

03 AUG 2023

Fitch Downgrades North American Development Bank to 'AA'; Outlook Stable

Fitch Ratings - London - 03 Aug 2023: Fitch Ratings has downgraded North American Development Bank's (NADB) Long-Term Issuer Default Rating (IDR) to 'AA' from 'AA+' and removed it from Rating Watch Negative. The Outlook is Stable.

Fitch has affirmed the bank's Short-Term IDR at 'F1+'. Fitch has also affirmed NADB's Mexican National Scale Rating at 'AAA(mex)' with a Stable Outlook.

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

Key Rating Drivers

Downgrade Driven by Lower US Support: Fitch has revised down its assessment of NADB's support from shareholders to 'aa' from 'aa+' following the recent sovereign downgrade of the United States to 'AA+' from 'AAA' (see <https://www.fitchratings.com/research/sovereigns/fitch-downgrades-united-states-long-term-ratings-to-aa-from-aaa-outlook-stable-01-08-2023>). This in turn led to the downgrade of NADB's Long-Term IDR to 'AA' from 'AA+'.

Our support assessment factors in the coverage of net debt by callable capital subscribed by the US (aa+), coupled with a 'moderate' propensity to support, which translates into a '-1' notch adjustment, leading to a final support assessment of 'aa'. The bank's Long-Term IDR is now anchored on both our assessment of NADB's shareholder support and its Standalone Credit Profile (SCP), which are both 'aa'.

'Moderate' Propensity Unchanged: Fitch has maintained its 'Moderate' propensity-to-support assessment since its revision from 'Weak' in 2020, reflecting NADB's inclusion in the US-Mexico-Canada deal and the paid-in capital injection the bank received from the US (USD225 million). The 'Moderate' propensity to support also accounts for the limited size and geographic coverage of the bank relative to rated peers, which affects NADB's policy importance, in Fitch's view.

SCP Provides 'AA' Rating Floor: NADB's SCP reflects its 'aa+' solvency, 'aaa' liquidity' and a one-notch negative adjustment to the lower of the solvency and liquidity assessments for a 'medium risk' business environment. Although not in Fitch's baseline rating assumptions, in the case of further downward revisions of our assessment of support, and all other things being equal, the bank's Long-Term IDR would be unchanged at 'AA'. In this scenario, the bank's Long-Term IDR would then be anchored on the SCP assessment, rather than 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 sovereign Long-Term IDR.

Annual Review Concluded in March: The parameters for this rating review focussed on the impact on NADB of the US being downgraded. The annual review of NADB's ratings was published on 13 March (see <https://www.fitchratings.com/research/sovereigns/fitch-affirms-north-american-development-bank-at-aa-outlook-stable-13-03-2023>).

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 deterioration in our assessment of both NADB's SCP and support assessments.

- **Support (Capacity):** The expectation that NADB's net debt would no longer be 100% covered by callable capital rated 'AA+' would put negative pressure on the ratings. This could stem from either a downgrade of the US sovereign rating or a rapid increase in NADB's net debt.

- **Support (Propensity):** A deterioration in our assessment of the propensity of the bank's shareholders to provide support to the bank, for example, if Mexico fails to honour the ongoing paid-in capital increase over the coming years, would put negative pressure on the ratings.

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

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

- **Support (Propensity):** A positive revision of our 'Moderate' assessment of the propensity of the bank's shareholders to provide support to the bank. This would principally stem from the perception that NADB's role and policy importance to its shareholders was significantly enhanced and in line with 'AAA'-'AA' rated peers.

- **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.

- **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.

Best/Worst Case Rating Scenario

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating

downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

Summary of Data Adjustments

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Sources of Information

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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

The downgrade is linked to the US sovereign rating action taken on 1 August 2023.

ESG Considerations

NADB has an ESG Relevance Score of '4' for 'Rule of Law, Institutional and Regulatory Quality'. All supra-nationals have a score of '4'. Supranationals are neither subject to bank regulation nor supervised by an external authority. Instead, supra-nationals 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 rating.

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>.

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Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
North American Development Bank	LT IDR	AA	Downgrade	AA+
	ST IDR	F1+	Affirmed	F1+
	Natl LT	AAA(mex)	Affirmed	AAA(mex)
• senior unsecured	LT	AA	Downgrade	AA+
• senior unsecured	Natl LT	AAA(mex)	Affirmed	AAA(mex)

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 \(pub.12 May 2023\)](#)

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

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

Additional Disclosures

[Solicitation Status](#)

Endorsement Status

North American Development Bank UK Issued, EU Endorsed

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