPLs) incurred since it started. The bank's overall NPL ratio is 'very low' (defined as less than 1%), with no sovereign arrears and only one non-sovereign NPL, accounting for 0.1% of loans at end-September 2023.

**Barbados Drives Forecast ARL Improvement:** Fitch expects CDB's weighted average rating of loans (ARL) to improve from 'B-' at end-September 2023 to 'B' over the medium-term forecast through to 2026. The principal driver of this is the revision of the Outlook on Barbados (B) to Positive in October 2023 as the agency assumes a one-notch upgrade of the rating of any entity on Positive Outlook through its forecast period. Fitch also recognises the positive impact on this metric of the bank's strategy to increasingly disburse loans to higher-rated borrowing member countries.

**Risk Management Framework Enhancements:** CDB is in the process of upgrading its Risk Management Framework in response to the ongoing review of multilateral development banks' (MDB) capital adequacy by the G20 countries. The bank has set out a roadmap for reforms spanning capital adequacy, concentration, market, liquidity and operational risks through to 2025. In our view, recourse to schemes that would reduce loan concentration, CDB's main solvency weakness, could support our assessment of risk management.

**Concentration Key Rating Constraint:** CDB's five largest borrowers made up 56.6% of total banking exposures at end-September 2023 (53% at end-2022), which is a 'moderate' level under Fitch's criteria. The bank's concentration risk is inherently higher than peers, given the geographical proximity and correlation between borrowing member countries' economies. Fitch recognises the on-going efforts CDB is making to improve its concentration risk, as CDB targets loan portfolio diversification towards higher-rated sovereigns as well as exploring an Exposure Exchange Agreement with a highly-rated MDB.

**Very High Liquidity:** Fitch assesses CDB's liquidity at 'aaa'. This is driven by the bank's 'excellent' liquidity buffers (coverage of short-term debt was 8.0x at end-September 2023) 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 (USD1.4 billion at end-September 2023), its sovereign lending focus (95% of total banking exposure) and high governance standards. The importance of CDB's public mandate further 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):** 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 positively impacting the bank's weighted ARL beyond Fitch's current expectations.

## **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 set up (with other partners, such as the World Bank) an insurance vehicle against natural disasters and requires 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, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

## RATING ACTIONS



ENTITY / DEBT ↕	RATING ↕		PRIOR ↕
Caribbean Development Bank	LT IDR	AA+ Rating Outlook Stable	AA+ Rating Outlook Stable
	Affirmed		
	ST IDR	F1+ Affirmed	F1+

[VIEW ADDITIONAL RATING DETAILS](#)

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## **APPLICABLE CRITERIA**

[Suprationals Rating Criteria \(pub. 11 Apr 2023\) \(including rating assumption sensitivity\)](#)

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Caribbean Development Bank

UK Issued, EU Endorsed

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