

05 MAR 2025

Fitch Affirms North American Development Bank at 'AA'; Outlook Stable

Fitch Ratings - London - 05 Mar 2025: Fitch Ratings has affirmed North American Development Bank's (NADB) 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

SCP and Support Drive Rating: NADB's 'AA' rating is driven by its Standalone Credit Profile (SCP) and shareholder support, both assessed at 'aa'. The 'aa' SCP reflects the lower of our solvency (aa+) and liquidity (aaa) assessments, adjusted down by one notch due to the 'medium risk' business environment. Our 'aa' support assessment considers the coverage of net debt by callable capital subscribed by the US (AA+/Stable), along with a 'moderate' propensity to support the bank.

US EO Highlights Risk: Fitch does not currently anticipate a US withdrawal from NADB following President Donald Trump's recent executive order (EO) to review the US membership of international intergovernmental organisations. However, this EO does highlight the higher risk that NADB faces compared with other Fitch-rated multilateral development banks (MDBs), which is that the bank only has two shareholders; the US and Mexico, each of which own 50% of capital. NADB's statutes state that a US withdrawal from NADB would lead to the termination of its operations. This event could result in a multi-notch downgrade of the ratings.

'Excellent' Capitalisation Underpins Solvency: NADB's excellent capitalisation continues to be a rating strength. Fitch's usable capital to risk-weighted assets (FRA) ratio, remained stable at 90% at end-2024 (2023: 90%), one of the highest among rated MDBs. The increase in usable capital, driven by internal capital generation, was offset by higher risk-weighted assets due to some deterioration in the credit quality of loans. The bank's leverage also remained stable, with an equity-to-assets ratio of 37% at end-2024. Fitch forecasts the FRA and equity-to-assets ratios to remain above their respective 35% and 25% 'excellent' thresholds over the medium term.

'Moderate' Credit Risk: The weighted average rating of loans weakened in 2024 to 'BB+' from 'BBB-', consistent with a 'moderate' credit risk assessment. The deterioration was driven by increased credit risk across NADB's loan portfolio, with one exposure (0.9% of loans at end-2024) classified as non-performing by the bank. NADB's focus on non-sovereign operations (private, public-private and sub-national loans) means that the bank's credit risk does not benefit from an uplift for preferred creditor status.

'Low' Solvency Risks: Fitch assesses concentration risk as 'low', with NADB's five largest exposures accounting for 31% of the total banking portfolio at end-2024. The equity risk is 'very low', as the bank has no equity participations in its portfolio. Fitch considers the bank's risk management policies as 'strong', balancing its conservative risk management based on its policies and record, against its sectoral and geographical concentration (which is a relative weakness compared with other MDBs).

Exposure to Mexico's Electricity Sector: Ongoing reforms in Mexico's electricity sector have not significantly affected NADB's related exposures. Despite timely repayments, the bank has conservatively kept these exposures on a negative watch list (27% of loans as of end-2024). Over the past few years, NADB has successfully reduced its exposure to Mexico's renewable energy sector to 27% of total loans at end-2024, from 32% in 2023 and 46% in 2020. This reduction is part of the bank's diversification strategy, which includes disbursing more loans in the US. As part of its five-year strategic plan, NADB aims to further diversify its portfolio by extending a growing number of loans beyond the energy sector.

'Excellent' Liquidity Profile: NADB's 'aaa' liquidity reflects its 'excellent' liquidity buffers and credit quality of its treasury assets. Fitch projects the bank's liquidity buffers, measured as liquid assets to short-term debt, to remain well above the 150% 'excellent' threshold (2024: 781%) over the medium term. The credit quality of NADB's treasury assets remained stable, with 82% rated 'AA-' or higher at end-2024 (2023: 82%). Fitch expects both liquidity metrics to remain consistent with the 'excellent' assessment over the medium term.

'Medium Risk' Business Environment: Fitch assesses NADB's overall business environment as 'medium risk', resulting in a one-notch negative adjustment from its solvency assessment. NADB's business environment balances i) a 'high risk' business profile assessment (minus two notches), which is largely a product of the bank's small size, focus on non-sovereign loans and minor policy role relative to similarly-rated peers, partly offset by sound governance standards; and ii) its 'low risk' operating environment assessment (plus one notch). NADB maintains good relations with local governments and municipalities, which have been the key beneficiaries of its lending programmes.

Shareholders' Support: Fitch assesses extraordinary support from NADB's shareholders at 'aa', reflecting 'aa+' capacity to support and a 'moderate' / 'minus one notch' propensity to support. The capacity to support assessment is anchored on the coverage of NADB's net debt by callable capital subscribed by the US. The 'moderate' propensity to support balances the ongoing capital increase and the limited size and geographical coverage of the bank relative to rated peers.

In January 2025, Mexico disbursed USD46 million of paid-in capital, clearing some of its outstanding capital arrears with NADB. However, the US Treasury has not yet authorised the release of any of its capital that is being held as cash restricted from use at the bank. Further delays in capital received or recognised from either shareholder could weigh on our assessment of their propensity to support.

Mexican National Scale Rating Affirmed: NADB's Long-Term IDR is materially above Mexico's sovereign Long-Term IDR (BBB-/Stable). Consequently, the bank's rating on the Mexican National Rating Scale is 'AAA(mex)'. The Long-Term National Rating is sensitive to a change in NADB's Long-Term

IDR in the event that it falls below Mexico's Long-Term IDR.

RATING SENSITIVITIES

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

Given that NADB's ratings are underpinned by the SCP and support, any negative rating action would require a deterioration in our assessment of both NADB's SCP and support assessments.

Shareholder Support: A downgrade of the US sovereign rating and/or weakening in shareholders' propensity to support due to delayed capital payments by Mexico or delayed release of US paid-in capital.

Solvency (Risks): Significantly higher non-performing loans and/or weakening in the average rating of loans affecting our assessment of the bank's SCP. This could be driven by changes affecting the bank's borrowers operating in Mexico's renewable energy sector.

Solvency/Business Profile: The withdrawal of a major shareholder that significantly affects NADB's capitalisation or business profile could result in a multi-notch downgrade.

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

Support (Capacity): An upgrade of the US sovereign rating to 'AAA'/Stable would lead to an improvement in our assessment of support and overall Long-Term IDR, provided the bank's SCP does not deteriorate by several notches, given the three-notch cap between SCP and shareholder support assessments.

Solvency (Risks): An improvement in the bank's SCP, stemming from a material improvement in the credit quality of the bank's loan portfolio, non-performing loans being at a 'very low' level on a sustained basis and reduced concentration to 'very low' levels.

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.

Public Ratings with Credit Linkage to other ratings

NADB's rating is linked to the US sovereign rating.

ESG Considerations

NADB has an ESG Relevance Score of '4' for 'Rule of Law, Institutional and Regulatory Quality'. All supranationals have 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.

NADB has an ESG Relevance Score of '4' for 'Policy Status and Mandate Effectiveness'. The bank only

operates in the U.S. and Mexico as per its bylaws. Any sovereign rating action taken on Mexico or the US could affect our assessment of NADB's loan portfolio and/or support assessment.

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 www.fitchratings.com/topics/esg/products#esg-relevance-scores.

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Rating Actions

| ENTITY/DEBT | RATING | | RECOVERY | PRIOR |
|---------------------------------|--------|--|----------|--|
| North American Development Bank | LT IDR | AA  | Affirmed | AA  |

| ENTITY/DEBT | RATING | | RECOVERY | PRIOR |
|-----------------------|---------|--|----------|--|
| | ST IDR | F1+ | Affirmed | F1+ |
| | Natl LT | AAA(mex)  | Affirmed | AAA(mex)  |
| • senior unsecured | LT | AA | Affirmed | AA |

RATINGS KEY OUTLOOK WATCH

| | | |
|----------|---|---|
| POSITIVE |  |  |
| NEGATIVE |  |  |
| EVOLVING |  |  |
| STABLE |  | |

Applicable Criteria

[Metodología de Calificaciones en Escala Nacional \(pub.22 Dec 2020\)](#)

[Metodología de Calificación de Supranacionales \(pub.12 Feb 2025\)](#)

[National Scale Rating Criteria \(pub.22 Dec 2020\)](#)

[Supranationals Rating Criteria \(pub.03 Oct 2024\) \(including rating assumption sensitivity\)](#)

Additional Disclosures

[Solicitation Status](#)

Endorsement Status

North American Development Bank UK Issued, EU Endorsed

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