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CREDIT OPINION
16 July 2025

Update

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RATINGS

NADB

	Rating	Outlook
Long-term Issuer	Aa1	NEG
Short-term Issuer	P-1	--

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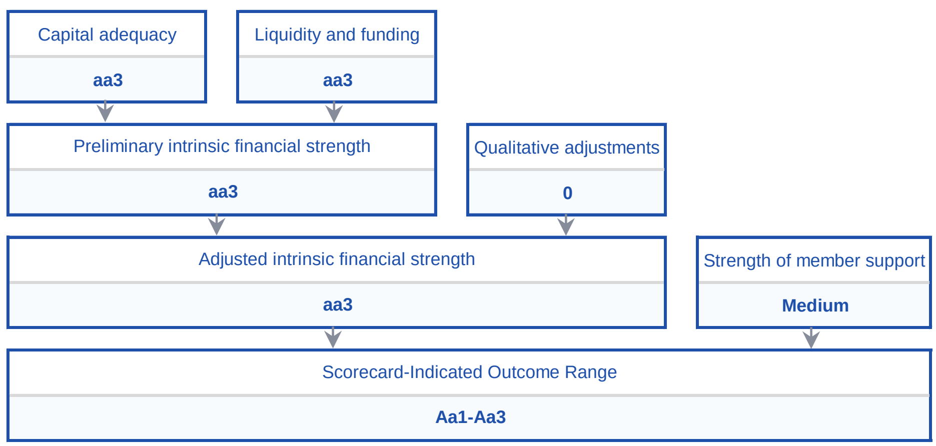
North American Development Bank – Aa1 negative

Update following rating affirmation, outlook changed to negative

Summary

North American Development Bank's (NADB) credit profile reflects the bank's strong capital adequacy and liquidity, and the high credit links with the United States (Aa1 stable) and Mexico (Baa2 negative), its two shareholder members. The bank's coverage of its debt is very high and its leverage is low compared with its rating peers. Moreover, the narrow geographic mandate contributes to a relatively concentrated loan portfolio and to member concentration risk.

Exhibit 1
NADB's credit profile is determined by three factors



Source: Moody's Ratings

Credit strengths

» Low leverage compared with that of peers

» Very strong liquidity policy and coverage of debt service

» Strong asset performance and moderate portfolio quality

Credit challenges

» Member concentration risk since its shareholder base has only two governments

» High loan portfolio concentration by country because of a narrow geographic mandate

» Portfolio remains concentrated despite reduced focus on renewable energy

Rating outlook

The negative outlook reflects the risks that shareholder support to NADB might not be as forthcoming in the future as it has been in the past. Domestic considerations and the bilateral relationship between its two shareholders, the US and Mexico, remain key to new instances of support. In particular, the US' ongoing review of its participation in international and multinational development institutions suggests a potential change in the way the US may engage with the NADB. Although we do not foresee an abrupt cessation of US support for the bank, considering that it has lending operations in the US, changes to the way support is provided or its level could indicate that the bank's credit quality will increasingly rely on its intrinsic financial strength.

Factors that could lead to an upgrade

Upward rating momentum is strongly tied to member support. The outlook could return to stable if there were evidence of an increase in the relevance assigned by NADB's shareholders to the bank, leading to an expanded mandate and to capital increases above and beyond those contemplated at present.

Factors that could lead to a downgrade

NADB's rating would likely be downgraded if we saw concrete signs of weakening member support, in particular from the US. The upcoming review of the US' participation in international organizations, which is currently scheduled to be completed in August 2025, could give an early indication.

Key indicators

Exhibit 2

North American Development Bank (NADB)	2019	2020	2021	2022	2023	2024
Total Assets (USD million)	2,007	2,177	2,115	1,994	2,288	2,402
Leverage Ratio (%) [1]	193.5	150.0	127.1	127.9	142.7	147.1
Weighted-Average Borrower Rating (WABR)	Baa2	Baa2	Baa3	Ba2	Ba1	Ba1
Sovereign Exposures / Loans & Guarantees (%)	18.4	23.1	26.6	31.6	33.3	28.0
Equity Investments / DRA (%)	0.0	0.0	0.0	0.0	0.0	0.0
Non-Performing Assets / DRA (%)	0.0	0.0	0.0	0.0	0.1	0.0
Return on Equity (%)	4.4	2.1	1.6	0.1	3.0	2.6
Availability of Liquid Resources Ratio (ALR, %) [2]	356.0	621.4	438.1	493.1	367.4	430.9
Weighted-Average Shareholder Rating (WASR)	A1	A1	A1	A2	A2	A2
Callable Capital / Gross Debt (%)	392.2	419.6	440.9	498.3	415.4	397.0

[1] Development-related assets (DRA) + Treasury assets rated A3 or lower / Usable equity

[2] Discounted liquid assets / Projected net cash outflows during upcoming 18 months

Source: Moody's Ratings

Profile

Headquartered in San Antonio, Texas, the North American Development Bank (NADB) was established in 1994 under the Agreement Between the Government of the United States of America and the Government of the United Mexican States concerning the establishment of a Border Environment Cooperation Commission (BECC) and a North American Development Bank.[1]

The bank's main activity is its International Program, through which it provides loans, grants, and technical assistance and training to border municipalities and private-sector companies in both Mexico and the US. To facilitate lending to Mexican borrowers in the public sector, the bank has one subsidiary, Corporacion Financiera de America del Norte (COFIDAN), of which it owns 99.95%. The Mexican government owns the remaining 0.05%. The NADB faces a high degree of geographic concentration risk because it only operates in two countries, with an additional forced concentration to within a 400-kilometer north-south band.[2]

Detailed credit considerations

Our determination of a supranational's rating is based on three rating factors: capital adequacy, liquidity and funding, and strength of member support. For multilateral development banks (MDBs), the first two factors combine to form the assessment of intrinsic financial strength, as shown on the cover page graphic. Additional factors, such as risks stemming from the operating environment or the quality of management, can also affect the intrinsic financial strength. The strength of member support is then incorporated to yield a rating range. For more information, please see our Supranational Rating Methodology.

FACTOR 1: Capital adequacy score: aa3

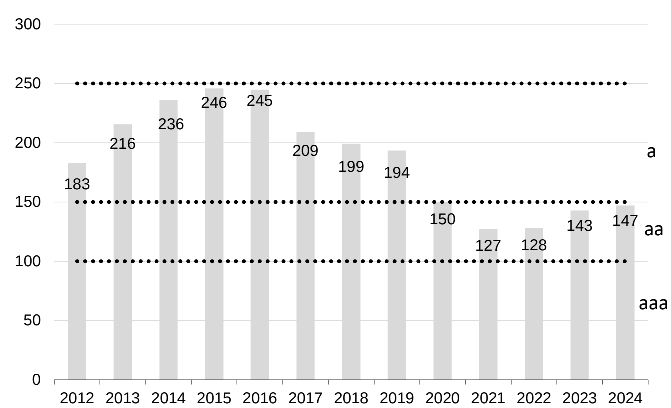
The NADB's "aa3" capital adequacy assessment balances its low leverage compared with similarly rated peers, strong asset performance and moderate asset quality against high concentration risk by country and sector. We expect leverage in the coming years to remain comparatively low as a result of the bank's cautious loan-growth plans and incoming paid-in capital contributions.

Leverage will stabilize at comparatively low levels with moderate loan growth and continued flow of paid-in capital

Reserve accumulation, moderate loan growth and a consistent history of prepayments have led to a steady decrease in the NADB's leverage following a sustained expansion of its loan portfolio in 2012-16 (see Exhibit 3). In 2024, the NADB's leverage ratio (development-related assets/equity) was 147%, scoring "aa3." The NADB has one of the lowest leverage ratios among its Aa-rated peers (see Exhibit 4). We expect incoming paid-in capital contributions and the bank's prudent plans for loan portfolio growth to continue over the coming years, keeping leverage low.

Exhibit 3

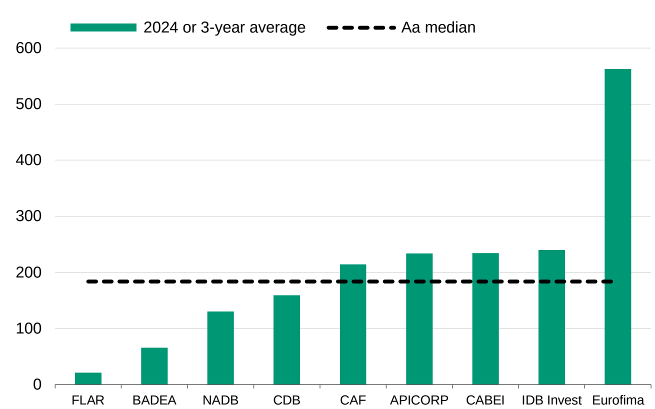
Leverage will stabilize as equity growth matches loan growth
(DRA/equity in percentage terms; dotted lines show scoring ranges for capital position)



Sources: NADB and Moody's Ratings

Exhibit 4

NADB's leverage is among the lowest in the Aa rating category
(DRA/equity in percentage terms)



Source: Moody's Ratings

The ongoing increase in paid-in capital, which will continue through 2028, is also limiting leverage. In 2016, the governments of the US and Mexico agreed on a general capital increase of $3 billion for the bank, which doubled the subscribed capital to $6 billion. However, disbursements for paid-in capital, which would affect our measure of leverage, were not forthcoming. In April 2020, Mexico and the US agreed on a paid-in capital disbursement schedule that will see paid-in capital increase from $415 million in December 2019 to $855 million by year-end 2028. As of year-end 2024, paid-in capital had reached $506 million.

In January 2025, Mexico made a payment of $46 million in paid-in capital and unqualified 30,667 shares of its General Capital Increase (GCI) subscription, consisting of 4,600 shares of paid-in capital ($46 million) and 26,067 shares of callable capital ($260.67 million). In June 2025, the board released a portion of the US' restricted paid-in capital ($48 million), which will contribute to a substantial increase in equity this year.

Asset quality balances moderate credit quality and mandate-driven portfolio concentration

We assess the NADB's development assets' credit quality as “baa.” Our assessment incorporates the weighted average borrower rating of the NADB's loan book, which was Ba1 as of year-end 2024, up from Ba2 in 2022 (see Exhibit 5).

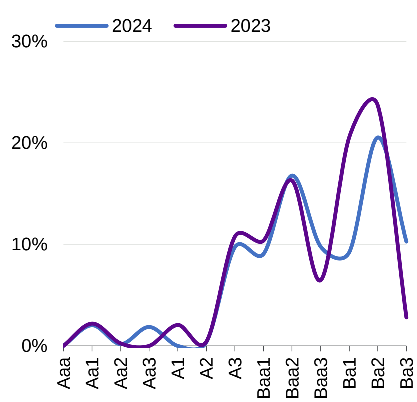
Among all the MDBs that we rate, the NADB faces the highest degree of geographic concentration risk because it only operates in the area around the Mexico-US border. As of year-end 2024, 61% of loans were in Mexico. The bank also lends significantly to the private sector, with sovereign exposures (loans and guarantees to the public sector) accounting for 28% of the total in 2024 (see Exhibit 6). Over the past decade, the NADB focused on increasing loans to clean energy projects, which contributed to an increase in sector concentration given their larger size (see Exhibit 7). The bank's strategy will shift such that there will be an increased focus on lending to water management-related projects, which will contribute toward reducing sector concentration over time.

The high degree of loan concentration has reduced considerably, with the 10 largest loans extended by the NADB accounting for 49% of its portfolio as of year-end 2024, down from 79% in 2012. As the bank continues to expand its operations, the share of the top 10 exposures is unlikely to rise significantly.

Exhibit 5

NADB's credit quality shifted towards higher-rated assets in 2024

(loan portfolio by rating, percentage of total)

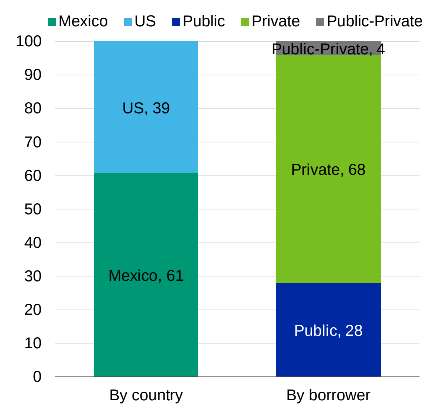


Sources: NADB and Moody's Ratings

Exhibit 6

Portfolio is concentrated in Mexico and the private sector

(loan portfolio by country and borrower in 2024, percentage of total)

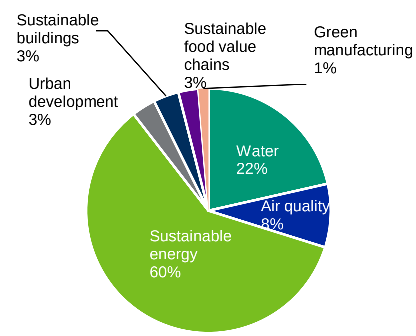


Sources: NADB and Moody's Ratings

Exhibit 7

Portfolio is concentrated in sustainable energy

(loan portfolio by sector in 2024, percentage of total)



Sources: NADB and Moody's Ratings

Asset performance remains very strong

As of year-end 2024, the NADB did not register any nonperforming loans, in accordance with our definition,[3] although one loan was placed in nonaccrual status in May 2024. The bank's nonaccrual policy states the following: “Loans are generally placed on nonaccrual status when principal or interest is delinquent for 180 days (unless adequately secured and in the process of collection) or circumstances indicate that the full collection of principal and interest is in doubt. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is reversed through current-year interest income.” Notably, the nonaccrual status was assigned because of the latter condition (that is, concern about the possibility of the loan becoming delinquent); as of year-end 2024, the loan was not overdue in terms of its principal or interest. Following the posting of collateral, its net size has reduced to $4.4 million (0.4% of total loans). This has allowed the bank to maintain a nonperforming assets ratio of 0%, which scores at "aaa" for asset performance, for several years. Even if the nonaccrual loan went into nonperformance, the score would remain unchanged. We expect moderate loan growth and prudent risk management to keep nonperforming loans as a percentage of gross loans low.

FACTOR 2: Liquidity and funding score: aa3

Our "aa3" liquidity and funding score for the NADB reflects its strong liquidity, one of its key strengths. Limited debt issuance and loan disbursements have led to the accumulation of a substantial liquidity buffer.

Liquidity coverage is very strong because of low borrowing needs

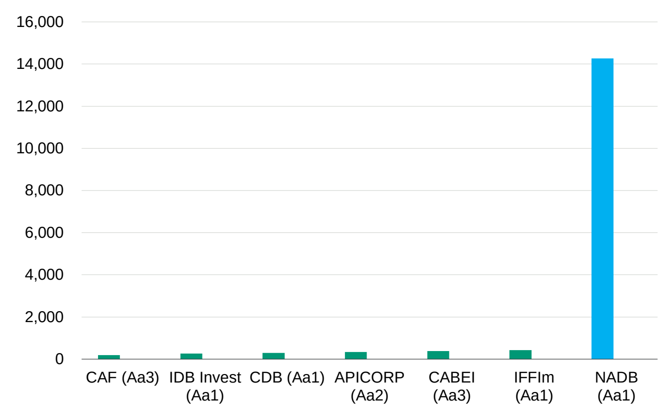
The NADB's liquidity policy requires that "the minimum amount of aggregate liquid asset holdings is equal to the highest consecutive 12 months of the following 18 months of expected debt-service obligations, plus committed net loan disbursements (if positive), plus projected operating expenses for the relevant fiscal year." The bank determines a minimum amount before the beginning of the fiscal year and can revise it during the year to account for major changes in the outlook.

The upshot of the NADB's liquidity policy is that the bank compares favorably with most Aa-rated peers in terms of liquidity indicators. Most years, the NADB's availability of liquid resources ratio (net cash and liquid assets as a percentage of outflows expected over the next 18 months in a stress scenario without new market issuances or capital contributions from members) is one of the highest among the MDBs that we rate (see Exhibit 8) — scoring "aaa." Its liquid assets relative to maturing debt also rank among the strongest in its peer group. This is a reflection of the NADB's low leverage and well-spread maturity profile (see Exhibit 9), and its moderate growth plans, which help keep its borrowing needs low.

Exhibit 8

NADB has strong liquidity coverage

(liquid assets/short term + currently maturing long-term debt, three-year average, latest, %)

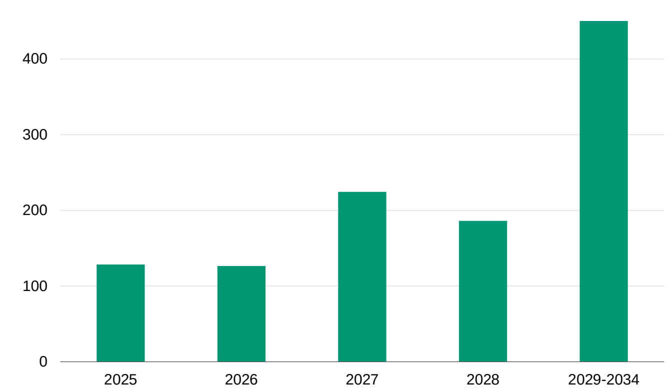


Sources: NADB and Moody's Ratings

Exhibit 9

Amortization profile is spaced out, reducing rollover risk

($ millions)



Sources: NADB and Moody's Ratings

Another factor supporting the long-term strength of the bank's liquidity is the fact that one of its reserve funds (part of retained earnings) is a debt-service reserve fund. It ranks first in the order of priority for funding among the bank's reserve funds and is maintained at an amount equal to 12 months of interest due on the bank's outstanding debt at each fiscal year-end. The existence of this fund effectively puts aside a portion of total liquid assets for debt service, therefore complementing the liquidity policy and providing additional protection to bondholders.

Funding program is still limited

The NADB's quality of funding indicator scores at "a," below the "aa" score that we assign to most of its Aa-rated peers given their longer established track record in issuing debt and larger borrowing programs. However, the bank has updated its green bond framework — this was established in 2018 and last updated in 2020 — and will continue to issue green bonds; it is also studying different issuance options that would facilitate opportunistic issuances.

The NADB's low leverage and small size have led to a modest borrowing program. The bank currently has eight bonds outstanding, issued in three currencies (US dollar, Swiss franc and Norwegian krone). It has also started borrowing in Mexican pesos, which will enable it to continue to diversify its investor base while also increasing efficiencies in currency management between its assets and liabilities.

Qualitative adjustments to intrinsic financial strength

Operating environment

We have not applied qualitative adjustments in our assessment of the NADB's credit profile.

Quality of management

The NADB's quality of management is in line with the practices at the MDBs that we rate. In addition to having robust capital adequacy and liquidity risk policies, the bank's management has ensured compliance with these policies, which in turn has resulted in strong credit metrics. The NADB has also made efforts to continue enhancing its risk management capabilities. For example, in 2017, its internal risk department developed and implemented 13 methodologies to assess the credit risk of its loan portfolio based on a review of the bank's historical credit rating standards, Basel II IRB approaches, credit rating agencies' methodologies, industry best practices and current regulatory aspects.

FACTOR 3: Strength of member support score: Medium

The NADB's score of "Medium" for strength of member support reflects its shareholders' contractual commitment and ability to provide support in a stress scenario. We set the score below the indicative "High" score, reflecting the high member concentration and the risk that potential changes in domestic or bilateral policies may lower the propensity to support the bank in the future. The two members have experienced increased fiscal pressures that have weighed on their credit profiles. Although we expect them to continue supporting the bank in line with the ongoing GCI, this consideration may limit additional support. Notably, the coverage provided by the pledged callable capital relative to NADB's debt stock is very high.

Bilateral nature of NADB increases credit links with shareholders

NADB stands out from most peers for operating only in two countries and within an even narrower geographical area, namely the border region between the US and Mexico — its only two shareholders. This implies high credit links between the bank and its two members. Although the bank is among the smaller of the rated multilateral banks, the shareholders have supported the bank as a way to foster the economic integration of the two countries and help address common environmental challenges.

Political factors, including those influencing policy changes within each country that affect the bank or relate to bilateral relations between the two shareholders, play a significant role in our assessment of support. Although NADB benefits from a direct connection to the administrations in both countries since its board consists of cabinet-level officials, any shifts in policies, whether domestic or related to the bilateral relationship — including the upcoming revision of the US-Mexico-Canada Agreement (USMCA), could affect the level of support to the bank in the future.

Ability to support remains strong but has declined given increased fiscal pressures

Both members face increased fiscal pressures that have weighed on their own credit standing. Given the recent downgrade of the US' rating to Aa1 stable from Aaa negative and several previous downgrades of Mexico's rating to Baa2 negative from A3 stable, the members' ability to support the bank, as denoted by a weighted average shareholder rating, has declined to A2 from A1. Although the already approved commitments to the bank remain manageable, these increased fiscal pressures in both countries may also affect their willingness to provide additional resources from here on. Specifically, in the case of the US, the paid-in capital due as part of the ongoing GCI has already been provided, although a portion of its additional callable capital would still need to be approved.

Noncontractual support balances previously agreed support with risks from policy changes in member countries

In 2016, the board of directors of the NADB and the governments of Mexico and the US agreed to increase subscribed capital to $6 billion from $3 billion, with both countries subscribing in equal amounts. This capital increase process experienced delays, and in 2020, following the ratification of the USMCA, which replaced the North American Free Trade Agreement (NAFTA), the shareholders agreed on a new payment schedule for the paid-in capital, with payments now scheduled to be completed by year-end 2028. The finalized paid-in capital disbursement schedule will see paid-in capital increase to $855 million by year-end 2028 from $415 million in December 2019.

The US disbursed all of its scheduled payments ahead of time, but most of the funds are deemed restricted from commitment and will be released over time, in accordance with the agreement between the shareholders. As of December 2024, the US' paid-in capital was at $263 million. The remainder will be progressively recognized as paid-in capital in the balance sheet in line with the agreed schedule. As of December 2024, Mexico's paid-in capital was $244 million, bringing total paid-in capital to $506 million. During the first quarter of 2025, Mexico already disbursed $46 million of paid-in capital, which led to the release of a portion of the US' restricted paid-in capital that will be reflected in an increase in equity of about $100 million in 2025.

In addition to benefiting from the participation of various cabinet-level representatives from both countries on its board, NADB is the only MDB that operates within the US. In the past, this has meant that the bank has received strong support from local political representatives. In addition to the support demonstrated through the ongoing capital increase, we expect the NADB's continued focus on renewable energy and increased participation in water management projects in the border region of the US and Mexico to enhance the developmental impact of the bank. NADB's efforts to tackle challenges around the reliability of clean energy supply and droughts affecting water availability in this region will support the ongoing relocation of supply chains to the North American region in future years.

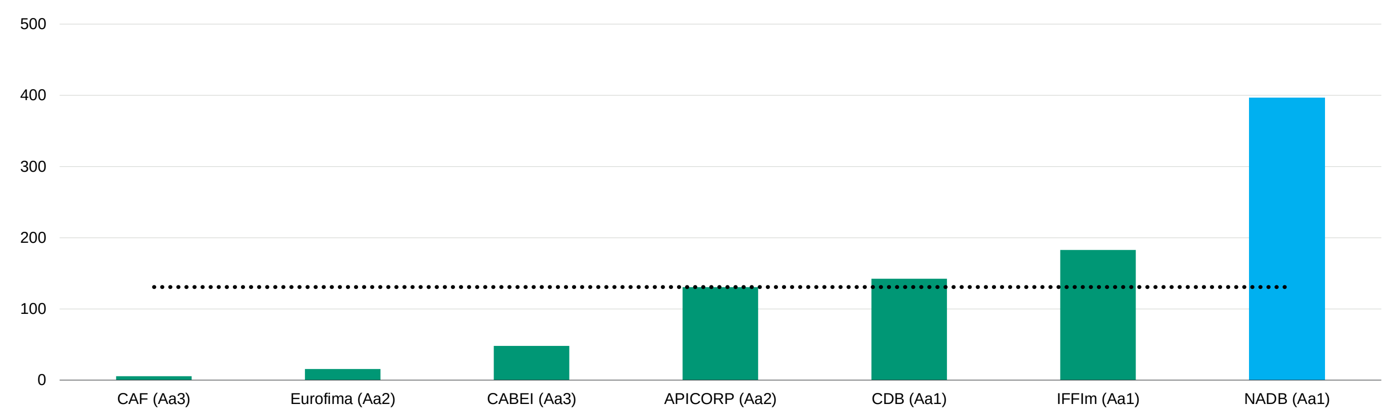
However, the bank has become more susceptible to potential changes in policies in both countries. For example, between 2020 and 2022, the government of Mexico proposed an energy sector reform that, if approved, could have substantially affected the bank's asset performance and portfolio quality. More recently, the US' revision of its participation in international and developmental institutions points to a potential shift in its support to various multilateral institutions. Although we do not expect this to affect the ongoing support that it is providing NADB with, there is a risk that additional support may be less forthcoming in the future. For this reason, we now score NADB's noncontractual support at "Medium."

Callable capital continues to provide sizable protection to bondholders

The bank continues to benefit from substantial callable capital, which forms the basis of our contractual support assessment, for which the NADB scores "aaa." Our assessment takes the callable capital from both shareholders (Mexico and the US) and compares it with the NADB's total debt stock. The NADB's low leverage, coupled with the doubling of callable capital in 2016, means that the bank's capital coverage is the second highest among Aa-rated MDBs (see Exhibit 10). Assuming that the shareholders do not amend or rescind their capital pledges in an adverse scenario, callable capital commitments offer sufficient absorption capacity to insulate bondholders from any possible credit losses, even if the debt burden were to more than triple from its current levels.

Exhibit 10

NADB's callable capital as a percentage of debt is one of the highest among Aa-rated MDBs
(callable capital as a percentage of gross debt, and dotted line shows the Aa-rated median, latest in %)

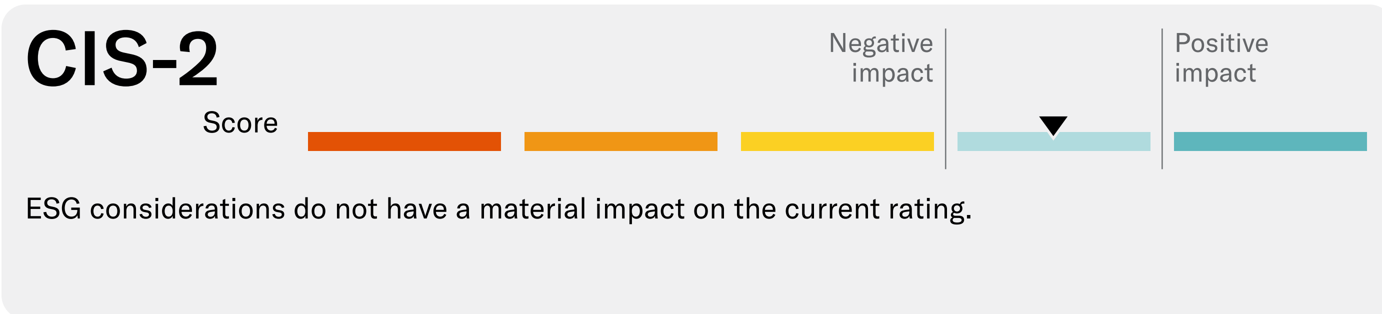


Data is from 2023 for IFFIm.
Source: Moody's Ratings

ESG considerations

North American Development Bank's ESG credit impact score is CIS-2

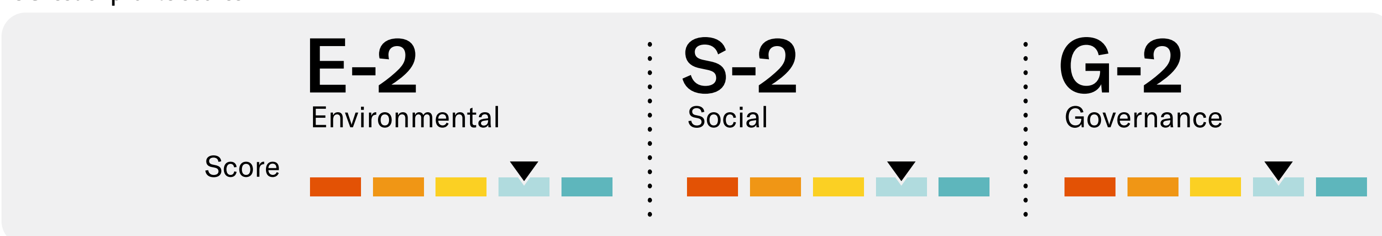
Exhibit 11
ESG credit impact score



Source: Moody's Ratings

NADB's **CIS-2** credit impact score reflects low exposures to environmental, social and governance risks on its credit profile. Although a past reform proposal to energy regulations in Mexico implied risks to NADB'S asset quality and performance, the bank's focus on renewable energy will remain key for its development mandate. The effective execution of this mandate also supports NADB's social impact in its region of operations and highlights its robust governance.

Exhibit 12
ESG issuer profile scores



Source: Moody's Ratings

Environmental

NADB's environmental issuer profile score is **E-2**. Although NADB is exposed to carbon transition risks particularly in Mexico given the government's prioritization of the national utility company that depends more on hydrocarbons for electricity generation, the bank has a clear mandate on clean energy. Additionally, NADB focuses on improving water management and air quality in its region of operations, with the overall goal of mitigating environmental risks along the Mexico-US border region.

Social

NADB has an **S-2** social issuer profile score, in line with the broader sector. This assessment reflects Moody's views of NADB's strong customer relations and responsible production, which allow it to have important socioeconomic impact in its region of operations along the US-Mexico border region.

Governance

NADB's governance issuer profile score is **G-2**, given its prudent risk management practices that help mitigate risks from its lending operations to sub-national governments and private sector entities. This balances negative risk to the issuer profile from concentrated ownership with only two shareholders, namely the US and Mexico, that can at times foster cooperation but is also susceptible to political developments in both countries.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

All of these considerations are further discussed in the “Detailed credit considerations” section above. Our approach to ESG is explained in our cross-sector methodology General Principles for Assessing ESG Risks. Additional information about our rating approach is provided in our Supranational Rating Methodology.

Recent developments

$400 million allocation for water conservation and diversification projects

In June 2025, the NADB announced a major commitment of up to $400 million to address escalating water scarcity in the US-Mexico border region. This initiative, unveiled during the Bank’s semiannual Board of Directors meeting in Ciudad Juárez, reflects a growing urgency to respond to prolonged drought conditions and aging infrastructure affecting both countries.

The funding will be channeled through the newly proposed Water Resiliency Fund (WRF), which will support water conservation, infrastructure upgrades, and diversification projects. Of the total, $100 million will be sourced from the NADB’s retained earnings and offered as concessional financing over the next five years, whereas the remaining $300 million will be deployed as low-interest loans from the bank’s existing lending capacity. The NADB may also leverage market-rate instruments to expand the initiative’s reach.

Initial investments will prioritize high-impact projects in the agriculture sector, where water stress is most acute. The bank has committed to ensuring equitable distribution of funds between the US and Mexico, reinforcing its binational mandate. The WRF proposal is currently undergoing a 30-day public comment period, inviting input from local communities, environmental groups, and public and private stakeholders.

Continued capital contributions from shareholders

In January 2025, Mexico contributed $46 million in paid-in capital and unqualified 30,667 shares of its GCI subscription, comprising 4,600 shares of paid-in capital and 26,067 shares of callable capital. By 31 March 2025, Mexico had unqualified a total of 8,700 shares of paid-in capital and 49,300 shares of callable capital, up from 4,100 and 23,233 shares, respectively, as of 31 December 2024. The US, meanwhile, had unqualified 22,500 shares of paid-in capital and 25,500 shares of callable capital as of both 31 March 2025 and 31 December 2024. Of the US' paid-in shares, 16,500 remain restricted from commitment until Mexico unqualifies corresponding payments, and are thus recorded as deferred capital contributions. In June 2025, the U.S. released a portion of the restricted paid-in capital ($48 million) and unqualified shares ($357 million).

Rating methodology and scorecard factors: NADB - Aa1 negative

Factor / Subfactor	Metric	Initial score	Adjusted score	Assigned score
Factor 1: Capital adequacy (50%)			aa3	aa3
Capital position (20%)			aa3	
	Leverage ratio	aa3		
	Trend	0		
	Impact of profit and loss on leverage	0		
Development asset credit quality (10%)			baa	
	DACQ assessment	baa		
	Trend	0		
Asset performance (20%)			aaa	
	Non-performing assets	aaa		
	Trend	0		
	Excessive development asset growth	0		
Factor 2: Liquidity and funding (50%)			aa3	aa3
Liquid resources (15%)			aaa	
	Availability of liquid resources	aaa		
	Trend in coverage outflow	0		
	Access to extraordinary liquidity	0		
Quality of funding (35%)			a	
Preliminary intrinsic financial strength				aa3
Other adjustments				0
Operating environment		0		
Quality of management		0		
Adjusted intrinsic financial strength				aa3
Factor 3: Strength of member support (+3,+2,+1,0)			High	Medium
Ability to support (50%)			A2	
	Weighted average shareholder rating	A2		
Willingness to support (50%)				
	Contractual support (25%)	aaa	aaa	
	Strong enforcement mechanism	0		
	Payment enhancements	0		
	Non-contractual support (25%)		Medium	
Scorecard-Indicated Outcome Range				Aa1-Aa3
Rating Assigned				Aa1

Note: Our ratings are forward-looking and reflect our expectations for future financial and operating performance. However, historical results are helpful in understanding patterns and trends of an issuer's performance as well as for peer comparisons. Additional considerations that may not be captured when historical metrics are used in the scorecard may be reflected in differences between the adjusted and assigned factor scores. Furthermore, in our ratings we often incorporate directional views of risks and mitigants in a qualitative way. For more information please see our Multilateral Development Banks and Other Supranational Entities rating methodology.

Source: Moody's Ratings

Related websites and information sources

» Moody's Supranational web page

» Moody's Sovereign and supranational rating list

» North American Development Bank web page

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Endnotes

1 The BECC has since been merged with the NADB.

2 Pursuant to its charter, the NADB works closely with border communities, state agencies and other entities to develop affordable and self-sustaining projects in the areas of potable water, wastewater treatment and solid waste management, and on projects aimed at improving air quality, conserving water, reducing energy consumption and developing renewable energy sources, combating climate change and transitioning to a greener economy, among others, located within 100 kilometers (about 62 miles) north or 300 kilometers (about 186 miles) south of the international boundary between the two countries.

3 For comparability across institutions, we include loans with interest or principal payments that are 90 days or more overdue.

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