# NorthAmerican Development Bank

## Annual Report

North American Development Bank
Banco de Desarrollo de América del Norte

# 2018

# Content

# Message from Management

## November 2019

2018 was a year of many firsts for the North American Development Bank (NADB), including its first full year of operation as a merged institution following the integration of the Border Environment Cooperation Commission (BECC). The Bank also took several innovative steps to advance its mission of preserving, protecting and enhancing the environment of the U.S.-Mexico border region with the completion of the first NADB-financed desalination plant, issuance of the first NADB green bond and formalization of the first NADB co-financing vehicle in the form of a Capital Development Certificate (CKD) to support sustainable infrastructure in Mexico.

In pursuit of its core purpose of developing and financing environmental infrastructure, 15 projects were completed during 2018 in a variety of sectors. More than half of the completed projects were related to drinking water and wastewater infrastructure, including a desalination plant supplying water to the 96,000 residents of Ensenada, Baja California, as well as wastewater system improvements benefitting close to 897,000 residents in eight border communities. The balance was related to equipment for waste management and better air quality deriving from roadway improvements and the generation of clean energy.

Six new projects were approved in 2018 with more than US$115.34 million in financing. Five of the six projects were in the water sector and include water service improvements for 87,500 residents in three communities, as well as wastewater collection system improvements to eliminate an estimated 586,000 gallons a day of sewage discharges in two communities. NADB also increased its revolving line of credit for a border-wide financing program for the purchase of low-emission buses in Mexico, set a quota for cleaner natural-gas buses and raised the emission limits for all vehicles financed by the credit line, which will greatly increase the environmental benefits of the program for residents in the U.S.-Mexican border region.

As part of its development activities, NADB continues to work closely with federal and state agencies of both countries, as well as with other international organizations, to address critical environmental issues along the border. In particular, this past year, NADB provided emergency support through its technical assistance program to help prevent transboundary wastewater flows from Naco, Sonora, and is funding and coordinating studies aimed at finding permanent solutions for eliminating wastewater discharges to the Tijuana River and the Pacific Ocean.

In terms of financial innovations, NADB issued its first green bond in July 2018, which was well received by the markets, in part because of the Bank's robust environmental review for project identification and approval, as well as the public availability of information that exceeds market requirements. Given its environmental mandate, green bonds are a perfect fit for the Bank, which developed its Green Bond Framework in line with the Green Bond Principles promoted by the International Capital Market Association. The net proceeds of this initial green bond totaling US$126.4 million were fully used to finance six renewable energy projects prior to year-end.

NADB also helped launch a four-billion-peso CKD on the Mexican stock market, which will co-finance loans with NADB to support the construction of infrastructure projects in Mexico approved for financing by the NADB Board. NADB worked with Mexican pension fund management firms to structure the CKD and will provide advisory services in the origination of projects, leveraging its experience in the structuring and financing of infrastructure. This co-financing vehicle will facilitate the flow of significant untapped resources from the private sector into projects that comply with NADB requirements, thereby providing more options for making projects financially viable, while maximizing the impact of NADB's own resources.

From an institutional standpoint, NADB initiated a strategic planning process, which involved developing a framework that clearly defines the Bank vision, mission, core values and strategic objectives. These objectives include optimizing community impact, galvanizing investment for the border region while prudently managing financial capacity, improving strategic effectiveness, strengthening internal alignment and promoting the strategic value of NADB. The strategic plan framework was approved by the NADB Board of Directors in November 2018, and work immediately began to carry out a series of initiatives aimed at achieving the strategic objectives over the next five years.

The North American Development Bank would like to take this opportunity to acknowledge and once again thank its many partners in the border region, whose collaboration and support have been a key factor in successfully advancing its mandate. Management and staff look forward to continuing to work with you in promoting a cleaner environment and improved quality of life for the millions of U.S. and Mexican citizens living along our shared border.

NADB is proud to present its 2018 Annual Report, which consists of the environmental and operational report of the Chief Environmental Officer in accordance with the requirements of Chapter II, Article VII, section 4(b), of the NADB Charter, and a financial report in accordance with the requirements of Chapter II, Article VII, section 4(a), of the Charter, which includes the consolidated financial statements of NADB for the years ended December 31, 2018 and 2017, with an unqualified opinion issued by the independent auditor, Ernst & Young LLP.

Calixto Mateos-Hanel
Managing Director

Salvador López-Córdova
Chief Environmental Officer

# Mandate and Governance

## Mandate

NADB is a binational financial institution established and capitalized by the Governments of the United States and Mexico for the purpose of financing infrastructure projects that preserve, protect or enhance the environment in order to advance the well-being of border residents, as well as providing technical and other assistance to support the development of such projects.

NADB was established in San Antonio, Texas, and began operations on November 10, 1994, with the initial capital subscriptions of the U.S. and Mexican governments. The scope of the Bank's mandate—including the geographic jurisdiction and infrastructure sectors in which it may operate—as well as its functions and limitations, are defined in an agreement between the two governments (the Charter).

To preserve, protect and enhance the environment and quality of life in the U.S.-Mexico border region

Projects that qualify as eligible infrastructure are those that will prevent, control or reduce environmental pollutants, improve the drinking water supply or protect flora and fauna, provided that such projects also improve human health, promote sustainable development or contribute to a higher quality of life. In addition, eligible projects must be located within 100 kilometers (about 62 miles) north of the U.S.-Mexico international boundary in the U.S. states of Texas, New Mexico, Arizona and California and within 300 kilometers (about 186 miles) south of the border in the Mexican states of Tamaulipas, Nuevo Leon, Coahuila, Chihuahua, Sonora and Baja California.

### Eligible Sectors and Projects

**WATER**

» Water supply, treatment & distribution
» Wastewater collection, treatment & reuse
» Water conservation
» Storm drainage & flood control

**WASTE MANAGEMENT**

» Sanitary landfills
» Dumpsite closure
» Collection & disposal equipment
» Recycling & waste reduction
» Hazardous waste treatment & disposal
» Industrial site remediation

**AIR QUALITY**

» Street paving & other roadway improvements
» Public transportation
» Ports of entry
» Reduction of industrial emissions
» Methane capture

**CLEAN AND EFFICIENT ENERGY**

» Solar
» Wind
» Hydroelectric
» Geothermal
» Biogas & biofuels
» Equipment replacement
» Building retrofits

**BASIC URBAN INFRASTRUCTURE**

» Projects that consist of a mix of works from various sectors, such as street paving, installation of water & sewer lines, storm drainage & public lighting

## Board of Directors

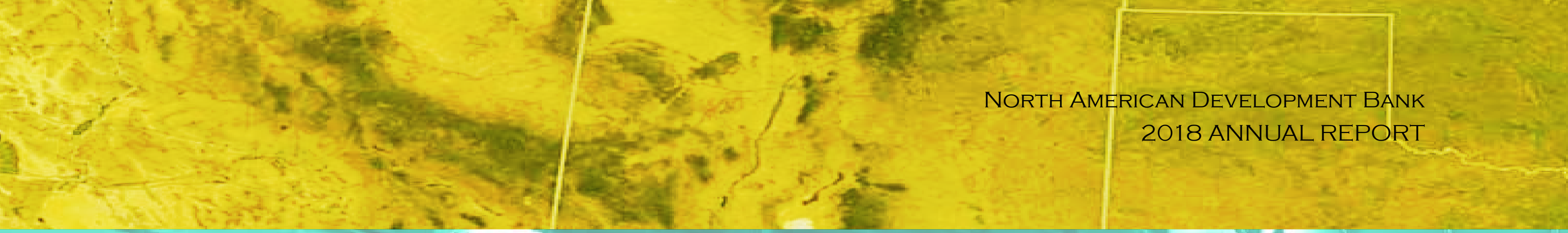
NADB is governed by a ten-member Board of Directors with equal representation from each member country. The chairmanship alternates between the United States and Mexico each year. All powers of NADB are vested in the Board of Directors, which determines policy within the framework of the Charter and approves all programs and project proposals of the Bank.

| United States | Mexico |
|---|---|
| » Secretary of the Treasury* | » Secretary of Finance and Public Credit (SHCP) |
| » Secretary of State | » Secretary of Foreign Relations (SRE) |
| » Administrator of the Environmental Protection Agency (EPA) | » Secretary of Environment and Natural Resources (SEMARNAT) |
| » U.S. border state representative | » Mexican border state representative |
| » U.S. border resident representative | » Mexican border resident representative |

* Board chair, 2018

## Bank Organization as of December 31, 2018

| **Management** | |
|---|---|
| Managing Director | Alex Hinojosa |
| Deputy Managing Director | Calixto Mateos-Hanel |
| Chief Environmental Officer | Salvador López-Córdova |
| **Directors** | |
| Chief Financial Officer | Héctor Camacho |
| General Counsel | Lisa A. Roberts |
| Director of Risk Management and Control | Bernardo Salas |
| Director of Infrastructure Financing and Financial Services | Carlos Carranza |
| Acting Director of Project and Loan Administration | Daniel Gutiérrez |
| Director of Grant Financing | Renata Manning-Gbogbo |
| Director of Technical Assistance | Mario Vázquez |
| Director of Public Affairs | Jesse J. Hereford |
| Director of Administration | Eduardo Macías |



# Section 1
# Environmental & Operational Results

# Improving the Border Environment

## Overall Impact 1995-2018

**With its own resources, leveraged borrowings and grants from the U.S. Environmental Protection Agency (EPA), NADB is helping transform border communities with sustainable infrastructure that preserves, protects and/or enhances the environment.**

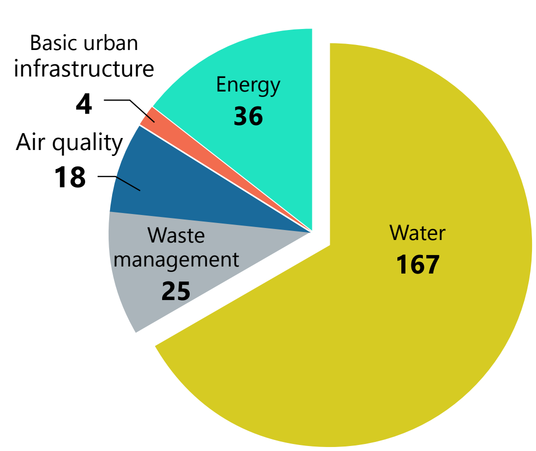
As of December 31, 2018, NADB had accumulated close to US$3.14 billion in contracted financing to support the implementation of 250 environmental infrastructure projects. Of those funds, US$2.38 billion were in the form of loans and US$755.25 million in grants, including US$660.19 million provided by EPA and used by NADB to finance water and wastewater projects through the Border Environment Infrastructure Fund (BEIF).

Of the 250 projects financed to date, 217 projects are in operation and already helping close to 13 million people in the region achieve a better quality of life in a variety of ways, whether it's connecting their homes to basic water and wastewater services, providing for the safe disposal of municipal waste, preventing raw sewage discharges or recurrent flooding, or reducing air pollution through improved roadways, low-emission buses or cleaner renewable energy sources.

Table 1: Project Financing by State 1995-2018
(US$ Millions)

| State | Population Benefitted | Total Projects | Financing Contracted |
|---|---|---|---|
| **United States** | | | |
| Arizona | 149,668 | 22 | $ 205.24 |
| California | 1,686,358 | 25 | 412.86 |
| New Mexico | 178,061 | 11 | 41.21 |
| Texas | 1,469,389 | 56 | 605.39 |
| Border region | | 1 | 25.00 |
| **Subtotal U.S.** | **3,483,476** | **115** | **$ 1,289.70** |
| **Mexico** | | | |
| Baja California | 2,840,000 | 31 | $ 413.57 |
| Chihuahua | 1,904,092 | 31 | 181.19 |
| Coahuila | 1,061,898 | 10 | 146.62 |
| Nuevo Leon | 4,586,048 | 11 | 273.72 |
| Sonora | 1,753,481 | 29 | 281.89 |
| Tamaulipas | 2,117,804 | 21 | 482.94 |
| Border Region | | 2 | 66.32 |
| **Subtotal Mexico** | **14,263,323** | **135** | **$ 1,846.25** |
| **TOTAL** | **17,746,799** | **250** | **$ 3,135.95** |

Figure 1: Project Distribution by Sector 1995-2018



## Impact of Projects in Operation

### Water

Providing access to sustainable and safe drinking water and eliminating exposure to unsanitary water conditions in the U.S.-Mexico border region are fundamental objectives of NADB. Conserving fresh water sources in this semi-arid and drought-prone region, as well as providing adequate storm water management to prevent contaminated runoff and harness rainwater for beneficial uses also support these objectives.

**147 projects** → **US$1.00 billion** in NADB financing → **US$2.46 billion** in total investments → **9.85 million** people benefitting

#### Reliable Water Supply

Construction, expansion or rehabilitation of 26 treatment plants with a combined capacity of 160 million gallons a day (mgd) and installation of 323 miles of waterlines, benefitting 34 communities on both sides of the border

#### Adequate Wastewater Treatment

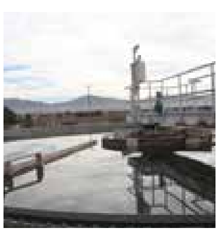
Construction, expansion or rehabilitation of 58 treatment plants with a combined capacity of 391 mgd and installation of 1,174 miles of sewer lines, benefitting 83 communities on both sides of the border

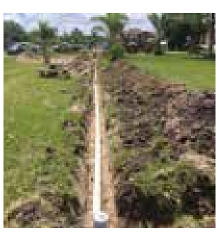
#### Water Savings

1,034 miles of improved canals and water conveyance systems in irrigation districts, saving 630 cubic feet per second of water for farmers and municipal water systems

#### Improved Flood Controls

22.2 miles of storm water collectors, 386 acre-feet of reservoir capacity and 175 cubic feet per second of pumping capacity, protecting the homes and lives of 820,647 people from the risk of flooding





## Waste Management

Promoting comprehensive waste management systems, including recycling and waste reduction efforts, is another fundamental objective of NADB. Proper waste disposal is crucial for protecting groundwater resources, preventing soil and air pollution and controlling the proliferation of disease-carrying rodents and insects.

**20 projects** → **US$15.36 million** in NADB financing → **US$38.15 million** in total investments → **3.1 million** people benefitting

### Sanitary Landfills

14 sanitary landfills built or expanded with a combined capacity of 5.2 million cubic meters, serving 16 communities

### Dumpsite Closures

12 open-air dumpsites closed, covering 24.2 acres of land

### Adequate Equipment

140 collection and landfill operation vehicles purchased

### Proper Waste Disposal

2,878 tons a day of solid waste properly disposed of in landfills

## Air Quality

Supporting efforts to reduce the emission of greenhouse gases and other airborne pollutants produced by industrial processes, motor vehicles and fossil fuel-based power plants is essential for a healthy environment. Clean energy and more efficient energy use, cleaner and more efficient forms of transportation, paved streets and other roadway improvements are helping achieve this goal.

| | | | |
|---|---|---|---|
| **50 projects** | **US$1.69 billion** in NADB financing | **US$5.58 billion** in total investments | **8.57 million** people benefitting |

### Better Mobility

Paving of 13.6 million square meters of street is preventing 4,472 metric tons/day of suspended particulate matter ($PM_{10}$), along with other roadway improvements to relieve traffic congestion, directly benefitting an estimated 5.4 million people in 14 communities

### Clean and Renewable Energy

1,916 megawatts (MW) of new generation capacity from renewable sources generating electricity equivalent to the annual consumption of 636,027 households, thereby avoiding the emission of 2.92 million metric tons of carbon dioxide/year from traditional fossil-fuel based power plants

### Public Transportation

565 buses with low-emission technology, benefitting 8 Mexican municipalities

## Impact of Green Bond Portfolio

In July 2018, NADB issued its first green bond in the amount of 125 million swiss francs (equivalent to US$126.4 million). A green bond is a type of bond instrument where the proceeds will be used exclusively to finance or refinance green projects, which aligns perfectly with the environmental mandate of NADB.

The 2018 green bond proceeds were fully allocated to partially fund six renewable energy projects before year-end. The projects were specifically selected to minimize the emission of greenhouse gases and other criteria pollutants by displacing electricity generated by fossil fuels. The green bond portfolio represents 1,118 megawatts of installed generation capacity that will generate 3,312 gigawatt-hours of electricity and avoid 1,457,461 tons of carbon dioxide per year, while providing clean energy for 438,201 households or 1,568,763 people.

The complete report on the impact of the green bond portfolio and information on NADB's Green Bond Framework is available on the NADB website (www.nadb.org).

**3,312**
**gigawatt-hours of electricity**

equivalent to annual energy consumption of

**438,201**
**Total project impact**

**37,635**
**Proportional Impact of green bond**

**1.457**
**million metric tons of $CO_2$**

in reduced emissions, equal to the annual removal of

**309,440**
**Total project impact**

**27,465**
**Proportional impact of green bond**

$CO_2$ = Carbon dioxide

## Project Activity in 2018

More than 2.7 million residents on both sides the U.S.-Mexico border are benefitting from 15 environmental infrastructure projects that went into operation in 2018, including the expansion of water and wastewater services, first-time sewer connections, equipment to operate sanitary landfills and power generation from renewable sources.

**15 projects** → **US$213.14 million** in NADB financing → **US$776.78 million** in total investments

### Water and Wastewater

Close to a million residents are enjoying a better quality of life thanks to improved water and wastewater services resulting from the completion of nine projects. From rural communities of less than a thousand residents to cities of more than a million, this new infrastructure is improving basic health conditions and the well-being of people, many of whom have lacked service for years.

One of the projects is providing a reliable and sustainable drinking water supply to a community of 96,000 people through the construction of a desalination plant with the capacity to treat up to 5.7 million gallons a day (mgd) of seawater using reverse osmosis.

Likewise, more than 55,900 homes were connected to sewer systems for the first time and are collecting approximately 19.4 mgd of wastewater. The rehabilitation and expansion of sewer mains and the construction of three wastewater treatment plants with a combined capacity 24.4 mgd are preventing raw sewage spills in the communities served, as well as to shared water bodies, such as the Rio Grande, which is a source of drinking water for many border communities.

### Ensenada, B.C.

**Desalination Plant**

Approved: December 2012
Cost: US$55.81 million
NADB Loan: US$31.60 million


## Socorro, TX

**Cotton Valley Wastewater Collection**

Approved: December 2014
Cost: US$1.29 million
BEIF Grant: US$1.29 million

## Matamoros, TAM

**Improvements to the Water and Wastewater Systems and Construction of the West Wastewater Treatment Plant**

Approved: July 2012
Cost: US$69.72 million
NADB Loan: US$12.78 million
BEIF Grant: US$15.52 million

## Sonoyta, SON

**Wastewater Collection and Treatment**

Approved: December 2014
Cost: US$4.10 million
BEIF Grant: US$2.30 million

## Brownsville, TX

**Wastewater Collection System and Residential Connections in FM 511-802 Colonias**

Approved: November 2015
Cost: US$29.74 million
BEIF Grant: US$3.63 million

## Sabinas, COAH

**Rehabilitation of the Wastewater System**

Approved: November 2015
Cost: US$614,978
CAP Grant: US$452,870

## Ciudad Juárez, CHIH

**Construction of the South-South Wastewater Treatment Plant**

Approved: December 2009
Cost: US$42.30 million
NADB Loan: US$9.37 million
BEIF Grant: US$8.00 million

## San Luis Río Colorado, SON

**Expansion of the Wastewater Collection System in Avenidas "B"**

Approved: May 2014
Cost: US$6.91 million
BEIF Grant: US$3.45 million

## Tijuana, B.C.

**Rehabilitation of the Wastewater Collection Main Lines and Residential Wastewater Connections**

Approved: December 2014
Cost: US$7.05 million
NADB Loan: US$1.04 million
BEIF Grant: US$3.00 million

## Equipment for Sanitary Landfill Operations

Approximately 435 tons a day of solid waste generated by more than 400,000 residents in six communities in the states of Coahuila and Chihuahua are being properly dispersed, covered and compacted in two sanitary landfills in compliance with regulatory standards thanks to the procurement of new equipment.

The Department of Public Services in Nuevo Casas Grandes, Chihuahua, and *Patronato Pro Limpieza de los Municipios de la Región Centro del Estado de Coahuila, A.C.*, the non-profit organization that operates the regional landfill for the municipalities of Castaños, Frontera, Monclova, Nadadores and San Buenaventura, Coahuila, received the equipment, along with the training necessary to properly operate and maintain it.

### Nuevo Casas Grandes, CHIH

**Equipment for Sanitary Landfill Operations**

Approved: June 2016
Cost: US$500,000
CAP Grant: US$500,000

### Central Region of Coahuila

**Equipment for Sanitary Landfill Operations**

Approved: June 2016
Cost: US$554,340
CAP Grant: US$500,000

## Air Quality and Renewable Energy

The emission of dust particles (PM10), carbon dioxide and other greenhouse gases are being reduced in Mexican communities with the completion of four projects aimed at improving air quality.

More than 1.49 million square meters of roads were paved or rehabilitated, overpasses were built, and other roadway work was carried out to improve urban mobility in two communities in Sonora. These projects are helping reduce vehicular dust caused by traffic on unpaved roads, as well as vehicle emissions by alleviating traffic congestion. In addition, both projects included the installation or rehabilitation of water and sewer lines prior to paving, as well as adequate storm drainage.

Likewise, two wind farms with a combined generation capacity of 198 megawatts went on line on the outskirts of Victoria, Tamaulipas. During 2018, these projects produced 727,568 megawatt-hours of electricity, equivalent to the annual consumption of an estimated 99,187 households, thereby avoiding the emission of approximately 298,616 metric tons of carbon dioxide ($CO_2$).

### Hermosillo, SON

**Basic Urban Infrastructure**

Approved: May 2013
Cost: US$66.29 million
NADB Loan: US$16.10 million

## San Luis Río Colorado, SON

**Street Paving and Rehabilitation**
Approved: September 2013
Cost: US$14.67 million
NADB Loan: US$8.60 million

## Güémez, TAM

**La Mesa Wind Energy**
Approved: February 2015
NADB Loan: US$40.00 million

## Llera de Canales, TAM

**Tres Mesas Wind Energy**
Approved: June 2014
NADB Loan: US$55.00 million

## Technical Support in 2018

During the year, 25 communities received technical support for the development of critical infrastructure projects or to strengthen their institutional capacity to manage and operate public utilities. A total of 12 studies or other actions were completed with US$1.33 million in grants provided by NADB through its Technical Assistance Program (TAP) or by EPA through the Project Development Assistance Program (PDAP), which is managed by NADB.

Most of the technical assistance was used to develop preliminary engineering reports, final designs and environmental information documents for one water and six wastewater infrastructure projects, which are helping advance these projects through the environmental clearance processes and bringing them closer to implementation. In addition, NADB joined forces with several federal, state and international entities by providing emergency technical assistance to help stop transboundary sewer spills in Naco, Sonora (see story on next page).

Four capacity-building initiatives were also completed with the support of various government agencies and academic institutions, including a sustainable urban development plan for Hermosillo, Sonora. NADB teamed up with the Inter-American Development Bank (IDB), through its Emerging and Sustainable Cities program, and brought together close to 100 government, academic and community stakeholders to identify and prioritize actions to promote sustainable urban planning and growth. The final report and results were presented to the City of Hermosillo in May 2018.

The second phase of the energy efficiency program for 14 water utilities in the state of Coahuila also came to an end. Through this multi-year project—carried out in partnership with the German agency for international cooperation and development in Mexico (GIZ) and the Coahuila state water agency—energy and water audits were performed, utility and energy management workshops were presented, and improvement plans were developed for each community. With the preliminary investments and operational improvements implemented by project-end, participating utilities had already saved a combined $2.7 million pesos (US$140,255) in energy costs.

Likewise, in collaboration with IDB, EPA, the Mexican Ministry of Environment and Natural Resources (SEMARNAT), the Baja California environmental agency, the Massachusetts Institute of Technology (M.I.T.) and the Universidad Autónoma de Baja California, NADB wrapped up the final phase of a three-year project to create a sustainable electronic-waste management and recycling system for Mexicali, Baja California, which included training and certifying informal e-waste pickers and recyclers. To encourage its replication in other border cities, the methodology and results of the project were presented at the first binational e-waste recycling forum held in Mexicali in October and hosted jointly by NADB and EPA, through the U.S.-Mexico Border 2020 Program.

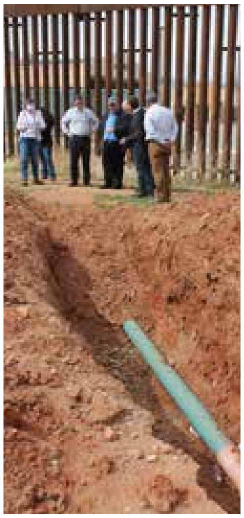
## Coordinated Efforts to Eliminate Transboundary Wastewater Flows

**Naco, Sonora**

In response to an urgent request from the Arizona Department of Environmental Quality (ADEQ) and EPA, NADB joined forces with them and the Municipality of Naco, the U.S. Section of the International Boundary and Water Commission (IBWC), the Mexican Section of the International Boundary and Water Commission (CILA), the Mexican National Water Commission (CONAGUA) and the Sonora state water agency (CEA) on a variety of measures aimed at mitigating and eliminating transboundary wastewater discharges to the United States.

Working together, several preliminary measures were taken on an emergency basis to relieve the overload and blockages that were causing wastewater discharges, including improvements to the Naco treatment plant and International Pump Station, as well as work to remove sediment and other debris from the International Interceptor and sewer lines running along the border. In addition, with technical support from NADB, CILA installed a west-to-east bypass to relieve demand on the International Interceptor. As a result of these coordinated efforts, there have been no transboundary sewage spills since November 2018.

Nevertheless, because of deficiencies in the treatment system, the risk of future spills is still significant during the rainy season. Consequently, NADB is planning to fund a study through PDAP to identify a long-term solution for adequate wastewater collection, conveyance and treatment services.



As amply demonstrated above, the success of many technical assistance initiatives is thanks to the cooperative efforts of various entities coming together to pool, not only their financial resources, but also their technical expertise. NADB will continue to pursue opportunities to partner with other institutions to create synergies that support the development of environmentally sustainable and resilient border communities.

**Table 2: TAP Activities Completed in 2018**
(US$)

| | Community Benefitted | Sector | Activity | NADB Funding |
|---|---|---|---|---|
| 1 | Hermosillo, SON | GE | Emerging and Sustainable Cities Initiative | $ 249,834 |
| 2 | Mexicali, B.C. | SW | E-waste baseline study, market analysis and regulation study | 42,903 |
| 3 | Naco, SON | WW | Emergency technical assistance to address sanitary sewer overflows | 6,861 |
| 4 | State of Coahuila | ENE | Energy Efficiency Learning Network for Water Utilities | 72,709 |
| 5 | Vado, NM | WW | Preliminary engineering report and environmental information document | 44,525 |
| 6 | Winterhaven, CA | WW | Preliminary engineering report | 19,712 |
| | **TOTAL** | | | **$ 436,544** |

**Table 3: PDAP Activities Completed in 2018**
(US$)

| | Community Benefitted | Sector | Activity | PDAP Funding |
|---|---|---|---|---|
| 1 | Anthony, NM | WW | Final design review and modifications | $ 4138,299 |
| 2 | Anthony, NM | WW | Environmental information document and technical memorandum for a wastewater collection project | 74,302 |
| 3 | El Paso County, TX | WW | Review and training in design-build modalities | 137,456 |
| 4 | Marathon, TX | WW | Final design and procurement support for wastewater collection improvements | 177,277 |
| 5 | Pomerene, AZ | W | Final design for drinking water quality improvements | 211,598 |
| 6 | Tecate, B.C. | WW | Final design of a wastewater treatment plant | 53,242 |
| | **TOTAL** | | | **$ 792,174** |

ENE = Energy Efficiency; SW = Solid waste; W = Water; WW = Wastewater: GE = General environment, which includes activities related to more than one sector.

More information about these technical assistance programs and their ongoing activities is provided in 2018 Operations.

## U.S.-Mexico Border 2020 Program

NADB continues to provide technical and administrative support for this binational program developed by EPA and SEMARNAT to improve the environment and protect the health of residents within 100 kilometers of both sides of the border. The program funds projects and workshops focused on five key goals related to clean air, access to safe drinking water, waste management, joint emergency preparedness and environmental stewardship.

Seven initiatives were completed during the year, representing a total investment of US$742,269. Some of the completed initiatives are highlighted below.

**Healthy and Resilient Housing in Western Ciudad Juárez, CHIH.** A catalogue of 32 water and energy efficiency measures was developed for housing in low-income communities in the region, along with a methodology for their implementation. The 50 homeowners that participated in the program reported combined water savings of 139,656 gallons per month and monthly energy savings per household of $108 to $200 pesos within 4-6 months after installation.

**Waste Characterization Assessment, Zero Waste Plan and Transfer Station Implementation Plan in Campo, CA.** By implementing all the programs and policies outlined in the Zero Waste Plan, it is estimated that up to 70% of the waste generated could be diverted away from landfills, with the transfer station providing easier access to recycling facilities.

**Community and Institutional Alliance for Environmental Sanitation of Drains in Mexicali, B.C.** A total of 7,935 cubic yards of trash and 1,760 tires were removed from three major storm drains, recreational areas were established to discourage illegal dumping in the future, and citizen committees were established for each drain to maintain the park areas.

**Vector Habitat Education and Outreach in Brownsville, TX.** A crowdsourcing application was created to expand mosquito-surveillance activity and facilitate the reporting of illegal dumping and mosquito problems. Water utility staff also received training in Mosquito Management and Trap Surveillance.

More information about these and other Border 2020 activities is available at www.epa.gov/border2020.

# 2018 Operations

## New Projects

NADB continued to advance its environmental mandate on the border by developing and submitting certification and financing proposals to its Board of Directors for approval. During 2018, six projects were approved to receive US$115.34 million in loans and grants. Altogether, these six projects represent a total investment of US$447.35 million and will benefit an estimated 575,000 border residents.

Most of these projects are aimed at achieving the fundamental goals of providing access to sustainable and safe drinking water or eliminating exposure to unsanitary water conditions along the border. The construction of a desalination plant is expected to supply up to 5.7 million gallons per day (gpd) of drinking water in the San Quintín Valley where the availability of fresh water sources is significantly limited due to the dry climate and the over-pumping of existing aquifers. A new drinking water system will be built for the small community of José Silva Sanchez, where residents currently have to haul water for daily household use, while improvements to the water system in Whetstone will reduce incidents of low pressure and service interruptions that jeopardize water quality for 459 households.

Likewise, improvements to the wastewater system in Camargo will increase collection coverage by providing first-time sewer service to 347 homes in the La Mision and El Sauz neighborhoods, as well as improve and increase the city's capacity to treat up to 0.57 million gpd, which will protect local water bodies, including the Rio Grande. The relocation of a sewer main in Nogales, Arizona, will eliminate the risk of line breaks that could result in 84,000 gpd of wastewater spilling into Potrero Creek.

Table 4: Project Certification in 2018

| | Projects Certified | Location | Population to Benefit | Funding Approved | |
|---|---|---|---|---|---|
| | | | | Type* | Amount (US$ Millions) |
| **Water** | | | | | |
| 1 | Desalination Plant | San Quintín, B.C. | 86,414 | Loan | $ 36.61 |
| 2 | Water Supply and Distribution System Improvements | Whetstone, AZ | 940 | CAP | 0.50 |
| 3 | Drinking Water System | José Silva Sánchez, TAM | 135 | CAP | 0.25 |
| **Wastewater** | | | | | |
| 4 | Peña Blanca Wastewater System Improvements at Potrero Creek | Nogales, AZ | 1,262 | PAC | 0.45 |
| 5 | Wastewater Collection and Treatment Project | Camargo, TAM | 8,819 | BEIF | 2.53 |
| **Clean Energy** | | | | | |
| 6 | Puerto Libertad Solar Park | Pitiquito, SON | 477,196 | Loan | 75.00 |
| | **Total** | | **574,766** | | **$ 115.34** |

The Community Assistance Program (CAP) funded by NADB and the Border Environment Infrastructure Fund (BEIF) funded by EPA are grant programs.

Finally, the Puerto Libertad Solar Park with 317.5 megawatts of generation capacity is expected to produce electricity equivalent to the annual consumption of 132,554 households, displacing the production of fossil fuel-based energy and thus avoiding the emission of 440,390 million metric tons of carbon dioxide a year, which would be the same as removing 93,500 automobiles a year from the roadway. This plant will be one of the largest renewable energy projects in Mexico.

## Financing Programs

NADB offers market-rate loans and other financial services to public and private project sponsors, as well as uses a portion of its retained earnings to finance critical environmental infrastructure projects in low-income communities with grants through the Community Assistance Program (CAP). In addition, it administers grant funds provided by EPA through the Border Environment Infrastructure Fund (BEIF) for the implementation of priority water and wastewater projects located within 100 kilometers of both sides of the U.S.-Mexico border.

During 2018, a total of US$135.82 million in financing was approved for eight projects, consisting of US$115.34 million for the six new projects described above and US$20.5 million in additional funds for two projects approved previously. Moreover, NADB contracted US$127.55 million with the sponsors of nine projects and disbursed US$194.17 million to support 34 projects in various stages of implementation. A breakdown of the funding approved and contracted by program is shown in Table 5.

**Table 5: Project Financing by Program in 2018**
(US$ Million)

| Community | Project Type | Certified[1] | Financing Approved | Financing Contracted |
|---|---|---|---|---|
| **Loan Program** | | | | |
| San Quintín, B.C. | W | 8-Mar-18 | 36.61 | 36.61 |
| Puerto Libertad Solar Park (Pitiquito, SON) | SE | 8-Mar-18 | 75.00 | 65.99 |
| Border-wide bus program in Mexico | PT | 13-Sep-16 | 20.13 | 20.13 |
| **Community Assistance Program (CAP)** | | | | |
| Whetstone, AZ | W | 19-Jun-18 | 0.50 | 0.50 |
| José Silva Sánchez, TAM | W | 19-Jun-18 | 0.25 | – |
| Nogales, AZ | WW | 8-Nov-18 | 0.45 | – |
| **Border Environment Infrastructure Fund (BEIF)** | | | | |
| Camargo, TAM | WW | 21-Jun-18 | 2.53 | – |
| Loma Blanca, CHIH | WW | 9-Nov-17 | – | 0.51 |
| Marathon, TX | WW | 9-Nov-17 | – | 1.55 |
| Tijuana, B.C.[2] | WW | 9-Nov-17 | 0.35 | 1.18 |
| Willcox, AZ | WW | 14-May-15 | – | 0.08 |
| Sunland Park, NM | WW | 23-Apr-15 | – | 1.00 |
| **Total** | | | **$ 135.82** | **$ 127.55** |

1. Some projects certified in previous years were approved to receive additional financing in 2018.
2. The original grant approved in 2017 was contracted in 2018. Additional funding was approved in 2018 and was pending contracting at year-end.
PT = Public transportation; SE = Solar energy; W = Water; WW = Wastewater.

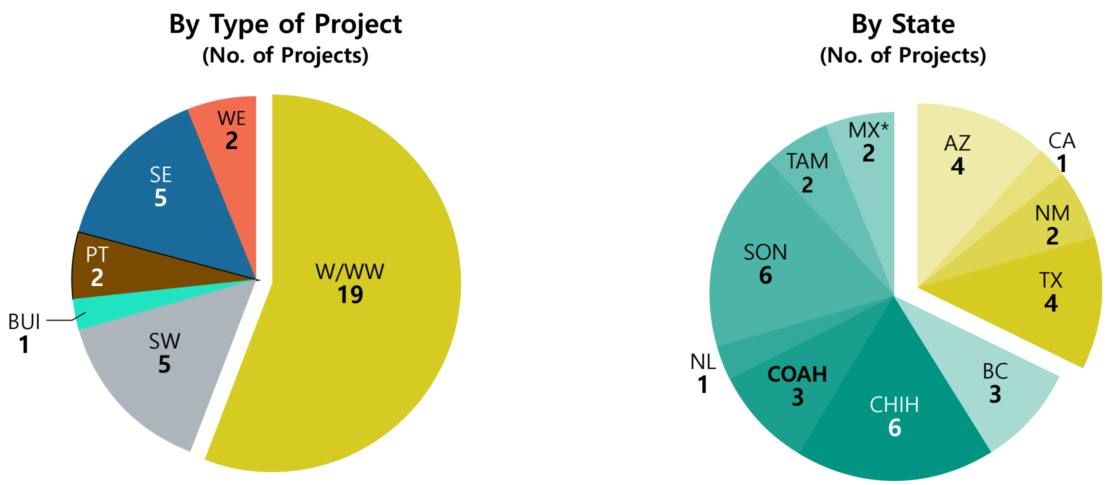
Disbursements were spread across all ten border states within the geographic jurisdiction of the Bank in 2018. Of the funds disbursed, 78.1% went to support five solar projects and two wind farms in five states. However, in terms of the number of projects funded, 55.9% were in the water and wastewater sector in nine states.

A more detailed analysis of NADB financing activity is provided in Section 2, Financial Results.

**Table 6: Financing Disbursed by Program**
(US$ Millions)

| Program | No. of projects | Amount |
|---|---|---|
| Loans | 10 | $ 167,008,740 |
| BEIF grants | 16 | 24,958,965 |
| CAP grants | 8 | 2,204,633 |
| | **34** | **$ 194,172,338** |

Figure 2: Loan and Grant Disbursements in 2018




BUI = Basic urban infrastructure; PT = Public transportation; SE = Solar energy; SW = Solid waste; WE= Wind energy; W/WW = Water and wastewater.
* MX = Border-wide programs in Mexico; all 2018 participants from Nuevo Leon.

## Technical Assistance Programs

During the year, NADB approved a total of US$780,000 in grants to fund five technical assistance projects, including a rate study of the water utilities in all five municipalities in Baja California; a technical, social and financial study of improvements to the San Antonio de los Buenos Wastewater Treatment Plant in Tijuana, Baja California; and studies to determine the feasibility of extending natural gas lines between three sets of sisters cities on the border. At the close of 2018, there were four studies in process with a total grant commitment of US$710,242.

The training seminars provided through the Utility Management Institute (UMI) were temporarily suspended during 2018, while the Bank conducted a thorough review of the program and its objectives, curricula, faculty and targeted participants.

**Project Development Assistance Program (PDAP).** NADB administers this program funded by EPA to support studies and other activities related to the planning and design of water and wastewater projects that have been prioritized to receive a BEIF construction grant, as well as to reinforce the long-term sustainability and proper operation of those projects.

During the year, a total of US$661,352 in PDAP grants was approved to fund five studies or other activities to support the development of five wastewater collection and/or treatment projects. These studies include a transboundary flow analysis and infrastructure assessment to identify the best alternatives for adequately managing flows in the Tijuana River to decrease adverse water quality impacts to the Pacific Ocean. At year-end, there were nine PDAP-funded studies in process to support development of eight water and/or wastewater projects with a total grant commitment of US$1.50 million.

In 2018, EPA completed a BEIF/PDAP project application and prioritization cycle initiated in the latter half of 2017 by selecting 13 water and wastewater infrastructure projects to be added to the project development pipeline. NADB assessed the development status and pending requirements of these projects for implementation and began allocating available PDAP funds to help sponsors complete the design and other activities necessary to achieve certification and potentially receive a BEIF grant.

**Border 2020: U.S.-Mexico Environmental Program.** Through this binational program, EPA provides grants to support the joint efforts of the U.S. and Mexico governments to improve the environment and protect the health of residents within 100 kilometers of their shared border. NADB provides technical and administrative services with respect to identifying, contracting and managing projects and workshops funded under the program.

During the year EPA authorized US$887,877 in grant funding to support 19 initiatives, including an air quality study at the San Ysidro Port-of-Entry between Tijuana, B.C. and San Diego, CA and a study to identify the source of metal contaminants entering the International Wastewater Treatment Plant in Nogales, AZ. A breakdown of the initiatives by Border 2020 goal is shown in Figure 3.

At the end of 2018, there were 25 Border 2020 initiatives in process with a total grant commitment of US$1.25 million.

Figure 3: Border 2020 Initiatives Approved in 2018


* Goals: 1. Reduce air pollution; 2. Improve access to clean and safe water; 3. Promote material management, waste management and clean sites.

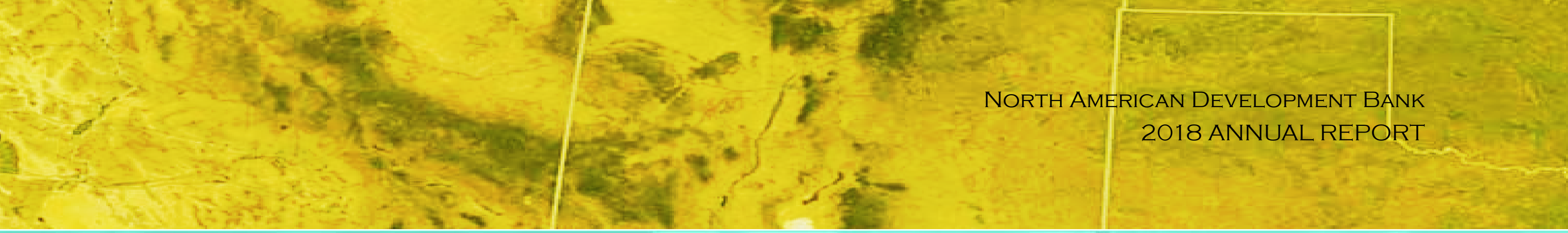
## Measuring Results

NADB has established a results measurement system to provide an objective assessment of project outcomes and performance. The system consists of two components: a closeout process to verify that the project was constructed as approved and has been operating as intended, which is conducted after the project has been in operation one year; and an impact assessment of select projects to ascertain the actual impact of the project on specific environmental and human health indicators.

Of the 217 infrastructure projects in operation at the close of 2018, a total of 106 have undergone the closeout process to verify their actual performance versus the intended performance at the time of approval. These projects represent a total investment of US$3.95 billion—38.7% of which was financed by NADB—and are benefitting 12.4 million border residents. A report on aggregate closeout results, as well as a more detailed description of the results measurement process, is available on the Bank website.

During 2018, NADB initiated a study aimed at assessing and documenting the impacts of wastewater infrastructure projects in the sister cities of Nogales, Arizona and Nogales, Sonora. Unlike previous assessments that only considered the impact on the community directly benefitted, this study is evaluating how infrastructure improvements in one city have impacted the adjacent city on the other side of the border. The study will be completed and published in 2019.





# Section 2
# Financial Results

# Management Discussion and Analysis

## Financial Highlights

As reflected in its credit ratings from Moody's Investors Service (Aa1) and Fitch Ratings (AA), NADB continues to maintain a solid financial position, with strong asset quality and excellent capitalization and liquidity levels. Maintaining these high ratings is a strategic priority for NADB and serves as the basis for its capital management strategies and lending activity. A summary of key financial data and operational activity for the past five years is highlighted in Tables 7 and 8, respectively.

Beginning the year with an outstanding loan balance of US$1.294 billion, the Bank disbursed US$167.01 million on contracted loans, was repaid US$78.55 million on amortizing loans, and received US$97.79 million in prepayments. The Bank seeks to maintain its loan portfolio at its current level. Nevertheless, as the macroeconomic environment has shifted to one of lower interest rates, the Bank has seen an increase in the number and amount of loan prepayments. Although the loan portfolio balance declined slightly, closing the year at US$1.284 billion, interest income from loans was 7.3% higher than the previous year, as new loans in 2017 earned a full 12 months of interest income in 2018.

Promoting the investment of private capital in environmental infrastructure is an important part of the mission of NADB and a key element of its capital resource management and lending strategy. To that end, NADB is constantly exploring innovative mechanisms for financing sustainable infrastructure, as well as debt instruments to help keep its lending competitive, and in 2018 launched two initiatives.

**Capital Development Certificate (CKD).** In August, NADB assisted the *Corporación Mexicana de Inversiones de Capital, S.A. de C.V.*, (FONDO de FONDOS) in issuing a four-billion-peso CKD in the Mexican stock market. The purpose of the CKD, which NADB helped structure with Mexican pension fund management firms (known as AFORES), is to provide co-financing for loans that will support the implementation of sustainable infrastructure projects in Mexico. NADB will provide advisory services in the origination of projects, leveraging its experience in the structuring and financing of infrastructure in the sectors eligible under its mandate, as well as cover at least 20% of the total investment to be made by the CKD and the Bank in a particular project. This co-financing vehicle brings to the market a long-term financing product that will facilitate the flow of untapped resources from the private sector into project finance transactions that comply with NADB requirements. The availability of CKD funding to complement NADB loans also gives the Bank more flexibility in managing its own capital resources.

**Green Bond Framework**. During the year, NADB also finalized the development of a Green Bond Framework consistent with the Green Bond Principles promoted by the International Capital Market Association and issued its first green bond. The framework outlines the types of NADB projects eligible for financing with the proceeds of a green bond, as well as the management of bond proceeds and the availability of project information. The NADB Green Bond Framework was reviewed by Sustainalytics, which issued a positive opinion. More information about this framework, along with the report from Sustainalytics, is available on the NADB website.

The ability to issue green bonds allows the Bank to tap into a broader pool of private investors interested in sustainable investing, which has seen growing demand in recent years. In fact, interest in the Bank's inaugural green bond was so strong that the original benchmark amount was oversubscribed by 25% within 90 minutes, which had a positive impact on its final pricing (2 basis points). The net proceeds of this initial green bond totaling US$126.4 million were fully used to finance six renewable energy projects prior to year-end.

## Table 7: Financial Summary 2014-2018[1]
(US$ Thousands)

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| **Balance Sheet Data** | | | | | |
| Cash and investments | **$ 799,146** | $ 954,962 | $ 511,558 | $ 504,861 | $ 442,954 |
| Loans outstanding[2] | **1,284,478** | 1,293,807 | 1,411,296 | 1,324,777 | 1,185,514 |
| Total assets | **1,958,997** | 2,145,753 | 1,812,866 | 1,780,599 | 1,633,369 |
| Borrowings outstanding, gross | **1,314,597** | 1,493,443 | 1,187,505 | 1,190,550 | 1,059,953 |
| Total liabilities | **1,305,971** | 1,511,438 | 1,208,832 | 1,215,017 | 1,090,683 |
| Total equity | **653,027** | 634,315 | 604,034 | 565,582 | 542,686 |
| Callable capital | **2,351,667** | 2,351,667 | 2,351,667 | 2,295,000 | 2,295,000 |
| **Income Statement Data** | | | | | |
| Total interest income | **$ 78,918** | $ 68,622 | $ 59,012 | $ 51,246 | $ 43,710 |
| Loans | **61,981** | 57,761 | 52,427 | 45,892 | 38,487 |
| Investments | **16,936** | 10,861 | 6,585 | 5,354 | 5,224 |
| Interest expense | **47,242** | 31,640 | 19,950 | 15,101 | 13,548 |
| Net interest income | **31,675** | 36,982 | 39,061 | 36,145 | 30,163 |
| Total operating expenses | **15,618** | 8,448 | 17,934 | 18,143 | 10,816 |
| Provision for loan losses | **(1,953)** | (3,945) | 5,134 | 8,559 | 2,199 |
| Total non-interest income (expense) | **7,833** | 3,156 | (369) | 2,388 | (1,093) |
| Income before program activity | **23,890** | 31,690 | 20,758 | 20,389 | 18,254 |
| Net program expenses[3] | **2,536** | 2,163 | 1,088 | 4,873 | 2,077 |
| Net income | **21,354** | 29,527 | 19,670 | 15,516 | 16,177 |
| **Ratios** | | | | | |
| Total equity / loans outstanding | **50.8%** | 49.0% | 42.8% | 42.7% | 45.8% |
| Gross debt / callable capital | **55.9%** | 63.5% | 50.5% | 51.9% | 46.2% |
| Gross debt / total equity | **201.3%** | 235.4% | 196.6% | 210.5% | 195.3% |
| Interest coverage[4] | **1.3x** | 1.8x | 2.3x | 2.8x | 2.6x |
| Liquid assets / total assets | **40.6%** | 44.3% | 25.3% | 25.3% | 23.8% |
| Liquid assets /short-term debt | **151.2x** | 3.1x | 87.0x | 85.7x | 147.8x |
| Income before program activity / total equity | **3.7%** | 5.0% | 3.4% | 3.6% | 3.4% |
| Income before program activity / average assets | **1.2%** | 1.6% | 1.2% | 1.2% | 1.1% |
| Non-acrual loans / loans outstanding | **1.1%** | 1.1% | 0.0% | 0.0% | 0.3% |
| **Credit Ratings** | | | | | |
| Moody's Investor Service | **Aa1/P-1** | Aa1/P-1 | Aa1/P-1 | Aa1/P-1 | Aa1/P-1 |
| Fitch Ratings | **AA/F1+** | AA/F1+ | AA/F1+ | AA/F1+ | AA/F1+ |

1 The figures exclude the U.S. domestic program, and as of November 10, 2017, reflect the finances of the NADB under the amended charter.

2 Before allowance for loan losses, unamortized fees, and effect of foreign exchange adjustments and hedged items.

3 Program expenses include grant financing and technical assistance funded from the Bank's retained earnings.

4 Interest coverage ratio is defined as interest income minus operating expenses less provision for loan losses divided by interest expense.

**Table 8: Project and Financing Operations 2014-2018**
(US$ Thousands)

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| **Project Certification** | | | | | |
| **Total projects certified**[1] | **6** | 10 | 15 | 14 | 16 |
| **By Sector** | | | | | |
| Water | **5** | 5 | 7 | 7 | 10 |
| Waste management | **-** | - | 5 | - | - |
| Air quality[2] | **-** | - | 1 | 1 | 1 |
| Basic urban infrastructure[3] | **-** | - | - | 1 | 1 |
| Clean and efficient energy | **1** | 5 | 2 | 5 | 4 |
| **By Financing Type** | | | | | |
| Loans | **2** | 6 | 3 | 8 | 7 |
| NADB-funded grants | **3** | - | 7 | 2 | 2 |
| NADB-administered grants | **1** | 4 | 5 | 4 | 7 |
| **Lending Operations** | | | | | |
| Loans approved | **$ 131,737** | $ 273,186 | $ 96,876 | $ 239,177 | $ 323,670 |
| Loans contracted | **122,729** | 229,536 | 146,767 | 178,262 | 304,323 |
| Loans disbursed | **167,009** | 101,426 | 136,253 | 249,556 | 254,163 |
| Principal payments | **176,338** | 218,915 | 49,734 | 110,297 | 79,860 |
| Amortizations | **78,549** | 98,120 | 43,102 | 56,712 | 78,724 |
| Prepayments | **97,789** | 120,795 | 6,632 | 53,584 | 1,136 |
| **Grant Operations** | | | | | |
| **NADB-funded grants**[4] | **$ 1,200** | $ - | $ 3,100 | $ 1,000 | $ 765 |
| Approved | **500** | 1,500 | 1,600 | 1,450 | 315 |
| Contracted | **2,177** | 1,184 | 438 | 3,525 | 1,197 |
| Disbursed[5] | | | | | |
| **NADB-administered grants**[6] | | | | | |
| Approved | **2,881** | 6,236 | 25,022 | 20,274 | 24,936 |
| Contracted | **4,318** | 14,535 | 21,231 | 16,219 | 12,047 |
| Disbursed | **24,959** | 11,278 | 10,228 | 8,698 | 14,673 |

1 Project certification and financing proposals are approved simultaneously by the Board of Directors.

2 This category includes roadway improvements, industrial emissions reduction and public transportation.

3 These projects consist of works from various sectors, such as roadway improvements, water and sewer lines, storm drainage, and public lighting.

4 Grants funded from designated retained earnings of the Bank for certified infrastructure projects (excludes technical assistance)

5 Includes grant disbursements through the Community Assistance Program (CAP) and Water Conservation Infrastructure Fund (WCIF) and excludes expenditure for supervision.

6 Grants funded by the U.S. Environmental Protection Agency (EPA) and administered by NADB through the Border Environment Infrastructure Fund (BEIF).

# Financing Operations

## Loan Financing

NADB has established a lending strategy based on prudent capital and risk management, which entails taking a smaller stake in large projects, not only as a means of reducing its credit risk exposure and managing its capital resources, but also to encourage increased investment from the private sector in public infrastructure and services.

During 2018, new loans for up to US$131.74 million were approved for three projects, including an increase in the line of credit for a low-emission bus program certified in 2016; loan agreements totaling US$122.74 million were signed with the sponsors of all three projects; and US$167.01 million was disbursed to support 10 projects in implementation. In contrast, during 2017, the Bank approved US$283.23 million in loans for six projects; contracted seven loans totaling US$229.54 million and disbursed US$101.43 million to support the execution of 11 projects.

A breakdown of lending activity by environmental sector for the past two years is presented in Table 9. In 2018, loan disbursements were mainly channeled to solar parks (54.0%), wind farms (36.7%) and public transportation (9.0%). In comparison, wind energy accounted for 72.0% of disbursements in 2017, followed by solar parks (10.9%) and water-related projects (10.8%).

Almost all disbursements in 2018 went to private-sector borrowers with projects in Mexico (96.0%) and the U.S. (3.8%), with the remainder going to a public-sector borrower in Mexico (0.2%). In comparison, private-sector borrowers in the U.S. accounted for 35.5% of disbursed loans in 2017, while the remaining 64.5% went to projects in Mexico and was divided among public (2.8%), private (52.3%) and public-private borrowers (9.4%).

**Table 9: Lending Activity by Sector in 2017 and 2018**
**(US$ Millions)**

| Project Type | Approvals | | Signings | | Disbursements | |
|---|---|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** |
| Basic urban infrastructure* | **$ –** | $ – | **$ –** | $ – | **$ 0.35** | $ 1.39 |
| Energy efficiency | **–** | – | **–** | 25.00 | **–** | – |
| Public transportation | **20.13** | – | **20.13** | – | **15.01** | 4.97 |
| Solar energy | **75.00** | 105.50 | **65.99** | 67.75 | **90.35** | 11.08 |
| Water / wastewater | **36.61** | 10.05 | **36.61** | – | **–** | 10.97 |
| Wind energy | **–** | 167.68 | **–** | 136.79 | **61.30** | 73.02 |
| **Total** | **$ 131.74** | **$ 283.23** | **$ 122.73** | **$ 229.54** | **$ 167.01** | **$ 101.43** |

* These projects consist of a mix of works from various sectors, such as street paving, water and sewer lines, storm drainage and public lighting.

Principal payments totaled US$176.34 million in 2018, including the prepayment of three loans totaling US$97.79 million. In comparison, the Bank received US$218.91 million in principal payments in 2017, including the prepayment of three loan totaling US$120.79 million and the liquidation of a short-term loan for US$32.69 million. Principal payments, excluding prepayments, have averaged US$71.04 million annually over the past five years (Table 8).

Table 10 provides a summary of lending activity during the past two years and its impact on the loan portfolio.

**Table 10: Summary of Annual Lending Activity and Balances**
(US$ Millions)

| | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Outstanding balance, beginning of year* | **$ 1,293.81** | $ 1,411.30 |
| Loan disbursements | **167.01** | 101.42 |
| Principal payments | **(176.34)** | (218.91) |
| **Outstanding balance, end of year*** | **1,284.48** | 1,293.81 |
| Loans contracted, pending disbursement | **150.64** | 188.35 |
| Loans approved, pending contracting | **128.90** | 136.14 |
| Total loan commitments | **279.54** | 324.49 |
| **Outstanding loans & loan commitments** | **$ 1,564.02** | $ 1,618.30 |

* Outstanding balances, before allowance for loan losses, unamortized fees, and effect of foreign exchange adjustments and hedged items.

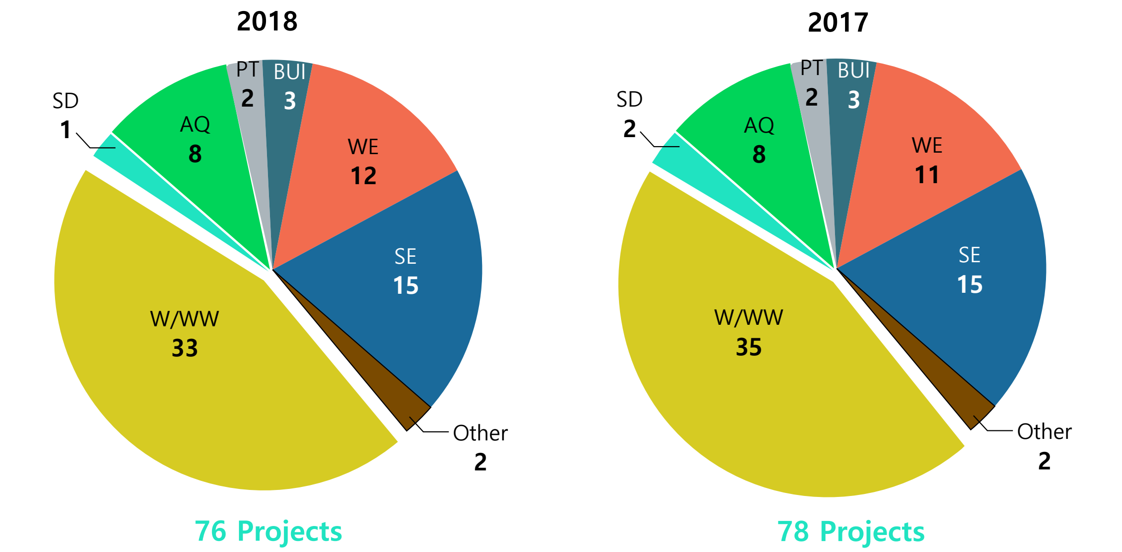
In the near term, NADB expects its lending activity will continue to be driven by private-sector borrowers investing in the renewable energy sector to meet growing demand for sustainable clean energy solutions in both countries. At the same time, the Bank is constantly exploring other opportunities to address critical environmental issues along the border, such as electric light rail systems in urban areas, biofuels, energy storage and storm water management.

## Loan Portfolio

The proportion of projects per sector with loans outstanding in 2018 was similar to that of previous years (Figure 4). In broad terms, 44.7% of the projects were in the water sector at the close of 2018, down slightly from 47.4% at the beginning of the year, due to the repayment of three loans. Clean energy projects increased from 35.9% to 38.2% by year-end, with disbursements to two new projects, while air quality improvement projects remained stable at 17.1%, compared to 16.7%, at the beginning of the year.

NADB closed the year with an outstanding loan balance of US$1.28 billion, a decrease of less than one percent (-0.7) compared to the balance at the end of 2017 (US$1.29 billion). As illustrated in Figure 5, following a surge in lending activity, the outstanding balance declined in 2017 as a result of loan prepayments and remained

Figure 4: Loan Portfolio by Number of Projects



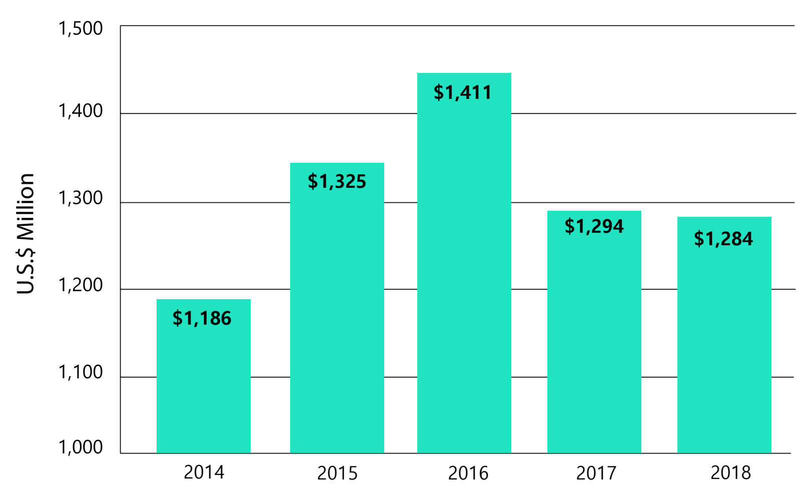

Air quality improvements (AQ), Basic urban infrastructure (BUI), Public transportation (PT), Storm drainage (SD), Solar energy (SE), Water/wastewater (W/WW), Wind energy (WE). Other includes cogeneration and landfill gas-to-energy projects.

at roughly the same level in 2018, in line with the capital management strategy of the Bank. However, since December 31, 2014, the loan portfolio has grown 8.3%.

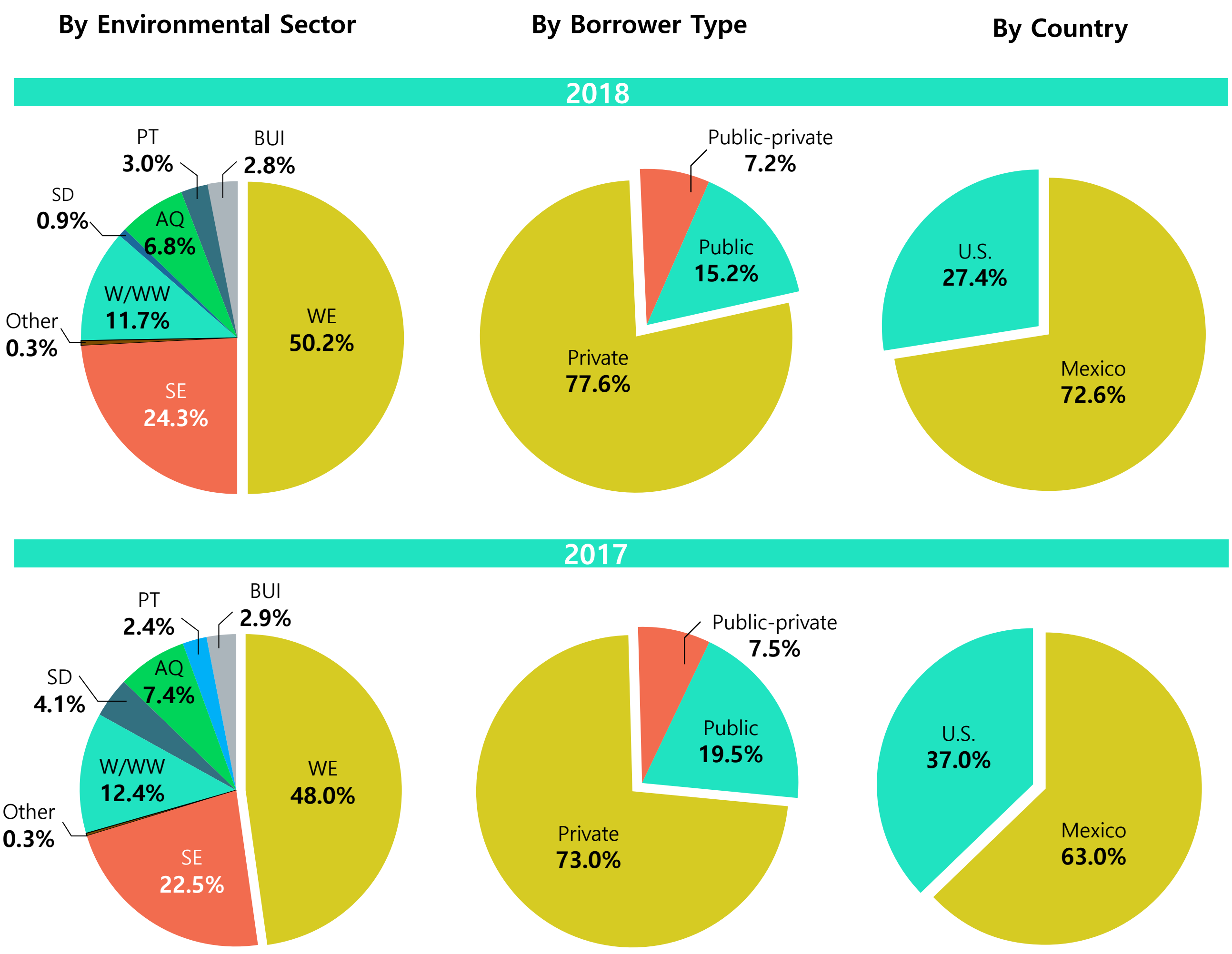
A breakdown of the outstanding loan balance by environmental sector, borrower type and geographic region as of December 31, 2017 and 2018 is provided in Figure 6.

As detailed in the previous section, new loans in 2018 were mainly driven by private-sector borrowers investing in clean energy and public transportation improvements in Mexico, which was offset by the prepayment of three loans for projects in the United States.

Figure 5: Annual Loan Portfolio Balances



## Figure 6: Loan Portfolio Distribution




* Air quality improvements (AQ), Basic urban infrastructure (BUI), Public transportation (PT), Storm drainage (SD), Solar energy (SE), Water/ wastewater (W/WW), Wind energy (WE)

** Other includes cogeneration and landfill gas-to-energy projects.

*** Public-private borrower generally refers to a loan structure in which a private company is the borrower, but the source of payment and/or guaranty is a public utility or local government.

Table 11 shows the changes in the amount of outstanding loans by environmental sector during the 12-month period ending December 31, 2018. Storm drainage registered the largest decline (US$40.74 million), mainly as a result of the prepayment of a loan for US$39.38 million. Wind energy saw the largest increase (US$24.01 million), closely followed by solar energy (US$21.41 million). The increase in solar energy would have been larger but was offset by the prepayment of a US$58.22-million loan.

**Table 11: Portfolio By Environmental Sector**
(US$ Millions)

| Project Type | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Wind energy | **$ 644.68** | $ 620.67 |
| Solar energy | **312.60** | 291.20 |
| Water/wastewater | **150.44** | 161.08 |
| Air quality improvements | **86.83** | 95.64 |
| Public transportation | **38.39** | 31.16 |
| Basic urban infrastructure* | **36.01** | 37.09 |
| Storm drainage | **11.98** | 52.72 |
| Other clean energy** | **3.55** | 4.25 |
| **Total** | **$ 1,284.48** | $ 1,293.81 |

* These projects include a mix of street paving, water and sewer lines, storm drainage and public lighting.
** Other clean energy includes cogeneration and landfill gas-to-energy.

With the exception of storm drainage, these changes had relatively little effect on year-end portfolio distribution by sector (Figure 6). At the close of 2018, wind energy accounted for the largest portion of the loan portfolio at 50.2% compared to 48.0% at the beginning of the year, followed by solar energy with 24.3% (up from 22.5%), while water and wastewater declined slightly from 12.4% to 11.7% by year-end.

In terms of borrowers, the loan portfolio is divided into three categories: public, private or public-private. In the latter case, a private company is the direct borrower, but the source of payment and/or guaranty is a public utility or local government and the Bank has recourse to both the private and public entity. During 2018, the volume of loans held by private-sector borrowers reached to US$996.97 million, while the volume of loans held by public-sector borrowers came to US$195.22 million. Loans held by public-private borrowers totaled US$92.29 million at year-end. The distribution of the loan portfolio by borrower type at the close of 2017 and 2018 is shown in Figure 6.

In terms of portfolio distribution by geographic region, growth continued along the same lines as prior years. Loans invested in Mexican projects increased by US$116.34 million (14.3%) to a total of US$931.93 million at the close of 2018, compared to an increase of US$22.80 million (2.9%) in 2017. The amount held by U.S. borrowers decreased by US$125.67 million (26.3%) to a total of US$352.54 million, following a decline of US$140.28 million (22.7%) the previous year. The decline in U.S. loans over the past two years can mainly be attributed to the prepayment of four loans totaling US$210.82 million. As a result of this activity, at the close of 2018, 72.6% of outstanding loans were held by borrowers with projects in Mexico and the remaining 27.4% were related to projects in the United States (Figure 6). This result is not surprising given that NADB serves a much larger region in Mexico than in the United States, providing a larger pipeline of potential projects for financing.

Table 12 provides the balance of outstanding loans by state at the end of 2017 and 2018. Lending activity in 2017 was spread across five of the ten border states within the geographic jurisdiction of the Bank, with the largest disbursements made to projects in Sonora (US$62.24 million), Nuevo Leon (US$31.30 million) and Tamaulipas (US$30.00 million). Conversely, prepayments significantly reduced the volume of loans in California (US$58.22 million) and Texas (US$39.38 million). As a result of this lending activity, the portfolio was more evenly distributed among the states by year-end (Figure 7).

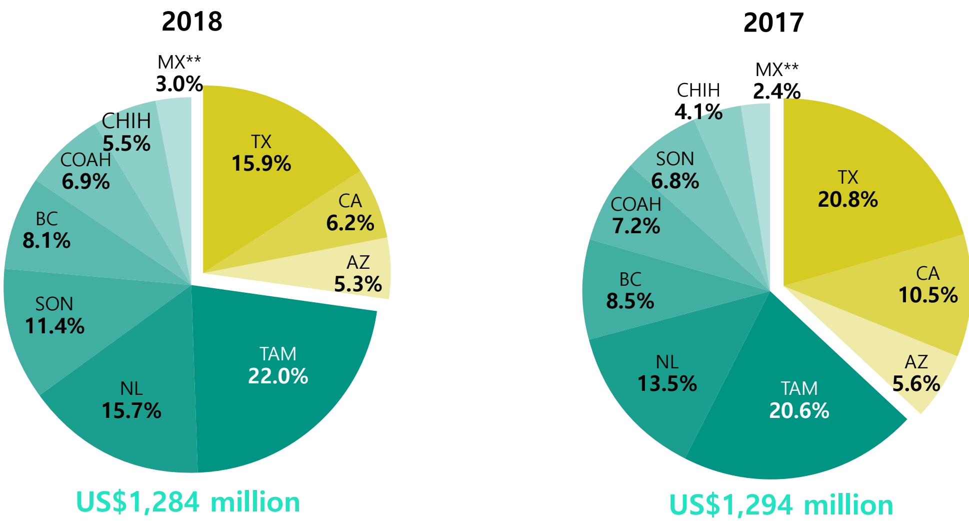
At the beginning of the year just over half (54.9%) of the portfolio was held by borrowers in the states of Texas (20.8%), Tamaulipas (20.6%) and Nuevo Leon (13.5%), but by year-end the level had dropped to 53.6%, with Tamaulipas accounting for the largest portion (22.0%), followed by Texas (15.9%) and Nuevo Leon (15.7%). New Mexico is the only eligible state with no outstanding loan.

**Table 12: Portfolio by State***
(US$ Millions)

| | 12/31/2018 | 12/31/2017 |
|---|---|---|
| **Mexico** | | |
| Tamaulipas | **$ 283.09** | $ 265.74 |
| Nuevo Leon | **201.79** | 174.69 |
| Sonora | **146.15** | 88.03 |
| Baja California | **103.53** | 109.71 |
| Coahuila | **87.92** | 93.08 |
| Chihuahua | **71.07** | 53.18 |
| Mexican border** | **38.39** | 31.16 |
| | **931.94** | 815.59 |
| **United States** | | |
| Texas | **204.22** | 269.45 |
| California | **80.07** | 136.29 |
| Arizona | **68.25** | 72.48 |
| | **352.54** | 478.22 |
| **Total** | **$ 1,284.48** | $ 1,293.81 |

* Includes loans to both public and private borrowers.
** Border-wide programs, with current participants from Baja California, Chihuahua, Nuevo Leon and Sonora.

**Figure 7: Loan Portfolio Distribution by State***




* Includes loans to both public and private borrowers.
** Border-wide programs, with current participants from Baja California, Chihuahua, Nuevo Leon and Sonora

**Non-performing Loans.** As of December 31, 2018 and 2017, there was one non-accrual loan with a balance of US$14.63 million and US$14.38 million respectively. As of those same dates, this loan represented 1.14% and 1.11% of the loan portfolio (Table 7). In July 2018, the loan was restructured with no charge-offs, and the borrower made its first semi-annual payment in September. The Bank generally classifies loans as non-accrual when payments of principal or interest on the loan are delinquent for 180 days or where reasonable doubt exists as to the ability of the borrower to make timely payment. Non-accrual loans are returned to accrual status when principal and interest payments are current and NADB is confident that the borrower has the ability to repay the loan in full in accordance with the established amortization schedule.

In the event that the full repayment of a loan is deemed unlikely, the Bank allocates a specific allowance for probable and estimable loan losses on its financial statements. The Bank had a specific allowance of US$2.33 million and US$2.67 million for the aforesaid loan as of December 31, 2018 and 2017, respectively. The Bank also provides a general allowance for all outstanding loans based on statistical cumulative default and recovery rates for project finance loans. As of December 31, 2018, the general allowance totaled US$16.83 million.

**Lending Limits.** Under the charter, the total amount of outstanding loans (and guaranties) may not at any time exceed the total amount of unimpaired subscribed capital of the Bank, plus the unimpaired reserves and undistributed surplus that are included in its capital resources. As of December 31, 2018, the total unimpaired subscribed capital of the Bank was just under US$2.77 billion (paid-in capital and corresponding callable capital) and its unimpaired reserves and undesignated retained earnings came to US$217.91 million, for a total loan limit of US$2.98 billion, which was US$23.89 million (0.8%) higher than the previous year. At the close of 2018, the balance of outstanding loans (US$1.28 billion) represented 43.0% of this limit.

The Bank also imposes limits per project and per borrower. By policy, NADB cannot lend a project more than 85% of eligible project costs. Since 2013, the single obligor limit (SOL) is set at 20% of the sum of funded, unimpaired paid-in capital, plus undesignated retained earnings, the Special Reserve, and the Capital Preservation Reserve. An additional 10% may be made available for obligors that meet certain risk-related criteria. At the close of 2018, the SOL was US$112.39 million.

**Table 13: Single Obligor Limits (SOL)**
(US$ Millions)

| | 12/31/2018 | 12/31/2017 |
|---|---|---|
| 20% SOL | **$ 112.39** | $ 110.27 |
| 30% SOL | **168.58** | 165.40 |

Nevertheless, the Bank has been pursuing a more moderate lending strategy by taking smaller stakes in large projects. The largest loan contracted in 2018 was for US$65.99 million, and the largest loan outstanding at year-end had a balance of US$84.79 million.

## Grant Financing

**NADB-funded Grants.** With the approval of the Board of Directors, NADB uses a portion of its retained earnings to provide grants through the Community Assistance Program (CAP) for communities with little to no debt capacity.

During 2018, the Bank approved US$1.20 million in grants for three projects, contracted one of those grants for US$500,000 prior to year-end, and disbursed US$2.18 million in grants to support eight projects in implementation. As part of its funds management strategy, NADB set a disbursement cap of US$3.00 million for this program in 2018. Over the past five years, grant approvals through this program have averaged US$1.21 million a year, while grant disbursements have averaged US$1.08 million annually.

A small portion of CAP funding is used to cover the supervision costs of the projects financed under the program. A cumulative total of US$727,916 was committed to supervision contracts as of December 31, 2018, representing 5.2% of the funding allocated to the program. In 2018, US$107,612 was expended under supervision contracts.

In 2018, no new funding was allocated to the program. In 2017, the Board approved the allocation of US$2.00 million in retained earnings, and US$619,425 in unused grant funds from the Water Conservation Investment Fund (WCIF) were rolled over to the CAP program, in accordance with Board Resolution 2013-16, which terminated the WCIF program. As of December 31, 2018, NADB had a balance of US$5.81 million in uncommitted CAP funding available for future projects. The overall status of program funding at the end of 2018 is summarized in Table 14.

**Table 14: Community Assistance Program Program Funding Status**
(US$ Millions)

| | 2018 | Cumulative |
|---|---|---|
| Retained earnings allocated | $ - | $ 14.09 |
| Grants approved for projects | 1.20 | (7.55) |
| Funds allocated for supervision | - | (0.73) |
| Funding available for future projects | | $ 5.81 |

**Administered Grants.** NADB administers grant funds provided by EPA through the Border Environment Infrastructure Fund (BEIF). These funds are received from EPA prior to disbursement by the Bank to the grantees, and any BEIF-related operating expenses incurred by the Bank are reimbursed by EPA. Consequently, these funds are reflected in the consolidated financial statements, but have no economic effect on Bank operations.

In 2018, BEIF grants totaling US$2.88 million were approved for two projects, US$4.32 million was contracted for five projects; and US$24.96 million was disbursed to support 16 projects in implementation.

During the year, EPA allocated an additional US$6.09 million to the BEIF program: US$5.43 million for project construction and US$657,472 for program administration. At the end of the year, there was just over US$15.74 million available for projects in development. A summary of the overall status of BEIF program funding at the end of 2018 is provided in Table 15.

**Table 15: Border Environment Infrastructure Fund Program Funding Status**
(US$ Millions)

| | 2018 | Cumulative |
|---|---|---|
| EPA funding allocations[1] | $ 6.09 | $ 707.72 |
| Funds allocated for program administration | 0.66 | (28.79) |
| Grants approved for projects | 2.88 | (663.19) |
| Funding available for future projects | | $ 15.74 |

1. The cumulative figure includes US$329,029 in interest earned.

For the years ended December 31, 2018 and 2017, NADB recognized US$772,003 and US$799,248, respectively, as reimbursement for administrative expenses incurred in running the program. Since program inception in 1997, NADB has been reimbursed US$23.73 million for administrative expenses, which represents 3.4% of the funds allocated by EPA to the program.

## Technical Assistance Funding

With the approval of the Board of Directors, NADB uses a portion of its retained earnings to provide grants for technical assistance, as well as to support capacity building initiatives such as the seminars offered through the Utility Management Institute (UMI).

NADB approved US$780,000 for five studies in 2018 and US$831,500 for 11 studies in 2017. An additional US$335,000 from the annual UMI budget was committed to support the presentation of seven seminars in Mexico in 2017. No UMI funding was committed in 2018 as the program underwent a thorough review. Over the past five years, NADB has approved an average of US$906,667 annually in technical assistance and UMI funding (Table 16).

Table 16: Technical Assistance Activities 2014-2018
(US$ Thousands)

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| **Programs Funded by NADB [1]** | | | | | |
| **Funding** | | | | | |
| Approved | **$ 780** | $ 1,167 | $ 728 | $ 914 | $ 944 |
| Disbursed | **251** | 782 | 538 | 1,179 | 759 |
| **Activities** | | | | | |
| Approved [2] | **5** | 18 | 22 | 28 | 11 |
| Studies completed | **6** | 14 | 4 | 1 | 2 |
| Seminars / workshops held | **0** | 6 | 15 | 9 | 7 |
| **Programs Administered by NADB [3]** | | | | | |
| **Project Development Assistance Program** | | | | | |
| **Funding** | | | | | |
| Approved | **$ 661** | $ 7 | $ - | $ - | $ - |
| Disbursed | **617** | 285 | - | - | - |
| **Activities [4]** | | | | | |
| Approved | **5** | 1 | - | - | - |
| Completed | **6** | 2 | - | - | - |
| **U.S.-Mexico Border 2020 Program** | | | | | |
| **Funding** | | | | | |
| Approved | **$ 988** | $ 300 | $ - | $ - | $ - |
| Disbursed | **412** | 75 | - | - | - |
| **Activities [5]** | | | | | |
| Approved | **21** | 4 | - | - | - |
| Completed | **7** | 1 | - | - | - |

1 Figures reflect technical assistance and training funded with NADB retained earnings through its Technical Assistance Program (TAP) and Utility Management Institute (UMI).

2 Includes project development studies and related activities, seminars and capacity-building initiatives, and other studies to identify needs and generate knowledge about a new sector or technology.

3 Programs funded with grants from the U.S. Environmental Protection Agency (EPA). Figures reflect activity under NADB administration beginning as of November 10, 2017. Disbursements exclude administrative expenses.

4 Includes project development studies and related activities, such as final design.

5 Includes studies and workshops on topics related to clean air, safe drinking water, reduced risk of exposure to hazardous waste and emergency preparedness.

For the years ended December 31, 2018 and 2017, NADB disbursed US$251,046 and US$781,502, respectively, in grant funds for studies and training. This decrease in spending can partially be attributed to the temporary suspension of the UMI program, which on average accounts for a about third of the disbursements. Over the past five years, technical assistance disbursements have averaged US$701,653 annually (Table 16). These grants were funded with previously designated retained earnings, with the exception of UMI, which is budgeted on an annual basis.

For 2018 and 2017, no new funding was allocated to technical assistance program from NADB's retained earnings; however, US$450,000 was budgeted in both years for UMI. As of December 31, 2018, NADB had a balance of US$2.92 million in retained earning designated to TAP, of which approximately US$615,460 was committed to specific studies in progress at year-end. As part of its funds management strategy, NADB has set a disbursement cap of US$1.60 million for technical assistance and training in 2019.

**Administered Programs.** In support of its environmental mandate, NADB administers two technical assistance programs funded with grants from EPA.

*Project Development Assistance Program (PDAP)*. Under the terms of the grant agreements with EPA, the Bank contracts consultants to perform studies and other project development activities and receives an allocation of the grant funds for administrative expenses incurred. During 2018, the Bank disbursed US$617,111 for technical assistance projects under the program and recognized US$751,517 in administrative expenses.

*Border 2020: U.S.-Mexico Environmental Program*. Under the terms of the grant agreements with EPA, the Bank provides logistical and administrative services to facilitate meetings, as well as identifies, contracts and manages projects and workshops funded under the program. The Bank receives an allocation of the grant funds for administrative expenses incurred. During 2018, the Bank disbursed US$411,512 for technical assistance projects and recognized US$92,694 in administrative expenses.

## Results of Operation

The main source of revenue for NADB is derived from interest income on its loan portfolio and investment holdings. Expenses mainly consist of interest paid on borrowed funds and operating costs, which include provisions for loan losses. In 2018, the Bank had total revenue of US$78.92 million, while operating and interest expenses totaled US$62.86 million, providing net operating income of US$16.06 million. Table 17 provides a comparison of the main operating income and expenses for the years ended December 31, 2018 and 2017.

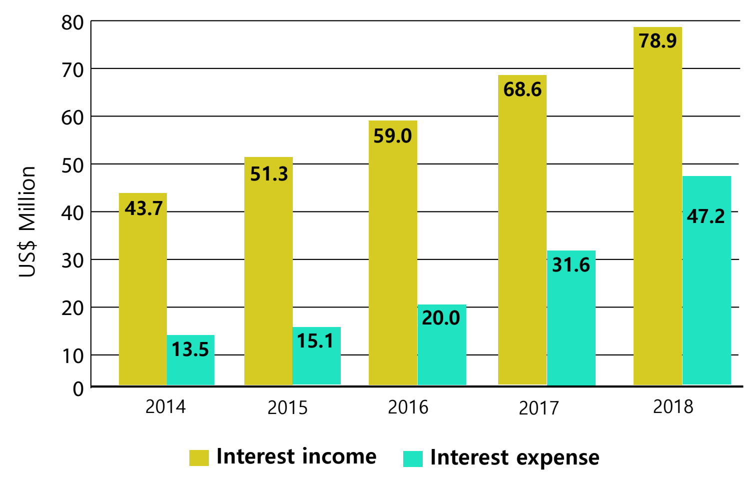
**Net interest income.** As indicated in Table 17, interest income grew 15.0% over the previous year, while interest expense increased 49.3%, mainly because of a higher level of outstanding debt prior to payment of a US$300-million debt issuance that matured in October, as well as rising interest rates. As a result, net interest income decreased 14.4% in 2018 compared to the previous year.

**Table 17: Operating Income and Expenses**
(US$ Millions)

| | 2018 | 2017 | Difference |
|---|---|---|---|
| Loan interest income | **$ 61.98** | $ 57.76 | $ 4.22 |
| Investment interest income | **16.94** | 10.86 | 6.08 |
| | **78.92** | 68.62 | 10.30 |
| Interest expense | **47.24** | 31.64 | 15.60 |
| Net interest income | **31.68** | 36.98 | (5.30) |
| Operating expenses | **15.62** | 8.45 | 7.17 |
| Net operating income | **16.06** | 28.53 | (12.47) |
| Total non-interest income and non-operating expenses | **7.83** | 3.16 | 4.67 |
| Income before program activities | **$ 23.89** | $ 31.69 | $ (7.80) |

**Operating Expenses.** Table 18 shows a comparison of the main operating expense categories for the years ended December 31, 2018 and 2017. Operating expenses in 2018 increased by 84.9% compared to the previous year, mainly as a result of incorporating a second office with 38 employees in Juarez, Chihuahua, following the merger with BECC. Operating expenses at the Juarez Office totaled US$4.76 million in 2018, accounting for 66.3% of the increase. These expenses were fully offset by US$4.70 million in budget contributions from the U.S. and Mexican governments, which formerly served as the main source of income for BECC prior to its merger with NADB, along with US$844,211 in EPA funding that covered the administrative expenses related to the PDAP and Border 2020 programs.

**Figure 8: Interest Income vs. Interest Expense**




The remaining difference in expenses for the two years is due, in part, to the fact that expenses in 2017 were offset by a US$3.94-million reduction in loan provision requirements and US$1.25 million in loan fees, whereas 2018 expenses were offset by a US$1.95-million reduction in loan provision requirements and US$242,608 in fees.

**Non-interest income and non-operating expenses**. This category mainly consists of non-cash transactions that are recorded on a mark-to-market basis, including net foreign exchange gains (losses) and net gains (losses) from swaps and other real estate owned, as well as net gains (losses) on sales of available-for-sale investment securities, loan fees and other miscellaneous income and expenses (Table 19). Beginning in 2018, it also includes budget contributions from the U.S. and Mexican governments, which formerly served as the main source of funding for BECC operations prior to the merger. For the years ended December 31, 2018 and 2017, the Bank recorded total non-interest income of US$7.83 million and US$3.16 million, respectively. The increase in 2018 is explained mainly by the government contributions and net income from hedging activities.

**Program Expenses**. These expenses consist of grant disbursements for studies, training and project implementation, which are funded with previously designated retained earnings, with the exception of UMI, which is budgeted on an annual basis. A breakdown of grant disbursements by program for the past two years is shown in Table 20. Over the past five years, grant disbursements have averaged US$2.46 million annually. More information about these programs, is provided under Grant Financing and Technical Assistance Funding.

### Table 18: Operating Expenses
(US$ Millions)

| Category | 2018 | 2017 | Difference |
|---|---|---|---|
| Personnel | **$ 12.84** | $ 8.38 | $ 4.46 |
| General & administrative | **2.40** | 1.63 | 0.77 |
| Consultants / contractors | **2.17** | 2.26 | (0.09) |
| Provision for loan losses | **(1.95)** | (3.94) | 1.99 |
| Depreciation | **0.16** | 0.16 | – |
| Other | **(0.00)** | (0.04) | 0.04 |
| **Total** | **$ 15.62** | $ 8.45 | $ 7.17 |

### Table 19: Non-interest Income and Non-operating Expenses
(US$ Millions)

| Category | 2018 | 2017 |
|---|---|---|
| Government contributions | **$ 4.70** | $ – |
| Gains on sales and call of investment securities | **–** | 3.62 |
| Net income (expense) from hedgingactivities | **2.57** | (1.27) |
| Net income from foreign exchange activities | **0.21** | 0.13 |
| Fees and other income | **0.64** | 0.68 |
| Loss on real estate owned | **(0.29)** | – |
| **Total** | **$ 7.83** | $ 3.16 |

### Table 20: Program Expenses
(US$ Millions)

| Program | 2018 | 2017 |
|---|---|---|
| Community Assistance Program (CAP) | **$ 2.29** | $ 1.18 |
| Water Conservation Investment Fund (WCIF) [1] | **–** | 0.20 |
| Technical Assistance Program (TAP) [2] | **0.25** | 0.55 |
| Utility Management Institute (UMI) | **–** | 0.23 |
| **Total** | **$ 2.54** | $ 2.16 |

1 This grant program was formally terminated in 2013. As of December 31, 2017, grant funds totaling US$95,594 were pending disbursement for the last WCIF project.
2 Excludes technical assistance funded by EPA or other sources.

# Financial Position

## Equity

As of December 31, 2018, total equity was US$653.03 million, an increase of 2.9% (US$18.71 million) compared to US$634.31 million at the close of 2017.

**Capital.** During 2018 there was no change in the capitalization of the Bank. As of December 31, 2018 and 2017, NADB had US$415 million in paid-in capital, along with US$2,352 million in corresponding callable capital. A breakdown of the capital stock by source and type is provided in Table 21. Additional details about the capitalization of the Bank are provided in Note 7 of the consolidated financial statements.

**Retained Earnings and Reserves.** During 2018, retained earnings grew 10.3% to a total of US$228.90 million from US$207.54 million at the end of 2017 and are held in the General Reserve.

Table 21: Capital Funded December 31, 2017 and 2018
(US$ Millions)

| | |
|---|---|
| **Source** | |
| Mexico | $ 1,416.67 |
| United States | 1,350.00 |
| Total | $ 2,766.67 |
| **Type** | |
| Paid-in | $ 415.00 |
| Callable | 2,351.67 |
| Total | $ 2,766.67 |

In accordance with its retained earnings policy, NADB also maintains four specific reserves, which are described in Note 2 of the consolidated financial statements. Annual allocations from undesignated retained earnings to the reserve funds are made as necessary, and if available, to maintain the levels mandated under the policy. At the close of 2018 and 2017, all the reserves were fully funded.

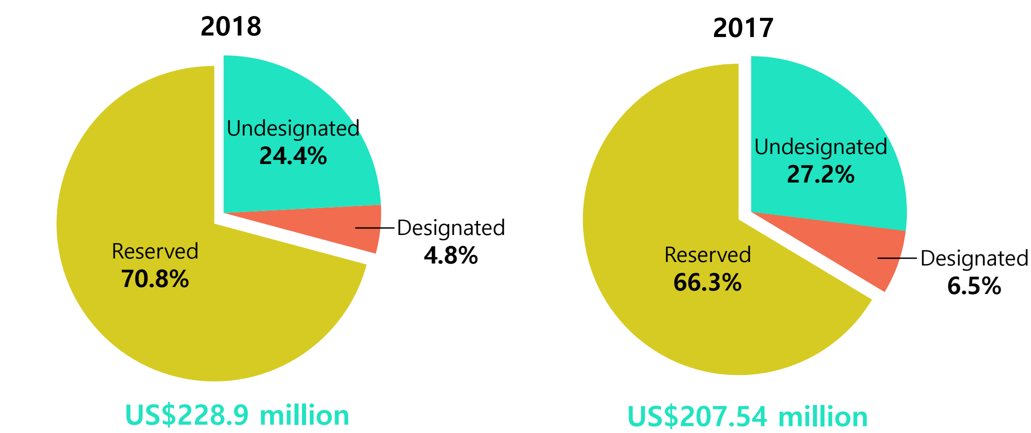
Table 22: Reserved and Designated Retained Earnings
(US$ Millions)

| | 12/31/2018 | 12/31/2017 |
|---|---|---|
| **Reserved retained earnings** | | |
| Debt Service Reserve | **$ 49.20** | $ 42.00 |
| Operating Expenses Reserve | **21.77** | 15.67 |
| Special Reserve* | **30.00** | 30.00 |
| Capital Preservation Reserve | **61.09** | 49.93 |
| Total reserved | **$ 162.06** | $ 137.60 |
| **Designated retained earnings** | | |
| Community Assistance Program (CAP) | **$ 7.97** | $ 10.25 |
| Water Conservation Investment Fund (WCIF) | **0.09** | 0.09 |
| Technical Assistance Program (TAP) | **2.93** | 3.18 |
| Total designated | **$ 10.99** | $ 13.52 |

* This reserve may be used to offset losses on outstanding loans or to pay expenses relating to the enforcement of the Bank's rights under outstanding loan and guaranty agreements.

Table 22 provides a breakdown of the retained earnings allocated to reserves and programs at the end of 2018 and 2017. The balance for reserves increased US$24.46 million (17.8%) in 2018, mainly because of debt service, operating expense and capital preservation reserve requirements. During the same period, the balance designated to programs decreased US$2.54 million (18.8%) due to program expenditures. The Bank had US$55.84 million in undesignated retained earnings at the end of 2018, US$573,195 (1.0%) less than the balance at the end of 2017 (US$56.42 million).

Figure 9: Retained Earnings Distribution




## Debt

NADB leverages its funds by issuing debt in international capital markets or with other financial institutions for the purpose of financing its lending operations or refinancing existing borrowings. Its annual borrowing plan is reviewed and approved by the Board of Directors.

During 2018 and 2017, NADB borrowed US$126.42 million and US$311.20 million, respectively. In 2018, the Bank issued an 8-year non-amortizing note in the Swiss capital market with a face value of CHF 125 million at a fixed coupon rate that generated proceeds of US$126.42 million. During 2017, the Bank issued a 10.5-year non-amortizing note in the Swiss capital market with a face value of CHF 125 million at a fixed coupon rate that generated proceeds of US$124.44 million, as well as a 15-year non-amortizing note in the Norwegian capital market with a face value of NOK 1,445 million at a fixed coupon rate that generated proceeds of US$173.45 million. Additionally, under a fixed-rate loan agreement for up to US$50 million contracted in November 2012 with the German development bank KfW, NADB drew down US$13.31 million to fund eligible wastewater projects in Mexico.

Gross outstanding debt decreased 12.0% to a total of US$1.31 billion in 2018, from US$1.49 billion at the close of 2017. A breakdown of gross outstanding debt by type, currency and maturity is shown in Table 23. All of the debt was issued at fixed rates and mostly in U.S. dollars, except for three issues in Swiss francs and one issue in Norwegian kroner. Most of the debt has been hedged through interest rate swaps, effectively changing it to floating rates. The four debt issues not denominated in U.S. dollars were hedged by cross-currency interest rate swaps, effectively changing them to floating rates in U.S. dollars.

In accordance with its debt limit policy, total debt outstanding may not exceed at any time the callable portion of the subscribed capital shares, plus the minimum liquidity level required under the liquidity policy. With US$2,352 million in subscribed callable capital and a minimum liquidity level of US$503.5 million, the maximum debt limit was US$2.855 billion, 1.9% higher than the maximum limit in 2017 (US$2.803 billion). At the close of 2018, total debt outstanding (US$1.315 billion) accounted for 46.0% of the debt limit.

**Table 23: Gross Debt**
(US$ Millions)

| | 12/31/2018 | 12/31/2017 |
|---|---|---|
| **By Type** | | |
| Notes payable | **$ 1,283.01** | $ 1,456.60 |
| Other borrowings | **31.59** | 36.84 |
| Total | **$ 1,314.60** | $ 1,493.44 |
| **By Currency** | | |
| U.S. dollars | **$ 761.58** | $ 1,066.84 |
| Swiss francs | **379.57** | 253.15 |
| Norwegian kroner | **173.45** | 173.45 |
| Total | **$ 1,314.60** | $ 1,493.44 |
| **By Maturity** | | |
| Short term | **$ 5.26** | $ 305.26 |
| Long term | **1,309.34** | 1,188.18 |
| Total | **$ 1,314.60** | $ 1,493.44 |

## Liquidity Management

NADB has established liquidity and investment policies to help ensure that it can meet its financial obligations at all times, even under conditions of constrained market access, as well as have sufficient cash flows to cover its operational needs in the normal course of business.

Under its liquidity policy, the Bank's minimum level of liquid holdings is equal to the highest consecutive 12 months of the following 18 months of expected debt service obligations, committed net loan disbursements and projected operating expenses for the relevant fiscal year. Minimum liquidity requirements are determined prior to the beginning of each fiscal year and may be revised during the year in the event of major changes in outlook. In accordance with this policy, the minimum liquidity requirement was set at US$553.5 million until October 2018 and was decreased to US$503.5 million for the rest of the year to account for the redemption of a US$300-million debt issue that matured in October 2018 and the funding of a US$250-million debt issuance that will mature in February 2020. Liquidity remained above the required minimum level throughout the year. In accordance with the policy, the minimum liquidity level for 2019 will be US$490.0 million.

The Bank's liquid asset holdings are in the form of cash, cash equivalents (mainly overnight repurchase agreements) and investments in longer term marketable securities (fixed-income securities). All investments held in the liquidity portfolio are designated as available-for-sale. As of December 31, 2018, 57.4% of the liquid asset portfolio was comprised of highly liquid assets (cash, cash equivalents and U.S. Treasuries). The remaining 42.6% was comprised of other types of liquid assets held by the Bank. A breakdown of the Bank's liquid assets at the close of 2018 and 2017 is provided in Table 24.

The portfolio of liquid assets decreased 16.3% (US$155.2 million) in 2018, compared to the prior-year balance. At the close of 2018, the Bank's liquid assets represented 40.6% of total assets (US$1,959 million) and 60.5% of total gross debt (US$1,315 million), as opposed to 44.3% of total assets (US$2,146 million) and 63.7% of total gross debt (US$1,493 million) at the end of 2017.

**Table 24: Liquid Assets**
(US$ Millions)

| Type of Security | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Cash and cash equivalents | **$ 174.99** | $ 163.77 |
| U.S. Treasury securities | **281.45** | 444.66 |
| U.S. agency securities | **119.50** | 123.59 |
| Mexican government securities (UMS) | **15.19** | 10.78 |
| Taxable municipal securities | **1.21** | - |
| Other permissible securities* | **203.47** | 208.25 |
| **Total** | **$ 795.81** | $ 951.05 |

* Other permissible securities include corporate debt securities, asset-backed securities, commercial paper and certificates of deposit.

The Bank manages its investment portfolio to ensure that its liquid assets are prudently invested to preserve capital and provide necessary liquidity, in compliance with the policies and guidelines approved by its Board. Under these policies, the Bank is restricted from investing more than 5% of its investment portfolio in the securities of any one issuer, excluding obligations of the U.S. Government, the Mexican Government and U.S. government agencies. The majority of the securities must be rated AA (or its equivalent) or higher by a recognized securities rating agency. There are only two exceptions: 1) Mexican government securities; and 2) corporate debt securities denominated in U.S. dollars and rated A (or its equivalent) or higher, which cannot exceed 25% of the total investment portfolio.

## Risk Management

Given the nature of its business, NADB is subject to credit, market, liquidity and operational risks. The Bank operates within a conservative risk management framework in accordance with the provisions of the Charter and the policies approved by the Board of Directors and has a Risk Management and Control Department that continually assesses and reinforces all aspects of the Bank's risk management strategy and tools.

### Credit Risk

As a result of its core activity of providing environmental infrastructure loans, NADB is subject to potential losses arising from the failure of a borrower to pay principal and/or interest on a loan in accordance with the agreed-upon terms (loan portfolio credit risk), as well as from the possible default of an investment or swap counterparty (counterparty risk).

**Loan Portfolio Credit Risk.** To mitigate this risk, NADB has established prudent policies limiting its exposure per project and per obligor and actively seeks to share the risk with other financial institutions. The Bank follows a well-established loan review and structuring process based on a thorough analysis of the technical and financial characteristics of the project, as well as the managerial capacity and credit quality of the borrower. As part of this process, all loan proposals must be reviewed and approved by the Funding Committee prior to submission to the Board. To support the Funding Committee's analysis, an expert advisor may be hired to provide an independent assessment of the potential risks associated with a given loan. Finally, the Bank continually monitors covenant compliance and the financial stability of each borrower throughout the term of the loan. Each project is evaluated annually and assigned an internal credit rating using project-specific methodologies designed by NADB based on industry standards. The credit ratings help quantify the risk of default of each project loan.

To further mitigate this credit default risk, all loans in the Bank's outstanding portfolio are secured by some form of credit support, such as project revenue, borrower cash flows, senior liens on project equity and assets, step-in rights or, in the case of loans to Mexican states and municipalities, federal tax revenue pledged to an irrevocable trust or pursuant to a mandate agreement. The Bank also maintains an allowance for loan losses, as well as a Special Reserve funded from its retained earnings, which are available to offset any losses on outstanding loans or pay expenses relating to the enforcement of the Bank's rights under outstanding loan agreements.

**Counterparty Risk.** The main sources of the Bank's counterparty risk are the financial instruments in which the Bank invests its liquidity and the swap transactions it enters into with other financial institutions as the counterparty. The Bank maintains cash and cash equivalents, investments and certain other financial instruments with various major financial institutions, performs periodic evaluations of their financial performance and relative credit standing, and limits the amount of credit exposure with any one institution. The criteria for selection of potential swap counterparties requires Board authorization, and NADB signs an International Swap and Derivatives Association (ISDA) agreement with appropriate collateral support provisions with the commercial banks with which it enters into swap transactions. As its hedging needs have evolved, the Bank has expanded its list of eligible counterparties with the dual purpose of allowing for price competition while simultaneously diversifying counterparty risk exposure. All swaps are currently with 11 counterparties, two of which are backed by the Government of Mexico. The other nine are commercial financial institutions with ratings ranging from AA to BBB from two internationally-recognized rating agencies, with some institutions having a split rating.

## Market and Liquidity Risk

The Bank is exposed to market risks related to general market movements, mainly through fluctuations in interest and exchange rates affecting earnings on its loan and investment portfolios and the cost of its external borrowings. Liquidity risk arises from an inability to meet contractual obligations in a timely manner without adversely affecting the daily operations or the financial condition of the institution.

To mitigate market risks, NADB makes extensive use of financial derivatives, mainly interest-rate and cross-currency swaps, for the sole purpose of hedging its positions. Loans with repayment sources in Mexican pesos must be hedged to U.S. dollars (unless the source of funds is also in pesos), while fixed-rate loans and investments are mostly swapped to a variable rate.

To maintain adequate liquidity and protect the investment portfolio from significant losses caused by interest rate movements, the average duration of the portfolio may not exceed four years. Moreover, the Bank structures the portfolio so that its investment securities mature concurrent with anticipated cash flow requirements, with additional consideration for unanticipated cash demands. Additional information about the Bank's liquidity and investment policies is provided in the preceding section on Liquidity Management.

### Operational Risk

Operational risk is the potential loss arising from external events or from the inadequacy or failure of internal processes and systems or human error. It includes fraud and failures in the execution of legal, fiduciary and contractual responsibilities. These risks stem from the manner in which the Bank is operated, as opposed to the risk arising from its financial transactions. NADB manages its operational risk through a system of internal controls based on established policies and procedures for all significant areas of operation, including funds management, disbursements, procurement and financial reporting.

NADB is in the process of developing an Enterprise Resource Planning (ERP) system that will improve workflow and control mechanisms for administrative, financial and project processes. It consists of a suite of integrated applications that will collect, store, manage and interpret organizational data from all departments in order to provide a real-time integrated view of core business processes and the ability to report on the status of ongoing projects. The ERP system will boost operational efficiency, as well as mitigate risks related to human error. The first two phases of the system will be fully implemented in 2019.

As part of its best practices, NADB has money-laundering prevention procedures in place for all monetary transactions, including disbursements to projects and payments to suppliers and service providers for its daily operations. Companies are independently screened against a series of compliance lists for any potential risks using specialized software.

The Bank outsources the internal audit function as a means of strengthening its operational framework with an emphasis on risk management. Garza/Gonzalez and Associates was selected through a competitive process to provide the internal audit services. During 2018, the firm performed four process audits, including recruitment, hiring and onboarding; travel request and approval; administration of technical assistance contracts; and payment process. No significant findings were reported.

## Basis for Reporting and Critical Accounting Policies

The consolidated financial statements of the Bank are prepared in accordance with generally accepted accounting principles (GAAP) in the United States and are consistent with that of an international organization. The notes to the financial statements contain a summary of NADB's significant accounting policies, including a discussion of recently issued rules and regulations. Certain of these policies are considered critical to the portrayal of the Bank's financial condition, because they require NADB management to make difficult, complex or subjective judgments, or relate to matters that are inherently uncertain. These policies include (i) the use of fair value accounting and (ii) the determination of the level of loss allowances in the loan portfolio.

**Fair Value Accounting.** The Bank uses fair value measurements to account for the value of its cross-currency interest rate swaps, interest rate swaps and available-for-sale debt securities. Where possible, fair value is determined by reference to quoted market prices. If quoted market prices are unavailable, then fair value is based on pricing and discounted cash flow models consistent with industry practices. The selection of data included in pricing and cash flow models involves a significant degree of judgment, and changes in the assumptions and measurements underlying this data could have a substantial impact on the amounts the Bank reports as assets and liabilities, as well as the related unrealized gains and losses reported on its income statement. The Bank believes that its estimates of fair value are reasonable in light of its established processes for obtaining data for use in its models; the periodic evaluation, review and validation of its models; and the consistent application of this approach from period to period. Additional information about this policy can be found in Notes 2 and 11 to the consolidated financial statements.

**Loan Loss Allowances.** The determination of the allowance for loan losses is based on management's current judgment about the credit quality of the loan portfolio, and the allowance is maintained at a level considered appropriate by management to provide for probable and estimable losses inherent in the loan portfolio. Determining the appropriate allowance for loan losses involves significant judgment about when a loss has been incurred and the amount of that loss. Actual losses may differ from expected losses due to unforeseen changes in a variety of factors that affect borrowers' creditworthiness and the accuracy of the Bank's allocated allowance. Additional information about this policy can be found in Notes 2 and 4 to the consolidated financial statements.

### Consolidation

At the request of the U.S. Government, NADB holds and administers the funds of the U.S. Community Adjustment and Investment Program (USCAIP or the U.S. Domestic Program) and, therefore, its accounts are included with those of the Bank. However, the U.S. Domestic Program's operations and allocated capital are completely independent of those of the Bank, and any net income earned by the program and its profits, losses, expenses and disbursements do not affect the retained earnings or paid-in capital of the Bank. The supplementary information provided at the end of the consolidated financial statements includes combining statements that show the breakdown of NADB and USCAIP accounts. The U.S. Domestic Program was closed as of December 31, 2018, per instructions of the Finance Committee appointed by the U.S. Government. Additional information about the U.S. Domestic Program can be found in Note 8 to the consolidated financial statements.

## External Auditors

The accounts of the Bank are audited annually by independent external auditors with established international experience chosen by the Board of Directors based on a proposal by Bank management. In accordance with the policies and principles established by the Board, the external auditors are selected through a competitive process, are appointed for terms of up to five years, and are engaged on an annual basis.

Ernst & Young LLP (E&Y) completed its second five-year term as the external auditor of the Bank in 2016. However, recognizing that the merger with another organization presented extraordinary circumstances that required an exception be made to the external auditor term limit in order to provide continuity in the audit process of the integrated institution and to avoid substantially higher audit costs associated with a new firm familiarizing itself with both institutions individually and as a unified entity, the Board approved a two-year extension for E&Y that will end in 2018. The Bank renewed its contract with E&Y to carry out the annual audit of its accounts for fiscal year 2018.

# Consolidated Financial Statements and Supplementary Information

## North American Development Bank
## Years Ended December 31, 2018 and 2017
## with Report of Independent Auditors

# REPORT OF INDEPENDENT AUDITORS

Ernst & Young

## The Board of Directors
## North American Development Bank

We have audited the accompanying consolidated financial statements of North American Development Bank (the Bank), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of North American Development Bank at December 31, 2018 and 2017, and the consolidated results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

**Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Combining Balance Sheet by Program, Combining Statement of Income by Program, Combining Statement of Comprehensive Income by Program, Combining Statement of Cash Flows by Program, Statement of Income of NADB Office in Juarez, Chihuahua, and the Border Environment Infrastructure Fund are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Ernst & Young, LLP

San Antonio, Texas
March 29, 2019

## Consolidated Balance Sheets

| | December 31 2018 | December 31 2017 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents: | | |
| Held at other financial institutions in demand-deposit accounts | **$ 374,898** | $ 543,712 |
| Held at other financial institutions in interest-bearing accounts | **48,419,515** | 26,742,869 |
| Repurchase agreements | **126,300,000** | 137,000,000 |
| | **175,094,413** | 164,286,581 |
| Held-to-maturity investment securities, at amortized cost | **3,335,360** | 3,904,396 |
| Available-for-sale investment securities, at fair value | **620,823,835** | 787,282,178 |
| Loans outstanding | **1,284,477,904** | 1,293,806,755 |
| Allowance for loan losses | **(19,154,507)** | (21,107,945) |
| Unamortized loan fees | **(12,685,298)** | (11,711,140) |
| Foreign currency exchange rate adjustment | **(40,516,565)** | (45,997,351) |
| Hedged items, at fair value | **(155,900,516)** | (144,105,721) |
| Net loans outstanding | **1,056,221,018** | 1,070,884,598 |
| Interest receivable | **15,941,621** | 28,781,647 |
| Grant and other receivable | **1,499,144** | 4,523,939 |
| Furniture, equipment and leasehold improvements, net | **251,731** | 354,961 |
| Other assets | **85,890,652** | 86,241,301 |
| Total assets | **$ 1,959,057,774** | $ 2,146,259,601 |
| **Liabilities and equity** | | |
| Liabilities: | | |
| Accounts payable | **$ 1,064,675** | $ 6,749,106 |
| Accrued liabilities | **2,560,410** | 1,385,789 |
| Accrued interest payable | **18,367,661** | 21,697,668 |
| Undisbursed grant funds | **1,002** | 1,002 |
| Other liabilities | **7,257,372** | – |
| Short-term debt, net of discounts and unamortized debt issuance costs | **5,263,000** | 304,660,489 |
| Hedged items, at fair value | **–** | (708,958) |
| Net short-term debt | **5,263,000** | 303,951,531 |
| Long-term debt, net of discounts and unamortized debt issuance costs | **1,304,721,548** | 1,183,283,306 |
| Hedged items, at fair value | **(33,204,590)** | (5,602,130) |
| Net long-term debt | **1,271,516,958** | 1,177,681,176 |
| Total liabilities | **1,306,031,078** | 1,511,466,272 |
| Equity: | | |
| Paid-in capital | **415,000,000** | 415,000,000 |
| General Reserve: | | |
| Allocated paid-in capital | **–** | 2,338,897 |
| Retained earnings: | | |
| Designated | **10,988,220** | 11,663,722 |
| Reserved | **162,065,724** | 137,602,160 |
| Undesignated | **55,843,436** | 56,416,631 |
| Accumulated other comprehensive income | **9,124,014** | 11,766,444 |
| Non-controlling interest | **5,302** | 5,475 |
| Total equity | **653,026,696** | 634,793,329 |
| Total liabilities and equity | **$ 1,959,057,774** | $ 2,146,259,601 |

*The accompanying notes are an integral part of these consolidated financial statements.*

## Consolidated Statements of Income

| | Year Ended December 31 | |
|---|---|---|
| | **2018** | **2017** |
| Interest income: | | |
| Loans | **$ 61,981,255** | $ 57,770,501 |
| Investments | **16,938,554** | 10,865,202 |
| Total interest income | **78,919,809** | 68,635,703 |
| Interest expense | **47,242,402** | 31,639,710 |
| Net interest income | **31,677,407** | 36,995,993 |
| Operating expenses: | | |
| Personnel | **12,839,428** | 8,378,651 |
| General and administrative | **2,404,145** | 1,628,852 |
| Consultants and contractors | **2,175,543** | 2,260,139 |
| Provision for loan losses | **(1,953,438)** | (3,967,714) |
| Other | **(4,506)** | (42,598) |
| Depreciation | **156,798** | 167,382 |
| U.S. Domestic Program | **230,535** | 229,059 |
| Total operating expenses | **15,848,505** | 8,653,771 |
| Net operating income | **15,828,902** | 28,342,222 |
| Non-interest income and non-operating expenses: | | |
| U.S. Department of State contribution | **2,902,000** | – |
| Ministry of Environment and Natural Resources (SEMARNAT) contribution | **1,793,750** | – |
| Gains on sales and call of securities | **5,111** | 3,616,047 |
| Income (expense) from hedging activities, net | **2,566,698** | (1,266,924) |
| Income from foreign exchange activities, net | **213,393** | 126,332 |
| Fees and other income | **642,284** | 680,696 |
| Loss on other real estate owned | **(290,300)** | – |
| Total non-interest income | **7,832,936** | 3,156,151 |
| Income before program activities | **23,661,838** | 31,498,373 |
| Program activities: | | |
| Border Environment Infrastructure Fund (BEIF): | | |
| U.S. Environmental Protection Agency (EPA) grant income | **772,003** | 799,248 |
| EPA grant administration expense | **(772,003)** | (799,248) |
| Community Assistance Program expense | **(2,284,995)** | (1,178,056) |
| Water Conservation Investment Fund expense | **–** | (203,901) |
| Technical Assistance Program: | | |
| EPA grant income | **1,872,834** | 360,698 |
| EPA grant administration expense | **(844,211)** | (113,003) |
| Inter-American Development Bank (IDB) Multilateral Investment Fund (MIF) grant income | **10,621** | 16,808 |
| Technical Assistance Program expense | **(1,290,290)** | (1,046,005) |
| Other grant income | **13,776** | – |
| Other grant expense | **(13,776)** | – |
| Net program expenses | **(2,536,041)** | (2,163,459) |
| Income before non-controlling interest | **21,125,797** | 29,334,914 |
| Net loss attributable to non-controlling interest | **(173)** | (146) |
| Net income attributable to NADB | **$ 21,125,970** | $ 29,335,060 |

*The accompanying notes are an integral part of these consolidated financial statements.*

## Consolidated Statements of Comprehensive Income

| | Year Ended December 31 | |
|---|---|---|
| | **2018** | **2017** |
| Income before non-controlling interest | **$ 21,125,797** | $ 29,334,914 |
| Net loss attributable to non-controlling interest | **(173)** | (146) |
| Net income attributable to NADB | **21,125,970** | 29,335,060 |
| Other comprehensive income (loss): | | |
| Available-for-sale investment securities: | | |
| Change in unrealized gains (losses) during the period, net | **96,684** | (1,806,949) |
| Reclassification adjustment for net gains (losses) included in net income | **(2,611)** | (68,908) |
| Total unrealized gain (loss) in available-for-sale investment securities | **94,073** | (1,875,857) |
| Foreign currency translation adjustment | **3,803** | (39,664) |
| Unrealized gains (losses) on hedging activities: | | |
| Foreign currency translation adjustment, net | **5,480,786** | 9,029,818 |
| Fair value of cross-currency interest rate swaps, net | **(8,221,092)** | (11,315,131) |
| Total unrealized loss on hedging activities | **(2,740,306)** | (2,285,313) |
| Total other comprehensive loss | **(2,642,430)** | (4,200,834) |
| Total comprehensive income | **$ 18,483,540** | $ 25,134,226 |

*The accompanying notes are an integral part of these consolidated financial statements.*

## Consolidated Statement of Changes in Equity

| | Paid-in Capital | General Reserve: Allocated Paid-in Capital | General Reserve: Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Non-controlling Interest | Total Equity |
|---|---|---|---|---|---|---|
| Beginning balance, January 1, 2017 | $ 415,000,000 | $ 2,460,790 | $ 171,392,217 | $ 15,967,278 | $ 5,621 | $ 604,825,906 |
| Transfer to Targeted Grant Program of the U.S. Domestic Program | – | (121,893) | – | – | – | (121,893) |
| Transfer from the Border Environment Cooperation Commission (BECC) | – | – | 4,955,236 | – | – | 4,955,236 |
| Net income | – | – | 29,335,060 | – | – | 29,335,060 |
| Other comprehensive income | – | – | – | (4,200,834) | – | (4,200,834) |
| Non-controlling interest | – | – | – | – | (146) | (146) |
| Ending balance, December 31, 2017 | $ 415,000,000 | $ 2,338,897 | $ 205,682,513 | $ 11,766,444 | $ 5,475 | $ 634,793,329 |
| Transfer to Targeted Grant Program of the U.S. Domestic Program | **–** | **(250,000)** | **–** | **–** | **–** | **(250,000)** |
| Closeout of U.S. Domestic Program | **–** | **(2,088,897)** | **2,088,897** | **–** | **–** | **–** |
| Net income | **–** | **–** | **21,125,970** | **–** | **–** | **21,125,970** |
| Other comprehensive income | **–** | **–** | **–** | **(2,642,430)** | **–** | **(2,642,430)** |
| Non-controlling interest | **–** | **–** | **–** | **–** | **(173)** | **(173)** |
| Ending balance, December 31, 2018 | **$ 415,000,000** | **$ –** | **$ 228,897,380** | **$ 9,124,014** | **$ 5,302** | **$ 653,026,696** |

*The accompanying notes are an integral part of these consolidated financial statements.*

## Consolidated Statements of Cash Flows

| | Year Ended December 31 2018 | 2017 |
|---|---|---|
| **Operating activities** | | |
| Net income | **$ 21,125,970** | $ 29,335,060 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation | **156,798** | 167,382 |
| Amortization of net premium (discounts) on investments | **(3,026,257)** | (363,450) |
| Change in fair value of swaps, hedged items and other non-cash items | **(17,976,051)** | (14,852,582) |
| Non-controlling interest | **(173)** | (146) |
| Gains on sales of and call of securities, net | **(5,111)** | (3,616,047) |
| Provision for loan losses | **(1,953,438)** | (3,967,714) |
| Change in other assets and liabilities: | | |
| (Increase) decrease in interest receivable | **12,840,026** | (1,974,802) |
| Decrease in receivable and other assets | **6,129,434** | 2,669,963 |
| Decrease in accounts payable | **(5,684,431)** | (706,981) |
| Increase in accrued liabilities | **1,174,621** | 944,342 |
| Increase (decrease) in accrued interest payable | **(3,330,007)** | 5,103,700 |
| Net cash provided by operating activities | **9,451,381** | 12,738,725 |
| **Lending, investing, and development activities** | | |
| Capital expenditures | **(53,534)** | (26,695) |
| Loan principal repayments | **176,337,591** | 219,244,575 |
| Loan disbursements | **(165,984,284)** | (101,425,657) |
| Purchase of held-to-maturity investments | **(610,000)** | (1,011,000) |
| Purchase of available-for-sale investments | **(905,827,329)** | (694,367,608) |
| Proceeds from maturities and call of held-to-maturity investments | **1,178,000** | 54,457,031 |
| Proceeds from sales and maturities of available-for-sale investments | **1,075,412,149** | 212,183,024 |
| Net cash provided by (used in) lending, investing, and development activities | **180,452,593** | (310,946,330) |
| **Financing activities** | | |
| Proceeds from other borrowings | **–** | 13,309,017 |
| Proceeds from note issuances | **126,415,858** | 297,891,683 |
| Principal repayment of other borrowings | **(5,262,000)** | (5,262,000) |
| Principal repayment of notes payable | **(300,000,000)** | – |
| Transfer of funds from Border Environment Cooperation Commission (BECC) | **–** | 4,955,236 |
| Grant funds from the Environmental Protection Agency (EPA) | **26,340,883** | 11,903,429 |
| Grant disbursements – EPA | **(26,340,883)** | (11,908,755) |
| Grant activity – U.S. Domestic Program | **(250,000)** | (121,893) |
| Net cash provided by (used in) financing activities | **(179,096,142)** | 310,766,717 |
| Net increase in cash and cash equivalents | **10,807,832** | 12,559,112 |
| Cash and cash equivalents at January 1, 2018 and 2017 | **164,286,581** | 151,727,469 |
| Cash and cash equivalents at December 31, 2018 and 2017 | **$ 175,094,413** | $ 164,286,581 |
| **Supplemental cash information** | | |
| Cash paid during the year for interest | **$ 35,424,793** | $ 30,977,485 |
| **Significant non-cash transactions** | | |
| Foreign currency translation adjustment | **$ 5,480,786** | $ 9,029,818 |
| Change in fair value of cross-currency interest rate swaps, net | **(8,221,092)** | (11,315,131) |
| Change in fair value of available-for-sales investments, net | **94,073** | (1,875,857) |

*The accompanying notes are an integral part of these consolidated financial statements.*

# Notes to Consolidated Financial Statements

**December 31, 2018**

## 1. Organization and Purpose

The North American Development Bank (NADB or the Bank) and the Border Environment Cooperation Commission (BECC) were established on January 1, 1994 by an agreement between the Governments of the United States of America (the United States or U.S.) and the United Mexican States (Mexico) that was signed by their respective Presidents on November 16 and 18, 1993 (the Charter). The Bank was created to finance infrastructure projects in the U.S.-Mexico border region (the International Program) and community adjustment and investment projects throughout the U.S. and Mexico (the Domestic Programs). BECC was created to review the environmental aspects of projects seeking Bank financing under the International Program and recommend their certification to the Board of Directors. On March 16, 1994, the President of the United States issued an Executive Order designating the Bank as an international organization under the International Organization Immunities Act.

The Bank is governed by a Board of Directors appointed by the two countries. The operations of the Bank are subject to certain limitations outlined in the Charter. On November 10, 2017, the Second Protocol of Amendment to the Charter entered into force, merging BECC into the Bank. The merger preserved the mission, purposes and functions of both organizations under the International Program, including their environmental mandate and geographic jurisdiction, which is within 100 kilometers north or 300 kilometers south of the U.S.-Mexico border. The Bank is headquartered in San Antonio, Texas, and also has an office in Ciudad Juarez, Chihuahua (Juarez Office).

Under its International Program, the Bank provides loan and grant financing and technical assistance for infrastructure projects certified by the Board, as appropriate, and administers grant funding provided by other entities. Under the Domestic Programs, the Bank contributed funds from its equity to establish the domestic program of each country and continues to administer the funds of the U.S. Domestic Program (see Note 8).

On June 2, 1998, the Board of Directors adopted a resolution authorizing the Bank to establish a limited-purpose financial institution (*sociedad financiera de objeto limitado*, SOFOL) for the purpose of facilitating Bank lending to the Mexican public sector. In January 1999, the *Corporación Financiera de América del Norte, S.A. de C.V.* SOFOL (COFIDAN) began operations in Mexico City and, in October 2006, COFIDAN was converted from a SOFOL to a non-regulated, multipurpose financial institution (SOFOM, E.N.R.), and its name was modified to *Corporación Financiera de América del Norte, S.A. de C.V. SOFOM E.N.R.* As of December 31, 2018, COFIDAN is 99.90% owned by the Bank and 0.10% owned by the Government of Mexico. The accounts of COFIDAN are consolidated with the Bank, and all material intercompany accounts and transactions are eliminated in the consolidation. The non-controlling interest reflected in the consolidated balance sheets and consolidated statements of income represents the ownership of the Government of Mexico through the Ministry of Finance and Public Credit (SHCP).

## 2. Summary of Significant Accounting Policies

### Basis of Presentation and Use of Estimates in Financial Statements

The financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) and are presented in a manner consistent with that of an international organization. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported

## 2. Summary of Significant Accounting Policies (continued)

amounts of revenue and expenses during the reporting period. These estimates include the valuation of investments, allowance for loan losses, the fair value of derivative instruments and other real estate owned included in other assets, and the fair value of derivative instruments included in other liabilities and in long-term debt. Actual results could differ from those estimates.

**Asset Acquisition – Border Environment Cooperation Commission (BECC) Integration**

During 2017, the Bank adopted Accounting Standards Update (ASU) 2017-01, which clarifies the definition of a business and provides a more robust framework to use in determining when a set of assets and activities constitutes a business. ASU 2017-01 is intended to provide guidance when evaluating whether transactions should be accounted for as an acquisition of assets or a business. The Bank determined that the transfer of assets from BECC on November 10, 2017 as described in Note 1 constituted an acquisition of assets under common control. As such, the assets of BECC were recorded at their carrying value and the operations of BECC were accounted for prospectively as of the merger date.

The primary source of funding for the operation of the former BECC was contributions from the federal governments through the U.S. Department of State and the Mexican Ministry of Environment and Natural Resources (SEMARNAT). The Bank continues to receive contributions from these sources, which are reflected in the consolidated statement of income.

**Principles of Consolidation**

The consolidated financial statements include the accounts of the Bank and its subsidiary, COFIDAN. All significant intercompany accounts and transactions have been eliminated in consolidation.

**Cash and Cash Equivalents**

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash deposits and a money market account with other financial institutions and overnight repurchase agreements.

**Repurchase Agreements**

The Bank has entered into agreements with two major financial institutions to purchase various U.S. government and federally sponsored agency securities under an agreement to resell. The purchase and resale of these securities occur daily, and the obligation to repurchase is backed by the assets of the related financial institutions. The underlying securities related to the repurchase transaction are held in the possession of the respective financial institutions.

**Investment Securities**

The Bank's investments are classified into the following categories:

> Held-to-maturity – This category is composed of those debt securities for which the Bank has the positive intent and ability to hold to maturity. These securities are carried at amortized cost.

## 2. Summary of Significant Accounting Policies (continued)

Trading – This category is composed of debt securities that are bought and held for resale in the near term. These securities are carried at fair value, and changes in market value are recognized in the consolidated statements of income.

Available-for-sale – This category is composed of debt securities that are not classified as either trading or held-to-maturity securities. These securities are carried at fair value, with unrealized holding gains and losses excluded from earnings and reported as a net amount in a separate component of comprehensive income or loss until realized.

The accretion of discounts and the amortization of premiums are computed using the interest method. Realized gains and losses are determined using the specific identification method. Investments in a loss position are reviewed to determine whether the unrealized loss, which is considered an impairment, is temporary or other-than-temporary. In the event of other-than-temporary impairment, the cost basis of the investment would be written down to its fair value, and the credit component of the loss would be included in current earnings. The Bank had no securities classified as other-than-temporarily impaired as of December 31, 2018 and 2017.

**Taxation**

As an international organization, the Bank is exempt from all federal, state, and local taxation to the extent implemented by law under the U.S. International Organizations Immunities Act of 1945.

**Furniture, Equipment, and Leasehold Improvements**

Furniture and equipment are recorded at cost and depreciated over their estimated useful lives using the straight-line method. The estimated useful life is three years for computers and five years for furniture and other equipment. Leasehold improvements are recorded at cost and amortized over five years, or the life of the lease, whichever is less.

**General Reserve**

The Board of Directors defines the General Reserve as retained earnings plus allocated paid-in capital for the U.S. Domestic Program, as described in Note 8. Retained earnings are classified as either designated for a specific program, reserved, or undesignated. Undesignated retained earnings in excess of one percent (1.0%) of total assets of the International Program are used to fund four reserves in the following order of priority:

Debt Service Reserve – This reserve is maintained in an amount equal to 12 months of interest due on the Bank's outstanding debt at each fiscal year-end.

Operating Expenses Reserve – This reserve is maintained in an amount equal to 12 months of the operating budget expenses at each fiscal year-end.

Special Reserve – This reserve is maintained in an amount equal to the sum of: 1% of undisbursed loan commitments, 3% of the outstanding balance of disbursed loans and 3% of the outstanding balance of guaranties, less the general allowance for loan losses, with a targeted minimum of $30 million. Amounts in the Special Reserve are to be used to pay costs associated with the enforcement of the Bank's rights under its loan and guaranty agreements and to offset losses on any loan or guaranty.

## 2. Summary of Significant Accounting Policies (continued)

Capital Preservation Reserve – This reserve is intended to maintain the value of the paid-in capital in real terms and is indexed to the U.S. annual inflation rate.

**Loans and Allowance for Loan Losses**

Loans are reported at the principal amount, net of allowance for loan losses, unamortized loan fees, foreign currency exchange rate adjustment and fair value of hedged items. Interest income on loans is recognized in the period earned. Net loan commitment and origination fees are deferred and amortized over the life of the loan as an adjustment to loan interest income.

Loans that are past due 90 days or more as to principal or interest, or where reasonable doubts exist as to timely collection, including loans that are individually identified as being impaired, are generally classified as nonperforming loans unless well secured and in the process of collection.

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 either reversed (if current-year interest) or charged against current-year interest (if prior-year interest).

Payments received on nonaccrual loans are generally applied to the recorded principal in the loan asset. If collection of the recorded principal in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it, payments are recognized as interest income. Nonaccrual loans may be returned to accrual status when contractual principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected, and the loan is not classified as "doubtful" or "loss." If previously unrecognized interest income exists upon reinstatement of a nonaccrual loan to accrual status, interest income will only be recognized upon receipt of cash payments applied to the loan.

In cases where a borrower experiences financial difficulties and the Bank makes certain concessions to the borrower through modifications of the contractual terms of the loan, the loan is classified as a troubled debt restructuring. If the borrower's ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

The allowance for loan losses is a valuation account used to reasonably estimate loan losses incurred as of the financial statement date. Determining the appropriate allowance for loan losses involves significant judgment about when a loss has been incurred and the amount of that loss. A general allowance for all loans under the International Program is established based on statistical cumulative default and recovery rates for project finance loans. A specific allowance is established for impaired loans when it is probable that the Bank may sustain some loss. Impairment of these loans is measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate or the fair value of the collateral, if the loan is collateral-dependent.

The allowance for loan losses is maintained at a level considered appropriate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance is increased through provisions for loan losses and is decreased through recovery of loan losses and loan charge-offs. Upon final settlement of impaired loans, any remaining loss is charged off.

## 2. Summary of Significant Accounting Policies (continued)

### Credit Quality

The Bank monitors the credit quality of its loan portfolio on an ongoing basis by tracking certain credit quality indicators related to the borrower's: (i) payment history, (ii) strength of management, (iii) financial performance, (iv) appropriateness and effectiveness of project technology, and (v) loan covenant compliance, as well as (vi) general economic conditions in the borrower's geographic location, (vii) the legal and regulatory environment, and (viii) the effects, if any, of the current political environment. Based on this evaluation, each loan is assigned to one of the following risk categories:

Pass – The loan is not considered a greater than normal credit risk. The Bank believes the borrower has the ability to meet its obligations; therefore, the Bank anticipates insignificant uncollectible amounts.

Special Mention – The loan has exhibited potential weaknesses that deserve the Bank's close attention. If left uncorrected, these potential weaknesses may result in noticeable deterioration of the repayment prospects for the asset or of the borrower's credit position.

Substandard – The loan is inadequately protected by the current financial condition and paying capacity of the borrower or by any collateral pledged. The loan has a well-defined weakness or weaknesses that may jeopardize the collection of the debt pursuant to the contractual principal and interest terms. Such risk is characterized by the distinct possibility that the Bank may sustain some loss if the deficiencies are not corrected.

Doubtful – In addition to the risk characteristics described in the substandard category, the loan exhibits conditions and values that make collection or liquidation in full highly improbable. Loans in this risk category are closely managed to determine the highest recovery alternatives.

### Program Activities

Grant income from the U.S. Environmental Protection Agency (EPA) associated with the Border Environment Infrastructure Fund (BEIF) represents reimbursed administrative expenses. Such amounts are earned and recognized as grant income in the accompanying consolidated statements of income as the associated expenses are incurred.

Grant income from EPA and other sources associated with technical assistance activities represent reimbursed administrative expenses and technical assistance grant disbursements funded by those entities. Such amounts are earned and recognized as grant income in the accompanying consolidated statements of income as the associated expenses are incurred.

Program expenses also represent grant disbursements funded with previously designated retained earnings of the Bank through its Community Assistance Program (CAP), Water Conservation Investment Fund (WCIF) and Technical Assistance Program. Grants are recognized at the date the Bank becomes obligated under the terms of the grant agreements, and associated costs are recognized as incurred.

EPA-funded BEIF grants and U.S. Domestic Program grant receipts and disbursements reflected in the consolidated statements of cash flows are not reflected in the accompanying consolidated statements of income, as these grants are approved and funded by the respective entities noted above. The Bank's role is to administer these funds.

## 2. Summary of Significant Accounting Policies (continued)

### Foreign Currency

COFIDAN is located in Mexico and operates primarily using the local functional currency. Accordingly, all assets and liabilities of COFIDAN are translated using the exchange rate in effect at the end of the period, and revenue and costs are translated using average exchange rates for the period. The resulting cumulative translation adjustment is included in accumulated other comprehensive income.

The lending activities of the Bank include making loans that are denominated in Mexican pesos. For such loans, the Bank enters into cross-currency interest rate swaps that mitigate its exposure to fluctuations in foreign currency exchange rates and interest rates. As of December 31, 2018, the Bank had entered into swap counterparty agreements with *Fondo de Apoyo a Estados y Municipios* (FOAEM), a fund owned by the Government of Mexico and administered by the federally run development bank, *Banco Nacional de Obras y Servicios Publicos, S.N.C.* (Banobras); directly with Banobras outside the FOAEM arrangement; and with nine (9) other financial institutions. The foreign currency translation adjustment on loans denominated in Mexican pesos as of December 31, 2018 and 2017 was $(40,516,565) and $(45,997,351), respectively. Changes in the foreign currency translation adjustment are reported through other comprehensive income.

All swaps relating to the lending activities of the Bank have been designated as cash flow or fair value hedges and are recognized in the accompanying consolidated balance sheets at their fair value. Changes in the fair value of the cash flow hedges are reported in other comprehensive income and are reclassified to earnings at the time of the hedged loan repayment. Changes in the fair value of the fair value hedges are reported as non-interest income or expense.

The Bank discontinues hedge accounting prospectively if it determines that the derivative is no longer highly effective in offsetting changes in the fair value or cash flows of the hedged item, or if it is no longer probable that the hedged loan repayment will occur. If hedge accounting is discontinued because the hedge ceases to be effective, the Bank will continue to record the swap at fair value with changes in value reflected in earnings for the period, and any fair value adjustments included in other comprehensive income will be recognized in the consolidated statements of income over the remaining life of the loan. If it is probable that the hedged loan repayments will not occur, gains and losses accumulated in other comprehensive income (loss) are recognized immediately in earnings.

Derivatives executed with all swap counterparties except for FOAEM are subject to a master netting arrangement. The net fair value of derivatives by counterparty is offset with the outstanding balance of the collateral received from or paid to the counterparty for financial reporting purposes. Additional information on the amounts subject to master netting arrangements and collateral is provided in Note 5.

### Fair Value

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Bank carries cross-currency interest rate swaps, interest rate swaps, hedged items, and available-for-sale debt securities at fair value.

## 2. Summary of Significant Accounting Policies (continued)

To determine the fair market value of its financial instruments, the Bank uses the fair value hierarchy, which is based on three levels of inputs as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities, which the reporting entity has the ability to access at the measurement date. This category generally includes U.S. government securities.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. This category generally includes U.S. agency securities, corporate debt securities, other fixed-income securities, United Mexican States (UMS) securities and mortgage-backed debt securities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant in determining the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category includes cross-currency interest rate swaps, interest rate swaps, the fair value of hedged items and other real estate owned where independent pricing information is not available for a significant portion of the underlying assets. For these consolidated financial statements, the Bank also obtains dealer quotations for comparative purposes to assess the reasonableness of the pricing models.

Additional information on the fair value of the financial instruments of the Bank is provided in Note 11.

**Accumulated Other Comprehensive Income**

The components of other comprehensive income are reported in the accompanying consolidated statements of comprehensive income for all periods presented and in Note 7.

## 3. Investments

All investments held by the Bank are classified as either held-to-maturity or available-for-sale securities. The following schedule summarizes investments as of December 31, 2018 and 2017.

| | | Gross Unrealized | | |
|---|---|---|---|---|
| | Amortized Cost | Gains | Losses | Fair Value |
| **December 31, 2018** | | | | |
| Held-to-maturity: | | | | |
| U.S. agency securities | **$ 3,335,360** | **$ 2,017** | **$ (23,674)** | **$ 3,313,703** |
| Total held-to-maturity investment securities | **3,335,360** | **2,017** | **(23,674)** | **3,313,703** |
| Available-for-sale: | | | | |
| U.S. government securities | **282,187,720** | **239,637** | **(979,644)** | **281,447,713** |
| U.S. agency securities | **119,904,756** | **59,491** | **(465,849)** | **119,498,398** |
| Corporate debt securities | **149,796,837** | **52,802** | **(737,541)** | **149,112,098** |
| Other fixed-income securities | **55,678,638** | **1,755** | **(106,461)** | **55,573,932** |
| Mexican government securities (UMS) | **15,585,230** | **1,278** | **(394,814)** | **15,191,694** |
| Total available-for-sale investment securities | **623,153,181** | **354,963** | **(2,684,309)** | **620,823,835** |
| Total investment securities | **$ 626,488,541** | **$ 356,980** | **$ (2,707,983)** | **$ 624,137,538** |
| **December 31, 2017** | | | | |
| Held-to-maturity: | | | | |
| U.S. agency securities | $ 3,904,396 | $ – | $ (31,912) | $ 3,872,484 |
| Total held-to-maturity investment securities | 3,904,396 | – | (31,912) | 3,872,484 |
| Available-for-sale: | | | | |
| U.S. government securities | 445,924,619 | 3,109 | (1,270,425) | 444,657,303 |
| U.S. agency securities | 124,224,160 | 56 | (628,950) | 123,595,266 |
| Corporate debt securities | 148,784,887 | 19,064 | (462,854) | 148,341,097 |
| Other fixed-income securities | 60,050,804 | 144 | (143,036) | 59,907,912 |
| Mexican government securities (UMS) | 10,721,127 | 74,734 | (15,261) | 10,780,600 |
| Total available-for-sale investment securities | 789,705,597 | 97,107 | (2,520,526) | 787,282,178 |
| Total investment securities | $ 793,609,993 | $ 97,107 | $ (2,552,438) | $ 791,154,662 |

## 3. Investments (continued)

The following schedule summarizes unrealized losses and the fair value of investments aggregated by category and the length of time individual securities have been in a continuous unrealized loss position as of December 31, 2018 and 2017.

| | Less Than 12 Months | | 12 Months or More | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| **December 31, 2018** | | | | | | |
| Held-to-maturity: | | | | | | |
| U.S. agency securities | **$ 2,705,325** | **$ 23,674** | **$ –** | **$ –** | **$ 2,705,325** | **$ 23,974** |
| Available-for-sale: | | | | | | |
| U.S. government securities | **213,189,806** | **979,645** | **–** | **–** | **213,189,806** | **979,645** |
| U.S. agency securities | **65,854,290** | **465,848** | **–** | **–** | **65,854,290** | **465,848** |
| Corporate debt securities | **123,662,566** | **737,542** | **–** | **–** | **123,662,566** | **737,542** |
| Other fixed-income securities | **51,150,386** | **106,460** | **–** | **–** | **51,150,386** | **106,460** |
| Mexican government securities (UMS) | **14,196,744** | **394,814** | **–** | **–** | **14,196,744** | **394,814** |
| Total available-for-sale investment securities | **468,053,792** | **2,684,309** | **–** | **–** | **468,053,792** | **2,684,309** |
| Total temporarily impaired securities | **$ 470,759,117** | **$ 2,707,983** | **$ –** | **$ –** | **$ 470,759,117** | **$ 2,707,983** |
| **December 31, 2017** | | | | | | |
| Held-to-maturity: | | | | | | |
| U.S. agency securities | $ 3,872,484 | $ 31,912 | $ – | $ – | $ 3,872,484 | $ 31,912 |
| Available-for-sale: | | | | | | |
| U.S. government securities | 363,453,524 | 1,270,425 | – | – | 363,453,524 | 1,270,425 |
| U.S. agency securities | 122,603,016 | 628,950 | – | – | 122,603,016 | 628,950 |
| Corporate debt securities | 132,554,862 | 462,854 | – | – | 132,554,862 | 462,854 |
| Other fixed-income securities | 56,711,962 | 143,036 | – | – | 56,711,962 | 143,036 |
| Mexican government securities (UMS) | 3,527,600 | 15,261 | – | – | 3,527,600 | 15,261 |
| Total available-for-sale investment securities | 678,850,964 | 2,520,526 | – | – | 678,850,964 | 2,520,526 |
| Total temporarily impaired securities | $ 682,723,448 | $ 2,552,438 | $ – | $ – | $ 682,723,448 | $ 2,552,438 |

None of the unrealized losses identified in the preceding table are considered to be other-than-temporary or related to a credit impairment of an issuer as of December 31, 2018. As of that same date, the Bank did not have the intent to sell any of the securities with unrealized losses and believed that it was more-likely-than-not that the Bank would not be required to sell any such securities before a recovery of cost.

## 3. Investments (continued)

Contractual maturities of investments as of December 31, 2018 and 2017 are summarized in the following tables.

| | Held-to-Maturity Securities | | Available-for-Sale Securities | |
|---|---|---|---|---|
| | Fair Value | Amortized Cost | Fair Value | Amortized Cost |
| **December 31, 2018** | | | | |
| Less than 1 year | **$ 2,248,659** | **$ 2,266,000** | **$ 309,268,703** | **$ 309,628,251** |
| 1–5 years | **1,065,044** | **1,069,360** | **311,555,132** | **313,524,930** |
| 5–10 years | **–** | **–** | **–** | **–** |
| More than 10 years | **–** | **–** | **–** | **–** |
| | **$ 3,313,703** | **$ 3,335,360** | **$ 620,823,835** | **$ 623,153,181** |
| **December 31, 2017** | | | | |
| Less than 1 year | $ 1,171,872 | $ 1,175,396 | $ 651,270,945 | $ 652,469,990 |
| 1–5 years | 2,700,612 | 2,729,000 | 136,011,233 | 137,235,607 |
| 5–10 years | – | – | – | – |
| More than 10 years | – | – | – | – |
| | $ 3,872,484 | $ 3,904,396 | $ 787,282,178 | $ 789,705,597 |

Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

The following table summarizes sale, call, and maturity activity of investment securities for the years ended December 31, 2018 and 2017.

| | Year Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Held-to-maturity investment securities: | | |
| Proceeds from maturities and call | **$ 1,178,000** | $ 54,457,031 |
| Gross realized gains from call | **–** | 3,547,139 |
| Available-for-sale investment securities: | | |
| Proceeds from sales and maturities | **1,075,412,149** | 212,183,024 |
| Gross realized gains | **4,980** | 73,245 |
| Gross realized losses | **2,369** | 4,337 |

The following table sets forth the net unrealized gains (losses) on securities available-for-sale and the reclassification adjustments required for the years ended December 31, 2018 and 2017.

| | 2018 | 2017 |
|---|---|---|
| Net unrealized losses on investment securities available-for-sale, beginning of year | **$ (2,423,419)** | $ (547,562) |
| Net unrealized gains (losses) on investment securities available-for-sale, arising during the year | **96,684** | (1,806,949) |
| Reclassification adjustments for net (gains) losses on investment securities available-for-sale included in net income | **(2,611)** | (68,908) |
| Net unrealized losses on investment securities available-for-sale, end of year | **$ (2,329,346)** | $ (2,423,419) |

## 4. Loans

The following schedule summarizes loans outstanding as of December 31, 2018 and 2017.

| | International Program | U.S. Domestic Program | Total |
|---|---|---|---|
| **December 31, 2018** | | | |
| Loan balance | **$ 1,284,477,904** | **$ –** | **$ 1,284,477,904** |
| Allowance for loan losses: | | | |
| General | **(16,827,406)** | **–** | **(16,827,406)** |
| Specific | **(2,327,101)** | **–** | **(2,327,101)** |
| Unamortized loan fees | **(12,685,298)** | **–** | **(12,685,298)** |
| Foreign currency exchange rate adjustment | **(40,516,565)** | **–** | **(40,516,565)** |
| Fair value of hedged items | **(155,900,516)** | **–** | **(155,900,516)** |
| Net loans outstanding | **$ 1,056,221,018** | **$ –** | **$ 1,056,221,018** |
| **December 31, 2017** | | | |
| Loan balance | $ 1,293,806,755 | $ – | $ 1,293,806,755 |
| Allowance for loan losses: | | | |
| General | (18,438,398) | – | (18,438,398) |
| Specific | (2,669,547) | – | (2,669,547) |
| Unamortized loan fees | (11,711,140) | – | (11,711,140) |
| Foreign currency exchange rate adjustment | (45,997,351) | – | (45,997,351) |
| Fair value of hedged items | (144,105,721) | – | (144,105,721) |
| Net loans outstanding | $ 1,070,884,598 | $ – | $ 1,070,884,598 |

At December 31, 2018 and 2017, the International Program had outstanding unfunded loan commitments on signed loan agreements totaling $150,637,189 and $188,352,122, respectively. At those same dates, the U.S. Domestic Program did not have any outstanding loan commitments on signed loan agreements. The International Program also had loan agreements under development for an additional $128,904,885 as of December 31, 2018.

The Bank under certain circumstances offered below-market-rate loans. As of December 31, 2018 and 2017, the Bank had below-market-rate loans outstanding for the International Program of $31,504,406 and $35,847,009, respectively. At those same dates, the U.S. Domestic Program did not have any below-market-rate loans.

The following table presents the loan portfolio by sector as of December 31, 2018 and 2017.

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| International Program: | | |
| Air quality | **$ 86,833,221** | $ 95,634,593 |
| Basic urban infrastructure | **36,005,319** | 37,093,463 |
| Clean energy: | | |
| Solar | **312,603,682** | 291,197,939 |
| Wind | **644,675,776** | 620,669,578 |
| Other | **3,552,841** | 4,252,565 |
| Public transportation | **38,390,399** | 31,162,332 |
| Storm drainage | **11,974,394** | 52,715,102 |
| Water and wastewater | **150,442,272** | 161,081,183 |
| Total International Program | **1,284,477,904** | 1,293,806,755 |
| U.S. Domestic Program | **–** | – |
| | **$ 1,284,477,904** | $ 1,293,806,755 |

## 4. Loans (continued)

The following table presents the loan portfolio by risk category as of December 31, 2018 and 2017. These risk categories are defined in Note 2, along with additional information on how the Bank evaluates credit quality.

| | December 31 | |
|---|---|---|
| | **2018** | **2017** |
| International Program | | |
| Pass | **$ 1,269,843,286** | $ 1,279,427,547 |
| Special Mention | **14,634,618** | – |
| Substandard | **–** | 14,379,208 |
| Doubtful | **–** | – |
| Total International Program | **1,284,477,904** | 1,293,806,755 |
| U.S. Domestic Program | **–** | – |
| | **$ 1,284,477,904** | $ 1,293,806,755 |

The following table presents non-accrual loans outstanding by program as of December 31, 2018 and 2017.

| | December 31 | |
|---|---|---|
| | **2018** | **2017** |
| International Program | **$ 14,634,618** | $ 14,379,208 |
| U.S. Domestic Program | **–** | – |
| Total | **$ 14,634,618** | $ 14,379,208 |

As of December 31, 2018, the International Program had one non-accrual loan in the amount of $14,634,618 that was restructured as a "troubled debt restructuring" during 2018. No non-accrual loans were restructured during the year ended December 31, 2017.

This non-accrual loan was restructured in July 2018 with a restructured balance of $14,976,865 and an extended amortization period. There was no charge-off of principal and interest related to the restructured loan for the year ended December 31, 2018. The specific allowance for this loan totaled $2,327,101 and $2,669,547 as of December 31, 2018 and 2017, respectively.

As of December 31, 2018 and 2017 the International Program had collateral valued at lower of cost of market from foreclosed loans reported as other assets of $0 and $3,104,639, respectively.

The average impaired loan balance for the years ended December 31, 2018 and 2017 totaled $14,407,620 and $9,155,761, respectively.

## 4. Loans (continued)

An age analysis of past-due loans, including both accruing and non-accruing loans, as of December 31, 2018 and 2017, is shown in the following table.

| | Loans 30–89 Days Past Due | Loans 90 or More Days Past Due | Total Past-due Loans |
|---|---|---|---|
| **December 31, 2018** | | | |
| International Program | **$ –** | **$ –** | **$ –** |
| U.S. Domestic Program | **–** | **–** | **–** |
| | **$ –** | **$ –** | **$ –** |
| **December 31, 2017** | | | |
| International Program | $ – | $ 14,379,208 | $ 14,379,208 |
| U.S. Domestic Program | – | – | – |
| | $ – | $ 14,379,208 | $ 14,379,208 |

There were no loans past due 90 or more days accruing interest as of December 31, 2018 and 2017.

The following table summarizes the allowance for loan losses by classification as of December 31, 2018 and 2017.

| | Allowance for Loan Losses | | | |
|---|---|---|---|---|
| | General Allowance | Specific Allowance | Total | Total Loans Outstanding |
| **December 31, 2018** | | | | |
| International Program: | | | | |
| Private: | | | | |
| Construction | **$ 6,492,135** | **$ –** | **$ 6,492,135** | **$ 185,874,070** |
| Operation | **8,897,754** | **2,327,101** | **11,224,855** | **811,100,357** |
| Public | **976,084** | **–** | **976,084** | **195,216,867** |
| Public-private | **461,433** | **–** | **461,433** | **92,286,610** |
| Total International Program | **16,827,406** | **2,327,101** | **19,154,507** | **1,284,477,904** |
| U.S. Domestic Program | **–** | **–** | **–** | **–** |
| | **$ 16,827,406** | **$ 2,327,101** | **$ 19,154,507** | **$ 1,284,477,904** |
| **December 31, 2017** | | | | |
| International Program: | | | | |
| Private: | | | | |
| Construction | $ 1,267,448 | $ – | $ 1,267,448 | $ 35,564,527 |
| Operation | 15,425,916 | 2,669,547 | 18,095,463 | 909,235,438 |
| Public | 1,262,795 | – | 1,262,795 | 252,558,904 |
| Public-private | 482,239 | – | 482,239 | 96,447,886 |
| Total International Program | 18,438,398 | 2,669,547 | 21,107,945 | 1,293,806,755 |
| U.S. Domestic Program | – | – | – | – |
| | $ 18,438,398 | $ 2,669,547 | $ 21,107,945 | $ 1,293,806,755 |

Public-private refers to loans made to private-sector borrowers and backed by public-sector federal tax revenue.

## 4. Loans (continued)

The following schedule summarizes the allowance for loan losses for the years ended December 31, 2018 and 2017.

| | Allowance for Loan Losses | | | | |
|---|---|---|---|---|---|
| | Beginning Balance | Loan Loss Provisions: Specific | Loan Loss Provisions: General | Loan (Charge-offs) Recoveries | Ending Balance |
| **December 31, 2018** | | | | | |
| International Program: | | | | | |
| Private: | | | | | |
| Construction | **$ 1,267,448** | **$ –** | **$ 5,224,687** | **$ –** | **$ 6,492,135** |
| Operation | **18,095,463** | **(342,446)** | **(6,528,162)** | **–** | **11,224,855** |
| Public | **1,262,795** | **–** | **(286,711)** | **–** | **976,084** |
| Public-private | **482,239** | **–** | **(20,806)** | **–** | **461,433** |
| Total International Program | **21,107,945** | **(342,446)** | **(1,610,992)** | **–** | **19,154,507** |
| U.S. Domestic Program | **–** | **–** | **–** | **–** | **–** |
| | **$ 21,107,945** | **$ (342,446)** | **$ (1,610,992)** | **$ –** | **$ 19,154,507** |
| **December 31, 2017** | | | | | |
| International Program: | | | | | |
| Private: | | | | | |
| Construction | $ 10,417,904 | $ – | $ (9,150,456) | $ – | $ 1,267,448 |
| Operation | 12,741,894 | 2,669,547 | 2,684,022 | – | 18,095,463 |
| Public | 1,441,539 | – | (178,744) | – | 1,262,795 |
| Public-private | 451,134 | – | 31,105 | – | 482,239 |
| Total International Program | 25,052,471 | 2,669,547 | (6,614,073) | – | 21,107,945 |
| U.S. Domestic Program | 23,188 | – | (23,188) | – | – |
| | $ 25,075,659 | $ 2,669,547 | $ (6,637,261) | $ – | $ 21,107,945 |

## 5. Other Assets and Other Liabilities

The following table presents the gross and net balances of other assets and other liabilities, including the result of master netting arrangements for derivatives with certain swap counterparties, at December 31, 2018 and 2017.

| | Gross Amount | Master Netting Arrangements | Net Amount |
|---|---|---|---|
| **December 31, 2018** | | | |
| **Assets** | | | |
| Cross-currency interest rate swaps | **$ 196,524,505** | **$ (8,963,537)** | **$ 187,560,968** |
| Interest rate swaps | **(5,904,367)** | **5,904,367** | **–** |
| Collateral from swap counterparties | **(100,360,000)** | **–** | **(100,360,000)** |
| Credit valuation adjustment for swaps | **(1,310,316)** | **–** | **(1,310,316)** |
| Other real estate owned | **–** | **–** | **–** |
| Total other assets | **$ 88,949,822** | **$ (3,059,170)** | **$ 85,890,652** |
| **Liabilities** | | | |
| Interest rate swaps | **$ 7,257,372** | **$ –** | **$ 7,257,372** |
| Total other liabilities | **$ 7,257,372** | **$ –** | **$ 7,257,372** |
| **December 31, 2017** | | | |
| **Assets** | | | |
| Cross-currency interest rate swaps | $ 223,716,302 | $ (22,102,844) | $ 201,613,458 |
| Interest rate swaps | (4,690,552) | 4,690,552 | – |
| Collateral from swap counterparties | (117,380,000) | – | (117,380,000) |
| Credit valuation adjustment for swaps | (1,096,796) | – | (1,096,796) |
| Other real estate owned | 3,104,639 | – | 3,104,639 |
| Total other assets | $ 103,653,593 | $ (17,412,292) | $ 86,241,301 |
| **Liabilities** | | | |
| Interest rate swaps | $ – | $ – | $ – |
| Total other liabilities | $ – | $ – | $ – |

## 6. Debt

The following tables summarize the notes payable and other borrowings as of December 31, 2018 and 2017.

| Issue Date | Maturity Date | Fixed Rate | December 31, 2018<br>Principal Amount | Unamortized Premium/ (Discount) | Unamortized Debt Issuance Costs | Fair Value of Hedged Items | Net Debt |
|---|---|---|---|---|---|---|---|
| **Notes Payable** | | | | | | | |
| USD Issuance | | | | | | | |
| 02/11/10 | 02/11/20 | 4.375% | $ 250,000,000 | $ (72,500) | $ (179,574) | $ 2,005,955 | $ 251,753,881 |
| 10/26/12 | 10/26/22 | 2.400 | 250,000,000 | (328,472) | (568,003) | (6,889,039) | 242,214,486 |
| 12/17/12 | 10/26/22 | 2.400 | 180,000,000 | (1,445,378) | (359,787) | (6,047,843) | 172,146,992 |
| 12/17/12 | 12/17/30 | 3.300 | 50,000,000 | – | (205,600) | (2,230,811) | 47,563,589 |
| CHF Issuance | | | | | | | |
| 04/30/15 | 04/30/25 | 0.250 | 128,706,754 | 515,390 | (526,098) | (1,525,496) | 127,170,550 |
| 04/26/17 | 10/26/27 | 0.200 | 124,443,117 | 340,008 | (631,020) | (2,818,385) | 121,333,720 |
| 07/24/18 | 07/24/26 | 0.300 | 126,415,858 | 141,226 | (770,267) | 2,591,722 | 128,378,539 |
| NOK Issuance | | | | | | | |
| 03/10/17 | 03/10/32 | 2.470 | 173,448,566 | – | (522,672) | (18,290,693) | 154,635,201 |
| Total notes payable | | | 1,283,014,295 | (849,726) | (3,763,021) | (33,204,590) | 1,245,196,958 |
| **Other Borrowings** | | | | | | | |
| 04/11/14 | 06/30/19 | 1.900 | 2,631,000 | – | – | – | 2,631,000 |
| 04/11/14 | 12/30/19 | 1.900 | 2,632,000 | – | – | – | 2,632,000 |
| 04/11/14 | 06/30/20 | 1.900 | 526,785 | – | – | – | 526,785 |
| 08/14/14 | 06/30/20 | 1.900 | 2,105,215 | – | – | – | 2,105,215 |
| 08/14/14 | 12/30/20 | 1.900 | 2,632,000 | – | – | – | 2,632,000 |
| 08/14/14 | 06/30/21 | 1.900 | 1,008,985 | – | – | – | 1,008,985 |
| 02/13/15 | 06/30/21 | 1.900 | 1,623,015 | – | – | – | 1,623,015 |
| 02/13/15 | 12/30/21 | 1.900 | 1,470,635 | – | – | – | 1,470,635 |
| 07/29/15 | 12/30/21 | 1.900 | 1,161,365 | – | – | – | 1,161,365 |
| 07/29/15 | 06/30/22 | 1.900 | 266,455 | – | – | – | 266,455 |
| 09/16/16 | 06/30/22 | 1.900 | 2,216,528 | – | – | – | 2,216,528 |
| 03/17/17 | 06/30/22 | 1.900 | 149,017 | – | – | – | 149,017 |
| 03/17/17 | 12/30/22 | 1.900 | 2,632,000 | – | – | – | 2,632,000 |
| 03/17/17 | 06/30/23 | 1.900 | 2,632,000 | – | – | – | 2,632,000 |
| 03/17/17 | 12/30/23 | 1.900 | 2,632,000 | – | – | – | 2,632,000 |
| 03/17/17 | 06/30/24 | 1.900 | 2,632,000 | – | – | – | 2,632,000 |
| 03/17/17 | 12/30/24 | 1.900 | 2,170,720 | – | – | – | 2,170,720 |
| 11/13/17 | 12/30/24 | 1.900 | 461,280 | – | – | – | 461,280 |
| Total other borrowings | | | 31,583,000 | – | – | – | 31,583,000 |
| | | | $ 1,314,597,295 | $ (849,726) | $ (3,763,021) | $ (33,204,590) | $ 1,276,779,958 |

## 6. Debt (continued)

| | | | December 31, 2017 | | | | |
|---|---|---|---|---|---|---|---|
| Issue Date | Maturity Date | Fixed Rate | Principal Amount | Unamortized Premium/ (Discount) | Unamortized Debt Issuance Costs | Fair Value of Hedged Items | Net Debt |
| **Notes Payable** | | | | | | | |
| USD Issuance | | | | | | | |
| 02/11/10 | 02/11/20 | 4.375% | $ 250,000,000 | $ (137,750) | $ (341,192) | $ 6,515,389 | $ 256,036,447 |
| 10/26/12 | 10/26/22 | 2.400 | 250,000,000 | (414,472) | (716,716) | (4,875,400) | 243,993,412 |
| 12/17/12 | 10/26/22 | 2.400 | 180,000,000 | (1,823,804) | (453,986) | (4,880,263) | 172,841,947 |
| 12/17/12 | 12/17/30 | 3.300 | 50,000,000 | – | (222,789) | (741,321) | 49,035,890 |
| 10/10/13 | 10/10/18 | 2.300 | 300,000,000 | (341,302) | (260,209) | (708,958) | 298,689,531 |
| CHF Issuance | | | | | | | |
| 04/30/15 | 04/30/25 | 0.250 | 128,706,754 | 591,006 | (609,166) | 815,874 | 129,504,468 |
| 04/26/17 | 10/26/27 | 0.200 | 124,443,117 | 377,672 | (609,049) | 910,792 | 125,122,532 |
| NOK Issuance | | | | | | | |
| 03/10/17 | 03/10/32 | 2.470 | 173,448,566 | 28,666 | (566,551) | (3,347,201) | 169,563,480 |
| Total notes payable | | | 1,456,598,437 | (1,719,984) | (3,779,658) | (6,311,088) | 1,444,787,707 |
| **Other Borrowings** | | | | | | | |
| 08/15/13 | 06/30/18 | 1.900 | 2,631,000 | – | – | – | 2,631,000 |
| 08/15/13 | 12/30/18 | 1.900 | 600,467 | – | – | – | 600,467 |
| 04/11/14 | 12/30/18 | 1.900 | 2,030,533 | – | – | – | 2,030,533 |
| 04/11/14 | 06/30/19 | 1.900 | 2,631,000 | – | – | – | 2,631,000 |
| 04/11/14 | 12/30/19 | 1.900 | 2,632,000 | – | – | – | 2,632,000 |
| 04/11/14 | 06/30/20 | 1.900 | 526,785 | – | – | – | 526,785 |
| 08/14/14 | 06/30/20 | 1.900 | 2,105,215 | – | – | – | 2,105,215 |
| 08/14/14 | 12/30/20 | 1.900 | 2,632,000 | – | – | – | 2,632,000 |
| 08/14/14 | 06/30/21 | 1.900 | 1,008,985 | – | – | – | 1,008,985 |
| 02/13/15 | 06/30/21 | 1.900 | 1,623,015 | – | – | – | 1,623,015 |
| 02/13/15 | 12/30/21 | 1.900 | 1,470,635 | – | – | – | 1,470,635 |
| 07/29/15 | 12/30/21 | 1.900 | 1,161,365 | – | – | – | 1,161,365 |
| 07/29/15 | 06/30/22 | 1.900 | 266,455 | – | – | – | 266,455 |
| 09/16/16 | 06/30/22 | 1.900 | 2,216,528 | – | – | – | 2,216,528 |
| 03/17/17 | 06/30/22 | 1.900 | 149,017 | – | – | – | 149,017 |
| 03/17/17 | 12/30/22 | 1.900 | 2,632,000 | – | – | – | 2,632,000 |
| 03/17/17 | 06/30/23 | 1.900 | 2,632,000 | – | – | – | 2,632,000 |
| 03/17/17 | 12/30/23 | 1.900 | 2,632,000 | – | – | – | 2,632,000 |
| 03/17/17 | 06/30/24 | 1.900 | 2,632,000 | – | – | – | 2,632,000 |
| 03/17/17 | 12/30/24 | 1.900 | 2,170,720 | – | – | – | 2,170,720 |
| 11/13/17 | 12/30/24 | 1.900 | 461,280 | – | – | – | 461,280 |
| Total other borrowings | | | 36,845,000 | – | – | – | 36,845,000 |
| | | | $ 1,493,443,437 | $ (1,719,984) | $ (3,779,658) | $ (6,311,088) | $ 1,481,632,707 |

## 6. Debt (continued)

### Notes Payable

The notes payable are unsecured, rank equally with all other unsecured indebtedness, and cannot be redeemed prior to their maturity, at which time they will be redeemed at 100% of their principal amount. Interest payments are due semiannually or annually.

The fair value of the hedges relating to interest rate swaps on a portion of the notes payable denominated in U.S. dollars was reported at December 31, 2018 as other assets of $(5,904,367) and other liabilities of $7,257,372 and at December 31, 2017 as other assets of $(4,690,552) and other liabilities of $0. The fair value of the hedges relating to cross-currency interest rate swaps on notes payable not denominated in U.S. dollars was reported at December 31, 2018 as other assets of $(15,958,507) and at December 31, 2017 as other assets of $301,562. Additional information on the fair value of financial instruments and derivatives is provided in Notes 11 and 12.

### Other Borrowings

On November 8, 2012, the Bank signed a loan commitment with another development bank to borrow up to $50 million to fund eligible projects in Mexico. This loan amortizes semiannually, with the first principal payment paid on December 30, 2015 and final principal payment due on December 30, 2024. As of December 31, 2018, and 2017, the outstanding balance was $31,583,000 and $36,845,000, respectively.

The following table summarizes the maturities of the notes payable and other borrowings as of December 31, 2018 and 2017.

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Less than 1 year | **$ 5,263,000** | $ 305,262,000 |
| 1–2 years | **255,264,000** | 5,263,000 |
| 2–3 years | **5,264,000** | 255,264,000 |
| 3–4 years | **435,264,000** | 5,264,000 |
| 4–5 years | **5,264,000** | 435,264,000 |
| 5–10 years | **384,829,729** | 263,677,871 |
| More than 10 years | **223,448,566** | 223,448,566 |
| Total | **$ 1,314,597,295** | $ 1,493,443,437 |

The following table summarizes short-term and long-term debt as of December 31, 2018 and 2017.

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Short-term debt: | | |
| Notes payable | **$ –** | $ 300,000,000 |
| Other borrowings | **5,263,000** | 5,262,000 |
| Total short-term debt | **5,263,000** | 305,262,000 |
| Long-term debt: | | |
| Notes payable | **1,283,014,295** | 1,156,598,437 |
| Other borrowings | **26,320,000** | 31,583,000 |
| Total long-term debt | **1,309,334,295** | 1,188,181,437 |
| Total debt | **$ 1,314,597,295** | $ 1,493,443,437 |

## 7. Equity

### Subscribed Capital

At December 31, 2018 and 2017, the Bank had subscribed 600,000 shares of capital stock, with a par value of $10,000 per share. As defined in the Charter, capital includes unqualified and qualified subscribed shares. Qualified subscribed shares are subject to the necessary legal requirements of each subscribing country. Unqualified subscribed shares have either been funded or authorized for purchase by the subscribing country. Capital is further classified as callable or paid-in capital at December 31, 2018 and 2017 as shown in the following table.

| | Mexico | | United States | | Total | |
|---|---|---|---|---|---|---|
| | Shares | Dollars | Shares | Dollars | Shares | Dollars |
| Subscribed capital | 300,000 | $ 3,000,000,000 | 300,000 | $ 3,000,000,000 | 600,000 | $ 6,000,000,000 |
| Less: | | | | | | |
| Qualified callable capital | (121,833.3333) | (1,218,333,333) | (127,500) | (1,275,000,000) | (249,333.3333) | (2,493,333,333) |
| Unqualified callable capital | (133,166.6667) | (1,331,666,667) | (127,500) | (1,275,000,000) | (260,666.6667) | (2,606,666,667) |
| Qualified paid-in capital | (21,500) | (215,000,000) | (22,500) | (225,000,000) | (44,000) | (440,000,000) |
| Total funded paid-in capital | 23,500 | 235,000,000 | 22,500 | 225,000,000 | 46,000 | 460,000,000 |
| Less transfer to General Reserve for Domestic Programs | – | (22,500,000) | – | (22,500,000) | – | (45,000,000) |
| Total paid-in capital | 23,500 | $ 212,500,000 | 22,500 | $ 202,500,000 | 46,000 | $ 415,000,000 |

As permitted in the Charter, 10% of each country's initial subscription of paid-in and callable capital was set aside to finance community adjustment and investment programs. Accordingly, the Bank approved transfers in prior years of $45,000,000, equal to 10% of the paid-in capital of $450,000,000 from the initial subscriptions, to support these programs. As of June 29, 1999, the paid-in capital of the Mexican Domestic Program was fully transferred to Mexico. As of December 31, 2018, the paid-in capital of the U.S. Domestic Program was fully disbursed or expended as endorsed by the Finance Committee appointed by the U.S. Government for this program.

On May 6, 2016, Mexico submitted its letter of subscription to conditionally subscribe to 150,000 additional shares of capital stock with a par value of US$10,000 per share, subject to the necessary legal requirements and availability of appropriations. The capital stock is further classified as 22,500 qualified paid-in capital shares or US$225,000,000 and 127,500 qualified callable shares or US$1,275,000,000. On September 26, 2016, Mexico made its first contribution of the additional paid-in capital of $10,000,000 or 1,000 shares of paid-in capital and unqualified 5,666.6667 shares of callable capital.

On September 1, 2016, the United States submitted its letter of subscription to conditionally subscribe to 150,000 additional shares of capital stock with a par value of US$10,000 per share, subject to the necessary authorizing legislation and availability of appropriations. The capital stock is further classified as 22,500 qualified paid-in capital shares or US$225,000,000 and 127,500 qualified callable shares or US$1,275,000,000.

## 7. Equity (continued)

The subscriptions of members to paid-in capital and callable capital stock shall be in several installments, effective on or before December 31, 2016 through December 31, 2022, or such later dates as the Board of Directors shall determine. The callable portion of the subscription for capital shares of the Bank will be subject to call only when required to meet obligations, as outlined in Article II, Section 3(d), of Chapter II of the Charter.

### Retained Earnings

Retained earnings are classified as designated, reserved, or undesignated by program, as shown in the following table:

| | December 31 | |
|---|---|---|
| | **2018** | **2017** |
| **Designated retained earnings** | | |
| International Program: | | |
| Water Conservation Investment Fund (WCIF) | **$ 95,594** | $ 95,594 |
| Technical Assistance Program (TAP) | **2,924,782** | 3,175,828 |
| Community Assistance Program (CAP) | **7,967,844** | 10,252,839 |
| Total International Program | **10,988,220** | 13,524,261 |
| U.S. Domestic Program | **–** | (1,860,539) |
| Total designated retained earnings | **10,988,220** | 11,663,722 |
| **Reserved retained earnings** | | |
| International Program: | | |
| Debt Service Reserve | **49,200,000** | 42,000,000 |
| Operating Expenses Reserve | **21,774,242** | 15,669,072 |
| Special Reserve | **30,000,000** | 30,000,000 |
| Capital Preservation Reserve | **61,091,482** | 49,933,088 |
| Total International Program | **162,065,724** | 137,602,160 |
| U.S. Domestic Program: | | |
| Special Reserve | **–** | – |
| Total reserved retained earnings | **162,065,724** | 137,602,160 |
| **Undesignated retained earnings** | | |
| International Program: | | |
| Operations | **51,178,760** | 53,548,372 |
| Mark-to-market hedge valuations | **4,664,676** | 2,868,259 |
| Total undesignated retained earnings | **55,843,436** | 56,416,631 |
| Total retained earnings | **$ 228,897,380** | $ 205,682,513 |
| **Retained earnings by program** | | |
| International Program | **$ 228,897,380** | $ 207,543,052 |
| U.S. Domestic Program | **–** | (1,860,539) |
| Total retained earnings | **$ 228,897,380** | $ 205,682,513 |

Additional information regarding the reserve funds and each program listed above is provided in Notes 2 and 9, respectively.

## 7. Equity (continued)

With the integration on November 10, 2017, BECC transferred to the Bank total assets of $5,202,963, consisting of $4,620,931 in cash and cash equivalents, $33,889 in furniture and equipment, net of accumulated depreciation, and $548,143 in grant and other receivables. Along with the transferred assets, BECC also transferred accrued liabilities of $247,727 and undesignated retained earnings of $4,955,236. These funds have been recorded on the consolidated balance sheet as of December 31, 2017.

### Accumulated Other Comprehensive Income

The following table presents the changes in accumulated other comprehensive income (loss) for the years ended December 31, 2018 and 2017.

| | Beginning Balance | Period Activity | Ending Balance |
|---|---|---|---|
| **December 31, 2018** | | | |
| Unrealized gains (losses) on available-for-sale investment securities | **$ (2,423,419)** | **$ 94,073** | **$ (2,329,346)** |
| Foreign currency translation adjustment | **333,444** | **3,803** | **337,247** |
| Unrealized gain (loss) on hedging activities: | | | |
| Foreign currency translation adjustment | **(45,997,351)** | **5,480,786** | **(40,516,565)** |
| Fair value of cross-currency interest rate swaps | **59,853,770** | **(8,221,092)** | **51,632,678** |
| Net unrealized gain (loss) on hedging activities | **13,856,419** | **(2,740,306)** | **11,116,113** |
| Total accumulated other comprehensive income (loss) | **$ 11,766,444** | **$ (2,642,430)** | **$ 9,124,014** |
| **December 31, 2017** | | | |
| Unrealized loss on available-for-sale investment securities | $ (547,562) | $ (1,875,857) | $ (2,423,419) |
| Foreign currency translation adjustment | 373,108 | (39,664) | 333,444 |
| Unrealized gain (loss) on hedging activities: | | | |
| Foreign currency translation adjustment | (55,027,169) | 9,029,818 | (45,997,351) |
| Fair value of cross-currency interest rate swaps | 71,168,901 | (11,315,131) | 59,853,770 |
| Net unrealized gain (loss) on hedging activities | 16,141,732 | (2,285,313) | 13,856,419 |
| Total accumulated other comprehensive income (loss) | $ 15,967,278 | $ (4,200,834) | $ 11,766,444 |

## 8. Domestic Programs

As permitted in the Charter, 10% of each country's initial subscription of capital stock was set aside to finance community adjustment and investment programs. Accordingly, the Bank approved transfers in prior years of $45,000,000, equal to 10% of the initial paid-in capital of $450,000,000 from the initial subscriptions, to the General Reserve to support these programs. To further clarify operations related to these programs, the Bank entered into a Memorandum of Understanding (MOU) with each country. In accordance with the MOUs, the U.S. and Mexican programs are administered independently.

### Mexico

The MOU with Mexico specified that 10% of the initial paid-in capital from its initial capital subscription and the related earnings be set aside for the community adjustment and investment program endorsed by Mexico. The Government of Mexico instituted its domestic program, entitled *Programa Complementario de Apoyo a Comunidades*

## 8. Domestic Programs (continued)

*y Empresas* (Mexican Domestic Program), through the offices of SHCP. In June 1996, SHCP entered into a mandate agreement with Banobras to receive and administer the funds allocated for this program. The Mexican Domestic Program funds were fully transferred to Mexico as of June 29, 1999. Accordingly, the activities of the Mexican Domestic Program are not reflected as operations of the Bank.

**United States**

The MOU with the U.S. Government specified that 10% of the initial paid-in capital from its initial capital subscription and the related earnings be set aside for the U.S. Community Adjustment and Investment Program (U.S. Domestic Program). The Bank provides financing endorsed by the Finance Committee appointed by the U.S. Government for that purpose.

In accordance with the Charter and MOU with the United States, net assets of the Bank in the amounts of $0 and $478,358 were designated for the U.S. Domestic Program at December 31, 2018 and 2017, respectively. The revenue related to these amounts for the years ended December 31, 2018 and 2017 was $2,177 and $13,750, respectively. Additionally, expenses directly related to the operation of the U.S. Domestic Program of $230,535 and $229,059, are included in the operations of the Bank for the years ended December 31, 2018 and 2017, respectively. All expenses and disbursements are paid out of the U.S. Domestic Program funds. Retained earnings on the U.S. Domestic Program capital funds as of December 31, 2018 and 2017, were $0 and $(1,860,539), respectively.

In January 2009, the Finance Committee approved a Targeted Grant Program (TGP) to be funded with the remaining balance of the U.S. Domestic Program's allocated paid-in capital. For the years ended December 31, 2018 and 2017, $250,000 and $121,893, respectively, were disbursed through the TGP. These disbursements were reported as a deduction from allocated paid-in capital. As of December 31, 2018, and 2017, the U.S. Domestic Program's allocated paid-in capital totaled $0 and $2,338,897, respectively.

The U.S. Domestic Program was closed as of December 31, 2018 in accordance with the Finance Committee closeout plan. Remaining cash of $107,894 as of December 31, 2018 is committed to pay for retiree health insurance plan benefits and outstanding liabilities that will be liquidated by the Bank. The closeout of the program is reflected in the consolidated statement of changes in equity as of December 31, 2018.

## 9. Program Activities

Program activities are comprised of the following:

| | Year Ended December 31 | |
|---|---|---|
| | **2018** | **2017** |
| Program income: | | |
| Border Environment Infrastructure Fund (BEIF) | | |
| EPA grant income | **$ 772,003** | $ 799,248 |
| Technical Assistance Program: | | |
| EPA grant income | | |
| Project Development Assistance Program (PDAP) | **1,368,628** | 285,490 |
| U.S.-Mexico Border 2020 Program (Border 2020) | **504,206** | 75,208 |
| IDB Multilateral Investment Fund (MIF) grant income | **10,621** | 16,808 |
| Other grant income | **13,776** | – |
| Total program income | **2,669,234** | 1,176,754 |
| | | |
| Program expenses: | | |
| BEIF | | |
| EPA grant administration | **772,003** | 799,248 |
| Community Assistance Program | **2,284,995** | 1,178,056 |
| Water Conservation Investment Fund | **–** | 203,901 |
| Technical Assistance Program: | | |
| NADB technical assistance and training expense | **251,046** | 781,502 |
| EPA grant administration | **844,211** | 113,003 |
| EPA grant expense – PDAP | **617,111** | 192,070 |
| EPA grant expense – Border 2020 | **411,512** | 55,625 |
| IDB-MIF grant expense | **10,621** | 16,808 |
| Other grant administration | **13,776** | – |
| Total program expenses | **5,205,275** | 3,340,213 |
| Net program expenses | **$ 2,536,041** | $ 2,163,459 |

### Border Environment Infrastructure Fund (BEIF)

The Bank administers grant funds from EPA through the BEIF. EPA grant awards since the initial grant made in April 1997 to December 31, 2018, total $707,722,862. Under the terms of the grants, the Bank reviews and submits prospective projects to EPA, which approves the projects. EPA then disburses funds to the Bank, which directs the grant monies to the specified project. The Bank also oversees progress and compliance requirements for EPA and receives an allocation of the EPA grant funds for administrative expenses incurred.

As of December 31, 2018, EPA has approved project funding proposed by the Bank totaling $663,193,429, of which $639,094,366 has been disbursed through the Bank. The Bank recognized $772,003 and $799,248 as reimbursement of expenses incurred for the years ended December 31, 2018 and 2017, respectively. These funds have been recorded as program revenue and expenses in the consolidated statements of income.

## 9. Program Activities (continued)

**Water Conservation Investment Fund (WCIF)**

In August 2002, the Board of Directors established the WCIF to finance water conservation projects in the U.S.-Mexico border region and designated $80,000,000 of the Bank's undesignated retained earnings to the program. Of that amount, $40,000,000 was reserved exclusively for water conservation projects in each country. For the years ended December 31, 2018 and 2017, $0 and $203,901, respectively, were disbursed under this program. As of December 31, 2018, cumulative disbursements total $38,239,378 for the United States and $39,990,407 for Mexico. These disbursements were funded with previously designated retained earnings and have been reported as a program expense.

In May 2013, the Board agreed to close out the WCIF and transfer any uncommitted funds to the CAP program. As of December 31, 2018, a cumulative total of $1,674,621 in uncommitted WCIF funds was transferred to the CAP program.

**Community Assistance Program (CAP)**

In February 2011, the Board of Directors approved a grant program to support public projects in all sectors eligible for Bank financing. The CAP program is funded from the Bank's undesignated retained earnings as authorized by the Board. As of December 31, 2018, a cumulative total of $14,092,840 has been allocated to the CAP. For the years ended December 31, 2018 and 2017, $2,284,995 and $1,178,056, respectively, were disbursed under this program. These disbursements were funded with previously designated retained earnings and have been reported as a program expense.

**Technical Assistance Program**

The Bank uses a portion of its retained earnings as authorized by the Board of Directors to offer technical assistance and training to project sponsors for the purpose of strengthening their financial performance and ensuring the long-term sustainability of their infrastructure. For the years ended December 31, 2018 and 2017, $251,046 and $552,229, respectively, was disbursed under this program. These disbursements were funded with previously designated retained earnings and have been reported as a program expense.

As part of its technical assistance program, the Utility Management Institute (UMI) provides water utility managers and their staff with an opportunity for ongoing professional development aimed at enhancing their managerial and financial skills. For the years ended December 31, 2018 and 2017, $0 and $229,273, respectively, was expended under this program.

Additionally, the Bank administers grant funds for technical assistance provided by other entities as follows:

Project Development Assistance Program (PDAP) – The PDAP program was administered previously by BECC. On November 10, 2017, the date of integration, the Bank began administering grants from EPA, on a reimbursement basis, to assist communities in the development of water and wastewater projects that have been prioritized by EPA to receive BEIF grants. For the years ended December 31, 2018 and 2017, the Bank recognized $617,111 and $192,070, respectively, in technical assistance expenses. The Bank also recognized $751,517 and $93,420 in grant administrative expenses for the years ended December 31, 2018 and 2017, respectively. These funds have been recorded as program revenue and expenses in the consolidated statement of income.

## 9. Program Activities (continued)

U.S.-Mexico Border 2020 Program – The Border 2020 program was administered previously by BECC. On November 10, 2017, the date of integration, the Bank began administering grant funds from EPA, on a reimbursement basis, to support joint efforts of the two governments to improve the environment and protect the health of residents within 100 kilometers of the U.S.-Mexico border. The Bank provides logistical and administrative services to identify, contract and manage projects and workshops funded under the program. For the years ended December 31, 2018 and 2017, the Bank recognized $411,512 and $55,625, respectively, in technical assistance expenses. The Bank also recognized $92,694 and $19,583 in grant administrative expenses for the years ended December 31, 2018 and 2017, respectively. These funds have been recorded as program revenue and expenses in the consolidated statement of income.

Multilateral Investment Fund (MIF) Grant – The MIF grant was administered previously by BECC. On November 10, 2017, the date of integration, the Bank began administering grant funds provided by MIF, on a reimbursement basis, to support the development and implementation of a sustainable e-waste management and recycling system in Mexicali, Baja California. The Bank recognized $10,621 and $16,808 in technical assistance expense for the years ended December 31, 2018 and 2017, respectively. These funds have been recorded as program revenue and expenses in the consolidated statement of income. This grant was completed and closed as of December 31, 2018.

## 10. Employee Benefits

### 401(a) Retirement Plan

The Bank has a 401(a) Retirement Plan for its employees. This plan provides for employee and nondiscretionary employer contributions. For the years ended December 31, 2018 and 2017, the Bank expended $1,143,749 and $814,344, respectively, relating to the plan.

### Retiree Health Insurance Plan

The Bank has a retiree health insurance plan for qualifying employees based on number of years of service and age. Qualified retirees may purchase group health insurance coverage at the current employee rate subject to plan limits.

## 11. Fair Value of Financial Instruments

Information on how the Bank measures fair value and classifies the levels of fair value inputs is provided in Note 2.

### Cash and Cash Equivalents

The carrying amounts for cash and cash equivalents approximate their fair value.

### Securities Held-to-Maturity

Securities classified as held-to-maturity are reported at amortized costs. The fair value of these securities is estimated using Level 2 observable inputs. For these securities, the Bank obtains fair value measurements from an independent pricing service, which are based on prices quoted for a similar instrument.

## 11. Fair Value of Financial Instruments (continued)

**Securities Available-for-Sale**

Securities classified as available-for-sale are reported at fair value using Level 1 and Level 2 observable inputs. For these securities, the Bank obtains fair value measurements from an independent pricing service, which are based on prices quoted for the exact or like-kind instrument.

**Loans Receivable and Interest Receivable**

The fair value of loans is estimated based on Level 2 observable inputs using discounted cash flow analyses and interest rates currently being offered for loans made by the Bank with similar terms to borrowers of similar credit quality, net of allowance for loan loss, unamortized loan fees, foreign currency exchange rate adjustment and hedged items. The fair value of nonaccrual loans is estimated to equal the aggregate net realizable value of the underlying collateral and guaranties. The carrying amount of accrued interest approximates its fair value. This valuation does not consider liquidity discounts currently being used by certain market participants, since measuring their impact would not be cost-beneficial for the Bank, given the nature of its loan portfolio.

**Hedged Items for Loans**

Hedged items for loans are reported at fair value using Level 3 unobservable inputs. The fair value of these hedged items is estimated by discounting each cash flow stream using the benchmark swap curve of the contractual currency and converting the resulting net present value at the spot exchange rate, as well as using external pricing models and counterparty pricing. Cash flows in Mexican pesos are discounted using the Mexico Benchmark Interbank Deposit Rate (TIIE) 28-day swap curve. Cash flows in U.S. dollars are discounted using the USD Overnight Index Swap (OIS) curve.

**Cross-currency Interest Rate Swaps**

Cross-currency interest rate swaps are reported at fair value using Level 3 unobservable inputs. The fair value of these swaps is estimated based on discounting procedures, whereby each cash flow stream is discounted using the benchmark swap curve of the respective currency and converting the resulting net present value at the spot exchange rate, as well as external pricing models and counterparty pricing. The Bank's cross-currency interest rate swaps are all Mexican-peso for U.S.-dollar operations except for four (4) debt issuances in foreign currencies for U.S.-dollar operations. Cash flows in Mexican pesos are discounted using the TIIE 28-day swap curve. Cash flows in Swiss francs (CHF) are discounted using the CHF swap curve. Cash flows in Norwegian krone (NOK) are discounted using the NOK swap curve. Cash flows in U.S. dollars are discounted using the USD OIS curve.

**Interest Rate Swaps**

Interest rate swaps are reported at fair value using Level 3 unobservable inputs. The fair value of these swaps is estimated based on discounting procedures, whereby each cash flow stream is discounted using the USD OIS curve, as well as external pricing models and counterparty pricing.

## 11. Fair Value of Financial Instruments (continued)

**Other Real Estate Owned**

Other real estate owned is reported at fair value using Level 3 unobservable inputs based on customized discounting criteria.

**Debt and Accrued Interest Payable**

Notes payable and other borrowings are carried at amortized cost. The fair value of the debt is estimated based on Level 2 observable inputs by discounting the cash flow stream using the USD OIS curve. The carrying amount of accrued interest payable approximates its fair value.

**Hedged Items for Notes Payable**

Hedged items for notes payable are reported at fair value using Level 3 unobservable inputs. The fair value of the hedged items is estimated based on discounting procedures, whereby each cash flow stream is discounted using the USD OIS curve for USD issuances, the CHF swap curve for the Swiss franc issuance and the NOK swap curve for the Norwegian krone issuance, as well as on external pricing models and counterparty pricing.

The following table summarizes the carrying amounts and fair value of the Bank's financial instruments.

| | December 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| **Assets** | | | | |
| Cash and cash equivalents | **$ 175,094,413** | **$ 175,094,413** | $ 164,286,581 | $ 164,286,581 |
| Held-to-maturity securities | **3,335,360** | **3,313,703** | 3,904,396 | 3,872,484 |
| Available-for-sale securities | **620,823,835** | **620,823,835** | 787,282,178 | 787,282,178 |
| Loans, net | **1,056,221,018** | **1,074,690,417** | 1,070,884,598 | 1,110,949,537 |
| Interest receivable | **15,941,621** | **15,941,621** | 28,781,647 | 28,781,647 |
| Cross-currency interest rate swaps | **193,465,335** | **193,465,335** | 206,304,010 | 206,304,010 |
| Interest rate swaps | **(5,904,367)** | **(5,904,367)** | (4,690,552) | (4,690,552) |
| Other real estate owned | **–** | **–** | 3,104,639 | 3,104,639 |
| **Liabilities** | | | | |
| Accrued interest payable | **18,367,661** | **18,367,661** | 21,697,668 | 21,697,668 |
| Short-term debt, net | **5,263,000** | **5,263,000** | 304,660,489 | 304,660,489 |
| Long-term debt, net | **1,304,721,548** | **1,304,693,268** | 1,183,283,306 | 1,183,863,120 |
| Interest rate swaps | **7,257,372** | **7,257,372** | – | – |

The Bank's financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2018 and 2017 are summarized in the following table by the valuation level of the inputs used to measure fair value. Additional information on how the Bank measures and classifies the levels of fair-value inputs is provided in Note 2.

## 11. Fair Value of Financial Instruments (continued)

| | Fair Value Measurements Using | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total Fair Value |
| **December 31, 2018** | | | | |
| **Assets** | | | | |
| Available-for-sale (AFS) securities: | | | | |
| U.S. government securities | **$ 281,447,713** | **$ –** | **$ –** | **$ 281,447,713** |
| U.S. agency securities | **–** | **119,498,398** | **–** | **119,498,398** |
| Corporate debt securities | **–** | **149,112,098** | **–** | **149,112,098** |
| Other fixed-income securities | **–** | **55,573,932** | **–** | **55,573,932** |
| Mexican government securities (UMS) | **–** | **15,191,694** | **–** | **15,191,694** |
| Total AFS securities | **281,447,713** | **339,376,122** | **–** | **620,823,835** |
| Cross-currency interest rate swaps | **–** | **–** | **193,465,335** | **193,465,335** |
| Interest rate swaps | **–** | **–** | **(5,904,367)** | **(5,904,367)** |
| Hedged items for loans | **–** | **–** | **(155,900,516)** | **(155,900,516)** |
| Total assets at fair value | **$ 281,447,713** | **$ 339,376,122** | **$ 31,660,452** | **$ 652,484,287** |
| **Liabilities** | | | | |
| Cross-currency interest rate swaps | **$ –** | **$ –** | **$ –** | **$ –** |
| Interest rate swaps | **–** | **–** | **7,257,372** | **7,257,372** |
| Hedged items for notes payable | **–** | **–** | **(33,204,590)** | **(33,204,590)** |
| Total liabilities at fair value | **$ –** | **$ –** | **$ (25,947,218)** | **$ (25,947,218)** |
| **December 31, 2017** | | | | |
| **Assets** | | | | |
| Available-for-sale (AFS) securities: | | | | |
| U.S. government securities | $ 444,657,303 | $ – | $ – | $ 444,657,303 |
| U.S. agency securities | – | 123,595,266 | – | 123,595,266 |
| Corporate debt securities | – | 148,341,097 | – | 148,341,097 |
| Other fixed-income securities | – | 59,907,912 | – | 59,907,912 |
| Mexican government securities (UMS) | – | 10,780,600 | – | 10,780,600 |
| Total AFS securities | 444,657,303 | 342,624,875 | – | 787,282,178 |
| Cross-currency interest rate swaps | – | – | 206,304,010 | 206,304,010 |
| Interest rate swaps | – | – | (4,690,552) | (4,690,552) |
| Hedged items for loans | – | – | (144,105,721) | (144,105,721) |
| Total assets at fair value | $ 444,657,303 | $ 342,624,875 | $ 57,507,737 | $ 844,789,915 |
| **Liabilities** | | | | |
| Cross-currency interest rate swaps | $ – | $ – | $ – | $ – |
| Interest rate swaps | – | – | – | – |
| Hedged items for notes payable | – | – | (6,311,088) | (6,311,088) |
| Total liabilities at fair value | $ – | $ – | $ (6,311,088) | $ (6,311,088) |

## 11. Fair Value of Financial Instruments (continued)

The following table summarizes the changes to the financial assets and liabilities measured at fair value on a recurring basis using unobservable inputs (Level 3) during the years ended December 31, 2018 and 2017. Additional information on how the Bank measures fair value is provided in Note 2.

| | Fair Value of Level 3 Instruments | | |
|---|---|---|---|
| | Cross-currency Interest Rate Swaps | Interest Rate Swaps | Hedged Items |
| **Assets** | | | |
| Beginning balance, January 1, 2018 | **$ 201,613,458** | **$ –** | **$ (144,105,721)** |
| Total realized and unrealized gains (losses): | | | |
| Included in earnings (expenses) | **(5,831,398)** | **–** | **(11,794,795)** |
| Included in other comprehensive income (loss) | **(8,221,092)** | **–** | **–** |
| Purchases | **–** | **–** | **–** |
| Settlements | **–** | **–** | **–** |
| Transfers in/out of Level 3 | **–** | **–** | **–** |
| Ending balance, December 31, 2018 | **$ 187,560,968** | **$ –** | **$ (155,900,516)** |
| Beginning balance, January 1, 2017 | $ 227,719,003 | $ 4,065,766 | $ (151,854,451) |
| Total realized and unrealized gains (losses): | | | |
| Included in earnings (expenses) | (12,635,914) | (4,065,766) | 7,748,730 |
| Included in other comprehensive income | (11,315,131) | – | – |
| Purchases | – | – | – |
| Settlements | (2,154,500) | – | – |
| Transfers in/out of Level 3 | – | – | – |
| Ending balance, December 31, 2017 | $ 201,613,458 | $ – | $ (144,105,721) |
| **Liabilities** | | | |
| Beginning balance, January 1, 2018 | **$ –** | **$ –** | **$ (6,311,088)** |
| Total realized and unrealized (gains) losses: | | | |
| Included in (earnings) expenses | **–** | **8,083,214** | **(26,893,502)** |
| Included in other comprehensive income | **–** | **–** | **–** |
| Purchases | **–** | **–** | **–** |
| Settlements | **–** | **(825,842)** | **–** |
| Transfers in/out of Level 3 | **–** | **–** | **–** |
| Ending balance, December 31, 2018 | **$ –** | **$ 7,257,372** | **$ (33,204,590)** |
| Beginning balance, January 1, 2017 | $ – | $ – | $ 2,931,548 |
| Total realized and unrealized (gains) losses: | | | |
| Included in (earnings) expenses | – | – | (9,242,636) |
| Included in other comprehensive income | – | – | – |
| Purchases | – | – | – |
| Settlements | – | – | – |
| Transfers in/out of Level 3 | – | – | – |
| Ending balance, December 31, 2017 | $ – | $ – | $ (6,311,088) |

The Bank entered into seven (7) cross-currency interest rate swaps and one (1) interest rate swap during the year ended December 31, 2018. Upon issuance, the fair value of the swaps is $0 and, therefore, is not portrayed in the purchases line item in the preceding table. The change in fair value of these instruments is included within the total gains (losses) line item.

## 11. Fair Value of Financial Instruments (continued)

The Bank has no nonfinancial assets or liabilities measured at fair value on a recurring basis. Certain nonfinancial assets and liabilities measured at fair value on a nonrecurring basis include foreclosed assets (upon initial recognition or subsequent impairment) and other nonfinancial long-lived assets measured at fair value for impairment assessment. The fair value of the collateral from foreclosed loans is measured using Level 3 unobservable inputs and is reported in other assets as other real estate owned of $0 and $3,104,639 at December 31, 2018 and 2017, respectively. For the years ended December 31, 2018 and 2017, the Bank did not remeasure any existing real estate owned and did not record any impairment of long-lived assets.

## 12. Derivative Financial Instruments

The Bank utilizes cross-currency interest rate swaps to mitigate exposure to fluctuations in foreign currency exchange rates and interest rate swaps to mitigate exposure to fluctuations in interest rates. The fair value of the swaps outstanding as of each reporting period end is included in other assets or other liabilities, depending on whether the Bank is in a favorable or unfavorable position as of the reporting period date.

The Bank enters into cross-currency interest rate swaps that are matched to specific fixed, variable or adjustable rate loans denominated in Mexican pesos that the Bank has entered into directly with the borrower or with COFIDAN. In the latter case, COFIDAN then enters into loans denominated in Mexican pesos under the exact same terms with its borrowers. The Bank has also entered into cross-currency interest rate swaps for its long-term notes payable issued in Swiss francs and Norwegian kroner. These swaps have been designated as hedging instruments because they hedge the risk of fluctuations in cash flows due to changes in foreign currency exchange rates. The swaps are structured so that the notional amounts mature to match the expected maturity of the loans and the notes payable.

The Bank enters into interest rate swaps that are matched to the terms of loans and to a portion of its long-term notes payable. The swaps have been designated as hedging instruments, because they hedge the risk of changes in the fair value of fixed-rate loans and notes payable due to changes in the designated benchmark interest rate. The Bank designated the LIBOR swap rate as the benchmark interest rate. The swaps are structured so that the notional amounts mature to match the expected maturity of the loans and the notes payable.

Under its arrangement with FOAEM, neither the Bank nor the counterparty is required to post collateral to support the outstanding fair value of the swaps. Beginning in July 2009, under counterparty relationships with other financial institutions, collateral may be required to be posted by either the Bank or the counterparty. Cash collateral of $100,360,000 and $117,380,000 was posted from counterparties to the Bank as of December 31, 2018 and 2017, respectively. No collateral was posted by the Bank as of those same dates.

The notional amounts and estimated fair values of the swaps outstanding at December 31, 2018 and 2017 are presented in the following table. The fair value of these swaps is estimated using internal valuation models with observable market data inputs.

| | December 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| | Notional Amount | Estimated Fair Value, Net | Notional Amount | Estimated Fair Value, Net |
| Cross-currency interest rate swaps | **$ 1,071,857,976** | **$ 193,465,335** | $ 934,856,215 | $ 206,304,010 |
| Interest rate swaps | **951,701,197** | **(13,161,739)** | 1,318,431,886 | (4,690,552) |

## 12. Derivative Financial Instruments (continued)

The referenced exchange rate received for the cross-currency interest rate swaps outstanding was 5.09% at December 31, 2018 and 2017.

Swaps that are no longer deemed effective because of borrower default on the hedged loans are not included in the preceding table. There were no swaps that were considered ineffective due to borrower default as of December 31, 2018 and 2017.

**Gains and Losses on Derivative Cash Flows**

Cross-currency Interest Rate Swaps – The effective portion of the gain or loss due to changes in the fair value of cross-currency interest rate swaps designated as cash flow hedges is included in the accompanying consolidated statements of comprehensive income, while the ineffective portion is included in income (expense) from net hedging activities. The accumulated gain (loss) is reclassified into earnings as the hedged cash flows are received to offset the foreign currency gains (losses) that would have been recognized in earnings if the Bank had not been a party to the swaps. The accumulated net gain (loss) related to the swaps included in accumulated other comprehensive income totaled $11,116,113 and $13,856,419 at December 31, 2018 and 2017, respectively.

Gains or losses due to changes in the fair value of cross-currency interest rate swaps designated as fair value hedges and ineffective swaps are reported in income (expense) from net hedging activities. For the years ended December 31, 2018 and 2017, changes in the aforementioned swaps included in the accompanying consolidated statements of income were $2,009,937 and $(1,393,658), respectively.

Interest Rate Swaps – With regard to the interest rate swaps on outstanding loans and a portion of the long-term notes payable, the changes in the fair value of the swaps offset the changes in the fair value of the loans and debt due to changes in the USD OIS curve, while the ineffective portion is included in income (expense) from net hedging activities. For the years ended December 31, 2018 and 2017, changes in the aforementioned swaps included in the accompanying consolidated statements of income were $790,508 and $0, respectively.

## 13. Credit Risk Associated with Financial Instruments

The Bank is subject to certain credit risk. Financial instruments that potentially subject the Bank to significant concentrations of credit risk consist principally of cash and cash equivalents, investments, loans receivable and swaps. The Bank maintains cash and cash equivalents, investments and certain other financial instruments with various major financial institutions. The Bank performs periodic evaluations of the relative credit standing of these financial institutions and limits the amount of credit exposure with any one institution. The Bank evaluates the creditworthiness of each customer on a case-by-case basis and continually monitors the financial stability of each borrower.

## 14. Commitments

In the normal course of business, the Bank has various outstanding commitments, in addition to the loans receivable disclosed in Note 4 and the long-term borrowings disclosed in Note 6. Under agreements with consultants and contractors in effect at December 31, 2018, the Bank has obligations to make payments contingent upon the future performance of the consultants and contractors under the terms of their respective contracts and, therefore, they are not recorded in the financial statements.

## 14. Commitments (continued)

### Lease Commitments

The Bank rents office space for its headquarter in San Antonio, Texas, under an operating lease that expires on February 28, 2026. The Bank also rents office space for its Juarez Office under an operating lease that expires on April 3, 2019. Rent expense totaled $255,444 and $211,364 for the years ended December 31, 2018 and 2017, respectively. The following schedule summarizes the minimum future expenses for the forgoing leases.

| Year Ended | | |
|---|---|---|
| December 31, 2019 | $ | 225,080 |
| December 31, 2020 | | 221,831 |
| December 31, 2021 | | 223,064 |
| December 31, 2022 | | 229,712 |
| December 31, 2023 | | 232,493 |
| Thereafter | | 520,289 |
| | $ | 1,652,469 |

## 15. Accounting Standards Updates

Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 is effective for the Bank on January 1, 2019. The Bank evaluated the impact of implementing ASU 2014-09 and determined that the standard will not have a material effect on its consolidated financial statements.

ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.* ASU 2016-1, among other things, (i) requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (iii) eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, (iv) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (v) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments, (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements and (vii) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities. ASU 2016-01 will be effective for the Bank on January 1, 2019. The Bank evaluated the impact of implementing ASU 2016-01 and determined that the standard will not have a material effect on its consolidated financial statements.

## 15. Accounting Standards Updates (continued)

ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02, among other things, require lessees to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. ASU 2016-02 does not significantly change lease accounting requirements applicable to lessors; however, certain changes were made to align, where necessary, lessor accounting with the lessee accounting model and ASC Topic 606: Revenue from Contracts with Customers. ASU 2016-02 will be effective for the Bank on January 1, 2020 and will require transition using a modified retrospective approach for leases existing at or entered into after, the beginning of the earliest comparative period presented in the financial statements. Notwithstanding the foregoing, in January 2018, the Financial Accounting Standards Board issued a proposal to provide an additional transition method that would allow entities to not apply the guidance in ASU 2016-02 in the comparative periods presented in the financial statements and instead recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Bank is evaluating the potential impact of ASU 2016-02 to its consolidated financial statements and disclosures.

ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. In addition, ASU 2016-13 amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. ASU 2016-13 will be effective for the Bank on January 1, 2021. The Bank is evaluating the potential impact of ASU 2016-13 to its consolidated financial statements.

ASU 2017-12, *Derivatives and Hedging (Topic 815) – Targeted Improvements to Accounting for Hedging Activities*. ASU 2017-12 amends the hedge accounting recognition and presentation requirements in ASC 815 to improve the transparency and understandability of information conveyed to financial statement users about an entity's risk management activities to better align the entity's financial reporting for hedging relationships with those risk management activities and to reduce the complexity of and simplify the application of hedge accounting. ASU 2017-12 will be effective for the Bank on January 1, 2020 and is not expected to have a significant impact on its consolidated financial statements.

## 16. Subsequent Events

The Bank has evaluated subsequent events for potential recognition and/or disclosure through March 29, 2019, the date these consolidated financial statements were issued.

# Supplementary Information

# Combining Balance Sheet by Program

## December 31, 2018

| | International Program | U.S. Domestic Program (A) | Eliminations | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents: | | | | |
| Held at other financial institutions in demand deposit accounts | $ 374,898 | $ – | $ – | $ 374,898 |
| Held at other financial institutions in interest-bearing accounts | 48,311,621 | 107,894 | – | 48,419,515 |
| Repurchase agreements | 126,300,000 | – | – | 126,300,000 |
| | 174,986,519 | 107,894 | – | 175,094,413 |
| Held-to-maturity investment securities, at amortized cost | 3,335,360 | – | – | 3,335,360 |
| Available-for-sale investment securities, at fair value | 620,823,835 | – | – | 620,823,835 |
| Loans outstanding | 1,284,477,904 | – | – | 1,284,477,904 |
| Allowance for loan losses | (19,154,507) | – | – | (19,154,507) |
| Unamortized loan fees | (12,685,298) | – | – | (12,685,298) |
| Foreign currency exchange rate adjustment | (40,516,565) | – | – | (40,516,565) |
| Hedged items, at fair value | (155,900,516) | – | – | (155,900,516) |
| Net loans outstanding | 1,056,221,018 | – | – | 1,056,221,018 |
| Interest receivable | 15,941,621 | – | – | 15,941,621 |
| Grant and other receivable | 1,499,144 | – | – | 1,499,144 |
| Due from U.S. Domestic Program | 47,420 | – | (47,420) | – |
| Furniture, equipment and leasehold improvements, net | 251,731 | – | – | 251,731 |
| Other assets | 85,890,652 | – | – | 85,890,652 |
| Total assets | $ 1,958,997,300 | $ 107,894 | $ (47,420) | $ 1,959,057,774 |
| **Liabilities and equity** | | | | |
| Liabilities: | | | | |
| Accounts payable | $ 1,064,675 | $ – | $ – | $ 1,064,675 |
| Accrued liabilities | 2,499,936 | 60,474 | – | 2,560,410 |
| Due to International Program | – | 47,420 | (47,420) | – |
| Accrued interest payable | 18,367,661 | – | – | 18,367,661 |
| Undisbursed grant funds | 1,002 | – | – | 1,002 |
| Other liabilities | 7,257,372 | – | – | 7,257,372 |
| Short-term debt | 5,263,000 | – | – | 5,263,000 |
| Long-term debt, net of discounts and unamortized debt issuance costs | 1,304,721,548 | – | – | 1,304,721,548 |
| Hedged items, at fair value | (33,204,590) | – | – | (33,204,590) |
| Net long-term debt | 1,271,516,958 | – | – | 1,271,516,958 |
| Total liabilities | 1,305,970,604 | 107,894 | (47,420) | 1,306,031,078 |
| Equity: | | | | |
| Paid-in capital | 415,000,000 | – | – | 415,000,000 |
| General Reserve: | | | | |
| Retained earnings: | | | | |
| Designated | 10,988,220 | – | – | 10,988,220 |
| Reserved | 162,065,724 | – | – | 162,065,724 |
| Undesignated | 55,843,436 | – | – | 55,843,436 |
| Accumulated other comprehensive income | 9,124,014 | – | – | 9,124,014 |
| Non-controlling interest | 5,302 | – | – | 5,302 |
| Total equity | 653,026,696 | – | – | 653,026,696 |
| Total liabilities and equity | $ 1,958,997,300 | $ 107,894 | $ (47,420) | $ 1,959,057,774 |

Note A – The Mexican Domestic Program funds were fully transferred to Mexico as of June 1999.

## Combining Statement of Income by Program

### Year Ended December 31, 2018

| | International Program | U.S. Domestic Program (A) | Total |
|---|---|---|---|
| Interest income: | | | |
| Loans | $ 61,981,255 | $ – | $ 61,981,255 |
| Investments | 16,936,377 | 2,177 | 16,938,554 |
| Total interest income | 78,917,632 | 2,177 | 78,919,809 |
| Interest expense | 47,242,402 | – | 47,242,402 |
| Net interest income | 31,675,230 | 2,177 | 31,677,407 |
| Operating expenses: | | | |
| Personnel | 12,839,428 | – | 12,839,428 |
| General and administrative | 2,404,145 | – | 2,404,145 |
| Consultants and contractors | 2,175,543 | – | 2,175,543 |
| Provision for loan losses | (1,953,438) | – | (1,953,438) |
| Other | (4,506) | – | (4,506) |
| Depreciation | 156,798 | – | 156,798 |
| U.S. Domestic Program | – | 230,535 | 230,535 |
| Total operating expenses | 15,617,970 | 230,535 | 15,848,505 |
| Net operating income (loss) | 16,057,260 | (228,358) | 15,828,902 |
| Non-interest income and non-operating expenses | | | |
| U.S. Department of State contribution | 2,902,000 | – | 2,902,000 |
| SEMARNAT contribution | 1,793,750 | – | 1,793,750 |
| Gains on sales of securities | 5,111 | – | 5,111 |
| Income from hedging activities, net | 2,566,698 | – | 2,566,698 |
| Income from foreign exchange activities, net | 213,393 | – | 213,393 |
| Fees and other income | 642,284 | – | 642,284 |
| Loss on other real estate owned | (290,300) | – | (290,300) |
| Total non-interest income | 7,832,936 | – | 7,832,936 |
| Income (loss) before program activities | 23,890,196 | (228,358) | 23,661,838 |
| Program activities: | | | |
| BEIF: | | | |
| EPA grant income | 772,003 | – | 772,003 |
| EPA grant administration | (772,003) | – | (772,003) |
| CAP expense | (2,284,995) | – | (2,284,995) |
| Technical assistance: | | | |
| EPA grant income | 1,872,834 | – | 1,872,834 |
| EPA grant administration expense | (844,211) | – | (844,211) |
| IDB-MIF grant income | 10,621 | – | 10,621 |
| Technical assistance expenses | (1,290,290) | – | (1,290,290) |
| Other grant income | 13,776 | – | 13,776 |
| Other grant expense | (13,776) | – | (13,776) |
| Net program expenses | (2,536,041) | – | (2,536,041) |
| Income (loss) before non-controlling interest | 21,354,155 | (228,358) | 21,125,797 |
| Net loss attributable to non-controlling interest | (173) | – | (173) |
| Net income (loss) | $ 21,354,328 | $ (228,358) | $ 21,125,970 |
| **General Reserve, January 1, 2018** | | | |
| Allocated paid-in capital | $ – | $ 2,338,897 | $ 2,338,897 |
| Retained earnings | 207,543,052 | (1,860,539) | 205,682,513 |
| Current period activity: | | | |
| Net income (loss) | 21,354,328 | (228,358) | 21,125,970 |
| TGP disbursements of the U.S. Domestic Program | – | (250,000) | (250,000) |
| Closeout of U.S. Domestic Program – allocated paid-in capital | – | (2,088,897) | (2,088,897) |
| Closeout of U.S. Domestic Program – retained earnings | – | 2,088,897 | 2,088,897 |
| **General Reserve, December 31, 2018** | | | |
| Allocated paid-in capital | – | – | – |
| Retained earnings | 228,897,380 | – | 228,897,380 |
| | $ 228,897,380 | $ – | $ 228,897,380 |

*Note A – The Mexican Domestic Program funds were fully transferred to Mexico as of June 1999.*

## Combining Statement of Comprehensive Income by Program
### Year Ended December 31, 2018

| | International Program | U.S. Domestic Program (A) | Total |
|---|---|---|---|
| Income (loss) before non-controlling interest | $ 21,354,155 | $ (228,358) | $ 21,125,797 |
| Net loss attributable to non-controlling interest | (173) | – | (173) |
| Net income (loss) | 21,354,328 | (228,358) | 21,125,970 |
| Other comprehensive income (loss): | | | |
| Available-for-sale investment securities: | | | |
| Change in net unrealized gain during the period, net | 96,684 | – | 96,684 |
| Reclassification adjustment for net gain included in net income | (2,611) | – | (2,611) |
| Total unrealized gain on available-for-sale investment securities | 94,073 | – | 94,073 |
| Foreign currency translation adjustment | 3,803 | – | 3,803 |
| Unrealized gains (losses) on hedging activities: | | | |
| Foreign currency translation adjustment, net | 5,480,786 | – | 5,480,786 |
| Fair value of cross-currency interest rate swaps, net | (8,221,092) | – | (8,221,092) |
| Total unrealized loss on hedging activities | (2,740,306) | – | (2,740,306) |
| Total other comprehensive loss | (2,642,430) | – | (2,642,430) |
| Total comprehensive income (loss) | $ 18,711,898 | $ (228,358) | $ 18,483,540 |

*Note A – The Mexican Domestic Program funds were fully transferred to Mexico as of June 1999.*

# Combining Statement of Cash Flows by Program

## Year Ended December 31, 2018

| | International Program | U.S. Domestic Program (A) | Total |
|---|---|---|---|
| **Operating activities** | | | |
| Net income (loss) | $ 21,354,328 | $ (228,358) | $ 21,125,970 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | |
| Depreciation | 156,798 | – | 156,798 |
| Amortization of net premium (discount) on investments | (3,026,257) | – | (3,026,257) |
| Change in fair value of swaps, hedged items and other non-cash items | (17,976,051) | – | (17,976,051) |
| Non-controlling interest | (173) | – | (173) |
| Gain on sales of securities, net | (5,111) | – | (5,111) |
| Provision for loan losses | (1,953,438) | – | (1,953,438) |
| Change in other assets and liabilities: | | | |
| Decrease in interest receivable | 12,839,977 | 49 | 12,840,026 |
| Decrease in receivable and other assets | 6,129,434 | – | 6,129,434 |
| Increase in due from U.S. Domestic Program and increase due to International Program | (42,732) | 42,732 | – |
| Decrease in accounts payable | (5,684,431) | – | (5,684,431) |
| Increase in accrued liabilities | 1,142,310 | 32,311 | 1,174,621 |
| Decrease in accrued interest payable | (3,330,007) | – | (3,330,007) |
| Net cash provided by (used in) operating activities | 9,604,647 | (153,266) | 9,451,381 |
| **Lending, investing, and development activities** | | | |
| Capital expenditures | (53,534) | – | (53,534) |
| Loan principal repayments | 176,337,591 | – | 176,337,591 |
| Loan disbursements | (165,984,284) | – | (165,984,284) |
| Purchase of held-to-maturity investments | (610,000) | – | (610,000) |
| Purchase of available-for-sale investments | (905,827,329) | – | (905,827,329) |
| Proceeds from maturities of held-to-maturity investments | 1,178,000 | – | 1,178,000 |
| Proceeds from sales and maturities of available-for-sale investments | 1,075,412,149 | – | 1,075,412,149 |
| Net cash provided by lending, investing, and development activities | 180,452,593 | – | 180,452,593 |
| **Financing activities** | | | |
| Proceeds from note issuances | 126,415,858 | – | 126,415,858 |
| Principal repayment of other borrowings | (5,262,000) | – | (5,262,000) |
| Principal repayment of notes payable | (300,000,000) | – | (300,000,000) |
| Grant funds – EPA | 26,340,883 | – | 26,340,883 |
| Grant disbursements – EPA | (26,340,883) | – | (26,340,883) |
| Grant activity – U.S. Domestic Program | – | (250,000) | (250,000) |
| Net cash used in financing activities | (178,846,142) | (250,000) | (179,096,142) |
| Net increase (decrease) in cash and cash equivalents | 11,211,098 | (403,266) | 10,807,832 |
| Cash and cash equivalents at January 1, 2018 | 163,775,421 | 511,160 | 164,286,581 |
| Cash and cash equivalents at December 31, 2018 | $ 174,986,519 | $ 107,894 | $ 175,094,413 |

*Note A – The Mexican Domestic Program funds were fully transferred to Mexico as of June 1999.*

## Statement of Income of NADB Office in Juarez, Chihuahua

### For the Year Ended December 31, 2018

| | EPA | | | | | |
|---|---|---|---|---|---|---|
| | PDAP | Border 2020 | IDB-MIF | Other | Operation | Total |
| Income: | | | | | | |
| U.S. Despartment of State contribution | $ – | $ – | $ – | $ – | $ 2,902,000 | $ 2,902,000 |
| SEMARNAT contribution | – | – | – | – | 1,793,750 | 1,793,750 |
| U.S. Environmental Protection Agency: | | | | | | |
| Project Development Assistance Program (PDAP) grant income | 1,368,628 | – | – | – | – | 1,368,628 |
| U.S.-Mexico Border 2020 Program grant income | – | 504,206 | – | – | – | 504,206 |
| Inter-American Development Bank (IDB) Multilateral Investment Fund (MIF) grant income | – | – | 10,621 | – | – | 10,621 |
| Other grant income | – | – | – | 13,776 | – | 13,776 |
| Interest income | – | – | – | – | 28,172 | 28,172 |
| Other income | – | – | – | – | 5,381 | 5,381 |
| Total income | 1,368,628 | 504,206 | 10,621 | 13,776 | 4,729,303 | 6,626,534 |
| Operating expenses: | | | | | | |
| Personnel | 613,884 | 36,639 | – | 10,890 | 3,289,803 | 3,951,216 |
| General and administrative | 137,633 | 56,055 | – | 2,886 | 410,700 | 607,274 |
| Consultants | – | – | – | – | 192,323 | 192,323 |
| Other | – | – | – | – | (10,986) | (10,986) |
| Depreciation | – | – | – | – | 16,127 | 16,127 |
| Total operating expenses | 751,517 | 92,694 | – | 13,776 | 3,897,967 | 4,755,954 |
| Income before program activities | 617,111 | 411,512 | 10,621 | – | 831,336 | 1,870,580 |
| Technical assistance expenses | 617,111 | 411,512 | 10,621 | – | 76,496 | 1,115,740 |
| Net income | $ – | $ – | $ – | $ – | $ 754,840 | $ 754,840 |

## Border Environment Infrastructure Fund (BEIF)

### As of and for the Year Ended December 31, 2018

**Balance Sheet**

| | Region 6 | Region 9 | Total |
|---|---|---|---|
| **Assets** | | | |
| Cash | $ 501 | $ 501 | $ 1,002 |
| Total assets | $ 501 | $ 501 | $ 1,002 |
| **Liabilities** | | | |
| Undisbursed grant funds | $ 501 | $ 501 | $ 1,002 |
| Total liabilities | $ 501 | $ 501 | $ 1,002 |

**Statement of Income**

| | Region 6 | Region 9 | Total |
|---|---|---|---|
| Income: | | | |
| U.S. Environmental Protection Agency grant income | $ 423,089 | $ 348,914 | $ 772,003 |
| Total income | 423,089 | 348,914 | 772,003 |
| BEIF operating expenses: | | | |
| Personnel | 159,278 | 162,374 | 321,652 |
| Consultants | 253,833 | 153,224 | 407,057 |
| General and administrative | 80 | – | 80 |
| Operational travel | 9,898 | 33,316 | 43,214 |
| Total BEIF operating expenses | 423,089 | 348,914 | 772,003 |
| Net income | $ – | $ – | $ – |

**Statement of Cash Flows**

| | Region 6 | Region 9 | Total |
|---|---|---|---|
| **Operating activities** | | | |
| Net income | $ – | $ – | $ – |
| Net cash provided by operating activities | – | – | – |
| **Financing activities** | | | |
| Grant funds – EPA | 14,436,394 | 11,904,489 | 26,340,883 |
| Grant disbursements – EPA | (14,436,394) | (11,904,489) | (26,340,883) |
| Net cash provided by financing activities | – | – | – |
| Net decrease in cash and cash equivalents | – | – | – |
| Cash and cash equivalents at January 1, 2018 | 501 | 501 | 1,002 |
| Cash and cash equivalents at December 31, 2018 | $ 501 | $ 501 | $ 1,002 |

*Region 6: EPA Regional Office located in Dallas, Texas*
*Region 9: EPA Regional Office located in San Francisco, California*

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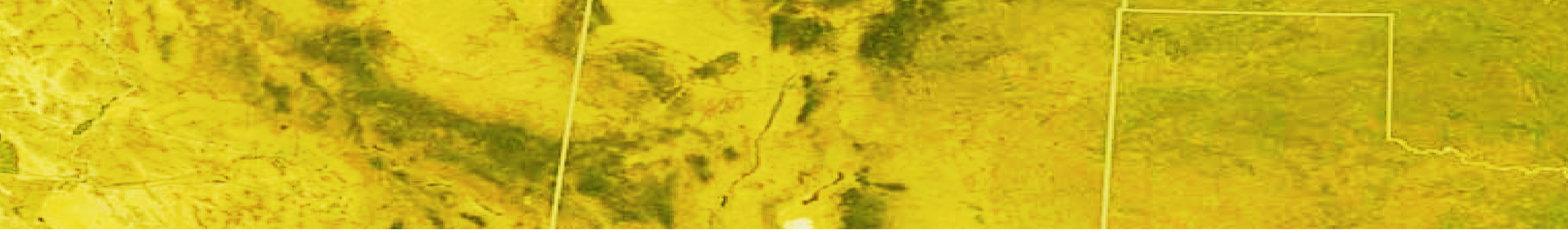

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