

## RATING ACTION COMMENTARY

# Fitch Upgrades North American Development Bank to 'AA+'; Outlook Stable

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Fitch Ratings - London - 26 Jul 2022: Fitch Ratings has upgraded North American Development Bank's (NADB) Long-Term Issuer Default Rating (IDR) to 'AA+' from 'AA'. The issue ratings on NADB's long-term senior unsecured bonds are also upgraded to 'AA+' from 'AA'. The Outlook on the Long-Term IDR is Stable. A full list of ratings is detailed below.

**KEY RATING DRIVERS**

**Stable US Sovereign Outlook:** On 8 July, Fitch revised the United States' Outlook to Stable from Negative, while affirming its IDRs at 'AAA' (see <https://www.fitchratings.com/research/sovereigns/fitch-revises-the-united-states-outlook-to-stable-affirms-rating-at-aaa-08-07-2022>). As such, in assessing NADB's shareholders' capacity to support the institution, the agency no longer assumes a one-notch downgrade of the United States in its baseline assumptions.

**'AAA' Support Capacity Underpins Ratings:** Fitch has revised its assessment of shareholders' capacity to support the bank to 'aaa' from 'aa+', as callable capital from the United States (AAA/Stable) now fully covers NADB's net debt. At end-2021, NADB's gross debt net of highly rated treasury assets (ie. treasury assets rated in the 'AAA' and 'AA' categories as well as eligible 'A'-rated treasury assets) was USD33.5 million, well below the amount of callable capital subscribed by the United States (USD2.55 billion).

**'Moderate' Propensity Unchanged:** Fitch has maintained its 'moderate / -1' propensity to support assessment. In 2020, Fitch revised this assessment to 'moderate' from 'weak', reflecting NADB's inclusion in the United States-Mexico-Canada (USMCA) deal and the paid-in capital injection the bank received from the United States (USD225 million). Fitch expects the bank to receive further capital payments from Mexico over the coming years. 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.

The combination of the 'aaa' capacity to support assessment with a 'moderate (-1)' propensity assessment leads to an overall support assessment of 'aa+'. This means that NADB's Long-Term IDR is now anchored on the support the bank receives from its shareholders ('aa+'), rather than its Standalone Credit Profile ('aa').

**Annual Review Recently Concluded:** The parameters for this rating review were focussed on the impact on NADB of the United States' Outlook change to Stable on 8 July. The outcome of the annual review of NADB's ratings was published on 15 March (see <https://www.fitchratings.com/research/sovereigns/fitch-affirms-north-american-development-bank-at-aa-outlook-stable-15-03-2022>).

**RATING SENSITIVITIES**

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

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

- Solvency (Risks): A multi-notch improvement in the bank's SCP would be required to positively impact the Long-Term IDR. This could stem from a material improvement in the credit quality of the bank's loan portfolio, non-performing loans at a 'very low' level on a sustained basis and reduced concentration to 'very low' levels

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

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

- 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 their expected share of the ongoing paid-in capital increase over the coming years, would put negative pressure on the ratings

- Solvency (Risks): Higher non-performing loans and/or weakening in the average rating of loans could lead to negative rating action. This may be driven by deterioration in the economic performance of the bank's two countries of operations, likely due to changes affecting the banks' borrowers operating in Mexico's renewable energy sector.

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>.

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 ratings are inked to the United States sovereign rating action taken on 8 July 2022.

ESG CONSIDERATIONS

NADB 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.

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.

Except for the matters discussed above, the highest level of ESG credit relevance, if present, is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or to the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg).

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕			PRIOR ↕
North American Development Bank	LT IDR	AA+	Rating Outlook Stable	Upgrade
	ST IDR	F1+	Affirmed	
senior unsecured	LT	AA+	Upgrade	AA

VIEW ADDITIONAL RATING DETAILS

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## **APPLICABLE CRITERIA**

Supranationals Rating Criteria (pub. 11 Apr 2022) (including rating assumption sensitivity)

## **ADDITIONAL DISCLOSURES**

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

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