2022
ANNUAL REPORT
North American Development Bank

North American Development Bank
Banco de Desarrollo de América del Norte

CONTENTS

MESSAGE
from Management

We are delighted to share this annual report with the members of our Board of Directors, investors and community stakeholders in the U.S.-Mexico border region.

During 2022, NADBank concentrated much of its efforts on executing an innovative agenda aimed at fostering a green economy and resilience to climate change in the border region, while maintaining focus on projects in its preferred sectors of water and solid waste. NADBank ended the year with the certification of ten new environmental infrastructure projects and approval of just over US$344 million in financing. Half of the projects were in the preferred sectors. Among the results achieved during the year, we would like to highlight:

- A long-term loan was approved for the State of Baja California to support coordinated and comprehensive investment in water and wastewater infrastructure by local water utilities throughout the state. This transaction entailed the development of the State's sustainability framework to guide investment priorities based on expected environmental benefits. The Bank played a key role in developing this framework in collaboration with federal and state authorities, including obtaining a second-party opinion.

- The Bank is supporting the construction of the Zier solar park located in Kinney County, Texas, which includes a battery energy storage system. The combined infrastructure will increase the efficiency of the solar park and contribute to the reliability of the state grid.

- The City of McAllen, Texas, received a loan for the expansion of a land port of entry to expedite commercial traffic crossings and improve regional air quality by reducing pollution from idling vehicles waiting to cross the border. In addition, the project will be the first port of entry on the U.S.-Mexico border to obtain Leadership in Energy and Environmental Design (LEED) certification.

- Beyond the financing of new infrastructure, the Bank also supported communities in developing sustainable projects and strengthening their institutional capacities. A total of 51 communities benefitted from 22 studies, seminars or other technical support activities, most of which were carried out in collaboration with various federal, state and municipal agencies.

Recognizing an investment gap in smaller, private projects with environmental benefits, NADBank established the Green Loan Program, which will increase long-term financing options for small and rural enterprises looking to improve their sustainability, through regional financial intermediaries. The program will also help build the capacity of those financial intermediaries by providing guidance for establishing their own green frameworks.

Calixto Mateos Hanel
Managing Director

John Beckham
Deputy Managing Director

Salvador López Córdova
Chief Environmental Officer

Throughout 2022, the Bank continued working with and generating synergies with federal, state and local authorities, as well as with communities on both sides of the border. Likewise, we maintained our firm commitment to address critical challenges in the border region, such as access to basic infrastructure, resilience to climate change and the overriding need for decarbonization.

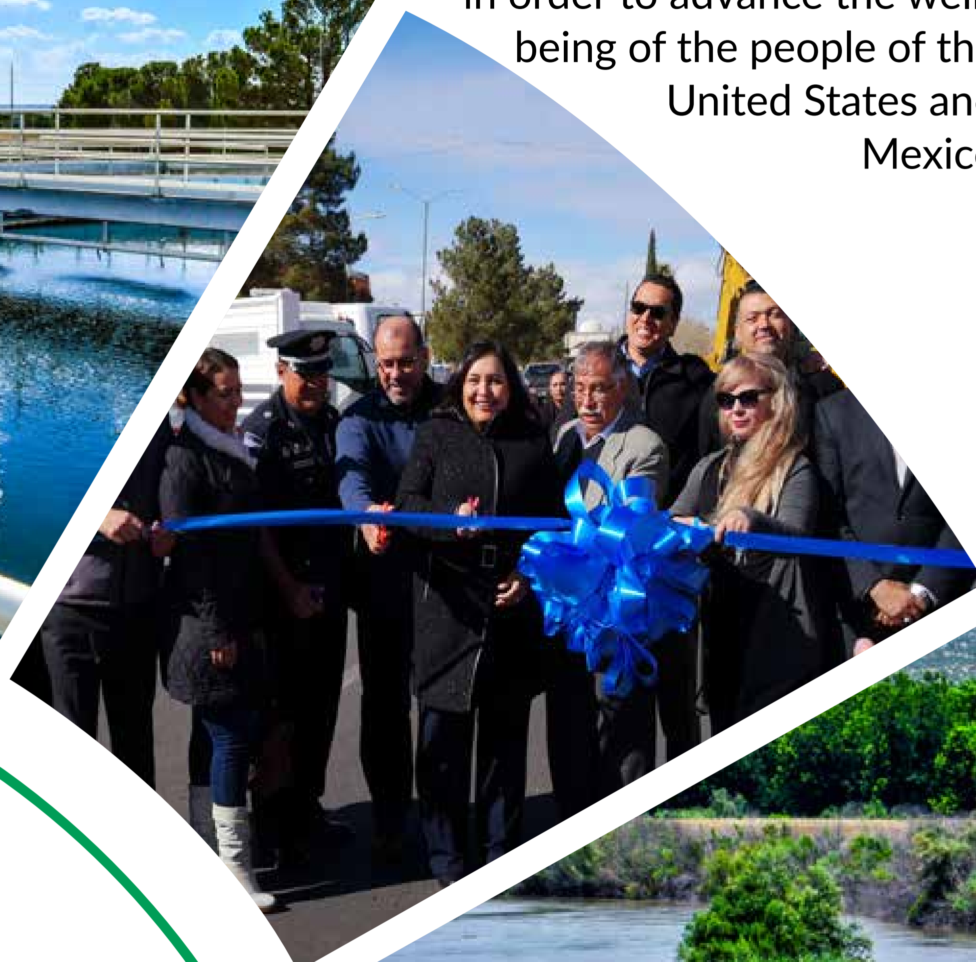
In keeping with its commitment to sustainability, NADBank undertook a comprehensive review of its risk management framework, which led to the development of an Environmental, Social and Governance (ESG) Policy, as well as a Gender Equality and Inclusion Policy.

The current economic integration between the two countries is giving rise to both opportunities and challenges in the border region, such as urban growth, water security, impacts of climate change and the need for decarbonization. Success in this new stage of integration will require infrastructure projects with environmental benefits that have been developed in coordination with communities, the private sector, and public officials on both sides of the border. NADBank intends to continue growing and evolving a binational green infrastructure investment agenda. The experience and technical capacity of our Board of Directors, the NADBank team and the binational relationships of our institution form a foundation to address the environmental and development needs in the region.

Calixto Mateos Hanel	John Beckham	Salvador López Córdova
Managing Director	Deputy Managing Director	Chief Environmental Officer

OUR Mission

To provide financing, as well as technical and other assistance, to support the development and implementation of infrastructure projects that preserve, protect or enhance the environment of the border region in order to advance the well-being of the people of the United States and Mexico



ADVANCING
Our Mission in 2022

In pursuit of its core purpose of promoting sustainable environmental infrastructure projects along the U.S.-Mexico border, NADBank provides loans and grants to public and private entities for project implementation, as well as administers grants from other entities. Prior to financing approval, projects pass through an internal certification process that verifies and documents the technical feasibility and environmental impacts of the projects, as well as ensures transparency and promotes community participation. To support project sponsors and border communities in the development of sustainable projects, NADBank also provides and administers technical assistance for studies, training and other related activities.

Project Certification

During the year, NADBank made progress in diversifying its development assets by approving the certification and financing of ten new projects spanning six sectors, including water and wastewater system improvements, solid waste management, sustainable energy and food value chains, efficient border crossing facilities and support for recovery from the COVID-19 pandemic. These projects represent a total cost of US$592 million and will benefit an estimated 6.5 million border residents. NADBank is providing loans and grants totaling US$342.7 million to partially finance eight of those projects, with the remainder funded by a combination of equity investments from project sponsors, grants from state and federal agencies and loans from other financial institutions.

Supporting sustainable infrastructure with environmental and social impact

Three of the new projects are in the water sector, including financing for the Government of Baja California to support water and wastewater projects executed by local water authorities. All projects will comply with a pre-established sustainability framework designed to define environmental benefits, expected outcomes and sustainability over time. This approach will allow the state government to support the financing of a large number of critical municipal infrastructure projects more efficiently. In addition, the rehabilitation of the wastewater collection systems in Ciudad Juarez, Chihuahua, and Mexicali, Baja California, will help prevent up to 25.0 million gallons a day of untreated sewage discharges from spills and leaks that could affect shared aquifers and rivers, including the Rio Grande and New River.

Two projects were approved to support proper waste disposal. A project for the purchase of landfill equipment will benefit more than 14,000 residents in the communities of Roma and Escobares, Texas. The new compactor will ensure the proper disposal of approximately 40 metric tons/day of municipal solid waste and special waste, which will help maintain the optimum life of the new landfill. The second project consists of the construction of a new regional landfill and proper closure of the current landfill, which will facilitate ongoing waste management services for the disposal of approximately 1,100 tons a day of urban waste for nearly a million residents in the metropolitan area of Chihuahua, Chihuahua. Although the Municipality awarded the loan to another lender, the Bank continues to play an active role in the sustainable development of the project by providing a technical assistance grant to support the studies needed for selecting the new landfill site and developing the final designs for landfill closure and construction.

BOX 1: Expected Environmental & Social Impacts

10 Certified Projects in 2022

- **3.5 million people** expected to benefit in 8 communities
- 145 million gallons per day (mgd) in new or rehabilitated water treatment capacity
- 73 mgd in new or rehabilitated wastewater treatment capacity
- 25 mgd in wastewater spills will be prevented

- **984,000 people** expected to benefit in 5 communities
- 1,140 metric tons/day of waste disposed of properly

- **1.0 million people** expected to benefit in 4 communities
- 205,961 metric tons/year of carbon dioxide (CO_2) displaced by renewable energy generation and less traffic congestion at border crossings

- **936,000 people** expected to benefit in 1 community
- US$3.2 million estimated in annual debt service savings, freeing up cash flows that can be redirected to support the maintenance and operation of existing public services and infrastructure

In the area of air quality, the construction of inspection facilities to support the processing of commercial vehicles on the U.S. side of the Anzalduas Land Port of Entry that connects Mission, Texas and Reynosa, Tamaulipas, will benefit close to a million residents in three U.S. communities and one Mexican municipality. Opening additional capacity at an existing port of entry in the region will help relieve congestion at other area ports of entry, resulting in a net reduction in greenhouse gas emissions and criteria pollutants caused by commercial traffic. Moreover, the Bank is supporting the Mexican government with technical assistance to develop the infrastructure needed to serve commercial traffic on the Mexican side of this binational bridge.

NADBank also approved its first project combining solar energy generation with battery storage, to be built in Kinney County, Texas. Pairing energy storage systems with solar parks increases their efficiency by storing the electricity produced during periods of high solar output and delivering it to the grid during periods of peak demand. During its first year of operation, the project is expected to produce electricity equivalent to the annual consumption of 30,286 households and prevent the emission of 186,398 metric tons/year of carbon dioxide (CO_2).

Finally, the Bank approved its first project under its new Green Loan Program (Box 2), as well as two debt refinancing projects in Mexico under its Covid-19 Recovery Program (ProRec), one of which was contracted and fully disbursed for the water utility in Hermosillo, Sonora, prior to year-end (page 11). The other ProRec project was financed by another bank.

BOX 2: Green Loan Program

The Board of Directors approved this program in June 2022 with a financing commitment of up to US$300 million to increase long-term financing options for small businesses and individual entrepreneurs looking to implement green technologies to improve their operating efficiencies and reduce their environmental impact. Through this program, NADBank will provide green loans to small- and medium-sized financial intermediaries, for subsequent lending to eligible green projects, as defined by a pre-established taxonomy. The program will help NADBank extend its reach and environmental benefits to underserved areas as local and regional intermediaries are in a better position and can more efficiently lend to small businesses and projects. It is also expected to support ESG capacity building for smaller financial institutions.

Increasing access to green financing for smaller projects

The program is grounded in a Green Loan Framework that defines the project categories eligible for financing. It is designed to ensure that all loans awarded under the program are eligible under the NADBank charter and aligned with best market practices as outlined by the International Capital Market Association (ICMA) 2020 Green Bond Principles, the Loan Market Association (LMA) 2020 Green Loan Principles and the United Nations Sustainable Development Goals.

Prior to year-end, a US$20-million credit line was approved and partially executed with a Mexican financial institution to fund its lending operations within the 300-kilometer border region in Mexico. At least half of the loan proceeds are expected to be used to fund water conservation and energy efficiency improvements in the agriculture sector.

Program Criteria

- *Qualified borrower:* Financial entities that meet the minimum financial requirements established under the program.
- *Green loan:* Up to US$30 million per obligor at any time for terms not to exceed 12 years.
- *Sub-loans:* Not to exceed US$5 million per project or obligor.
- *Project location:* Eligible green projects must be located within NADBank's geographic jurisdiction.

Eligible Green Project Categories

- Water and wastewater management
- Energy efficiency
- Renewable energy
- Sustainable buildings
- Sustainable food value chains
- Mobility
- Sustainable waste management
- Sustainable industrial parks
- Green manufacturing and products

Project Financing

NADBank ended the year with close to US$344.3 million in financing approved to support the implementation of 11 projects, consisting of US$342.7 million for eight new projects certified during the year and US$1.5 million in additional grant funding for three water projects approved in prior years, as detailed in the table below.

TABLE 1: 2022 Financing Activity

(Million USD)	Approvals		Disbursements	
	Financing	Projects	Financing	Projects
By Sector[1]				
Water	$ 180.91	6	$ 12.13	19
Solid waste	0.45	1	–	–
Air quality	63.00	1	63.00	1
Sustainable energy	65.70	1	3.04	2
Sustainable food value chains	20.00	1	10.12	1
ProRec	14.20	1	13.87	1
Total	**$ 344.26**	**11**	**$ 102.16**	**24**
By Program				
Loans	$ 328.37	6	$ 90.03	5
CAP[2]	0.45	1	0.80	5
BEIF[3]	15.44	5	11.33	14
Total[4]	**$ 344.26**	**12**	**$ 102.16**	**24**

[1] Water includes projects related to drinking water, wastewater and storm drainage; air quality refers to border crossing facilities; ProRec refers to projects financed through the COVID-19 Recovery Program.

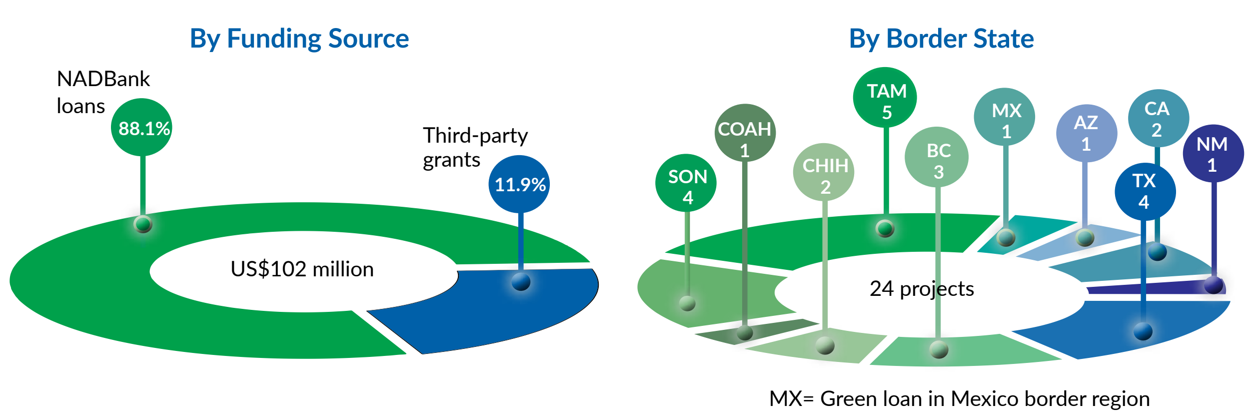
[2] NADBank Community Assistance Program (CAP). In 2022, a grant provided by the U.S. Department of State covered CAP disbursements.

[3] Border Environment Infrastructure Fund (BEIF) funded by the U.S. Environmental Protection Agency (EPA) and administered by NADBank.

[4] One water project was approved to receive both a loan and a BEIF grant.

During the course of the year, NADBank disbursed US$102.2 million in loans and grants to support the implementation of 24 environmental infrastructure projects, including US$12.1 million in grants in the water sector provided by the U.S. Environmental Protection Agency (EPA) and the U.S. Department of State.

FIGURE 1: Loan & Grant Disbursements in 2022



Disbursements were spread across nine of the ten border states within the geographic jurisdiction of the Bank. While 62% of the funds disbursed went to support an air quality project aimed at relieving regional traffic congestion and related emissions at border crossings between Texas and Tamaulipas, 79% of the projects funded were related to improving water, wastewater and stormwater systems in eight states.

BOX 3: Administered Water Programs

Since its inception, a core objective of NADBank has been to increase access to safe drinking water and eliminate unsanitary water conditions in the U.S.-Mexico border region. Joining the Bank in this endeavor, the Environmental Protection Agency (EPA) has provided grant funding since 1997 to support high-priority public drinking water and wastewater infrastructure projects located within 100 km of both sides of the border.

Leveraging funding to preserve our most vital resource—water

This funding is channeled through the NADBank Border Environment Infrastructure Fund (BEIF), which provides grants for project implementation, and through the Project Development Assistance Program (PDAP), which supports the planning and design of projects that have been prioritized to receive a BEIF grant. In addition, the Mexican federal water agency, Comisión Nacional del Agua (CONAGUA), has been instrumental in supporting the financing and implementation of the projects located in Mexico.

BEIF

To date, 122 water and wastewater projects partially funded with BEIF grants have completed construction and are in operation, benefitting an estimated 7.5 million border residents. Those projects represent a total investment of close to US$2.0 billion, with BEIF grants covering just over 33%. NADBank also provided loans totaling US$129.8 million for 36 of those projects. At year end, 16 projects partially funded with US$59.3 million in BEIF grants were in construction or preparing to begin construction.

TABLE 2: BEIF Financing Activity

	Million USD	Projects
2022		
Approved	$ 15.5	5
Disbursed	11.3	14
Cumulative		
Approved	$ 713.7	138
Disbursed	678.2	134

PDAP

In 2022, NADBank approved nearly US$1.3 million in PDAP grants to support the development of infrastructure projects or strengthen the institutional capacity of the water utilities for 11 border communities. During the course of the year, PDAP-funded studies were completed for 11 infrastructure projects, including two projects that have already been approved to receive a BEIF grant. As of December 31, 2022, there were nine PDAP-funded studies in process with a total grant commitment of US$1.6 million for the development of eight water and/or wastewater projects.

Projects Making a Difference in 2022

During 2022, five projects were fully implemented and began operations in Mexico, benefitting more than 1.85 million border residents. These projects represent a total investment of US$33.7 million, with NADBank providing approximately 79% of the financing. Additional information regarding NADBank-funded projects can be found on its website (www.nadb.org.)

Multiple environmental benefits from wastewater treatment improvements

Rehabilitation and Upgrade of the North and South Wastewater Treatment Plants
Chihuahua, Chihuahua

Improvements to the treatment processes are helping ensure that the two plants continue to serve this community of 809,200 residents in compliance with federal standards, while producing more consistent and reliable effluent for reuse in irrigation and industrial purposes, as well as reducing waste and air pollution. The installation of a 1.4-megawatt cogeneration facility has the capacity to supply nearly 71% of the electricity required to operate the South Plant, offsetting the energy consumed from the public grid and thus helping prevent the emission of an estimated 9,583 metric tons/year of carbon dioxide, among other pollutants. Likewise, improvements to the sludge management system in the South Plant will reduce the amount of sludge generated, while replacing the disinfection systems in both plants has improved plant safety by eliminating the risks associated with handling chlorine gas.

> “The project has had a positive impact, including treating 100% of the wastewater collected by the municipal sewer system, complying with the applicable regulations and saving drinking water by reusing treated water for public urban purposes. We will also see a savings in energy use by generating electricity from biogas produced during wastewater treatment.”
>
> – Dr. Mario Olmos Márquez
> Head of Sanitation
> Chihuahua water utility
> (JMAS)

Ensuring safe and reliable water service

Drinking Water System Improvements
Magdalena, Sonora

"Through this project, we have so far been able to increase residential metering from 3.3% to 32.5%, which is helping us detect household leaks and reduce residential water consumption in these three sectors."

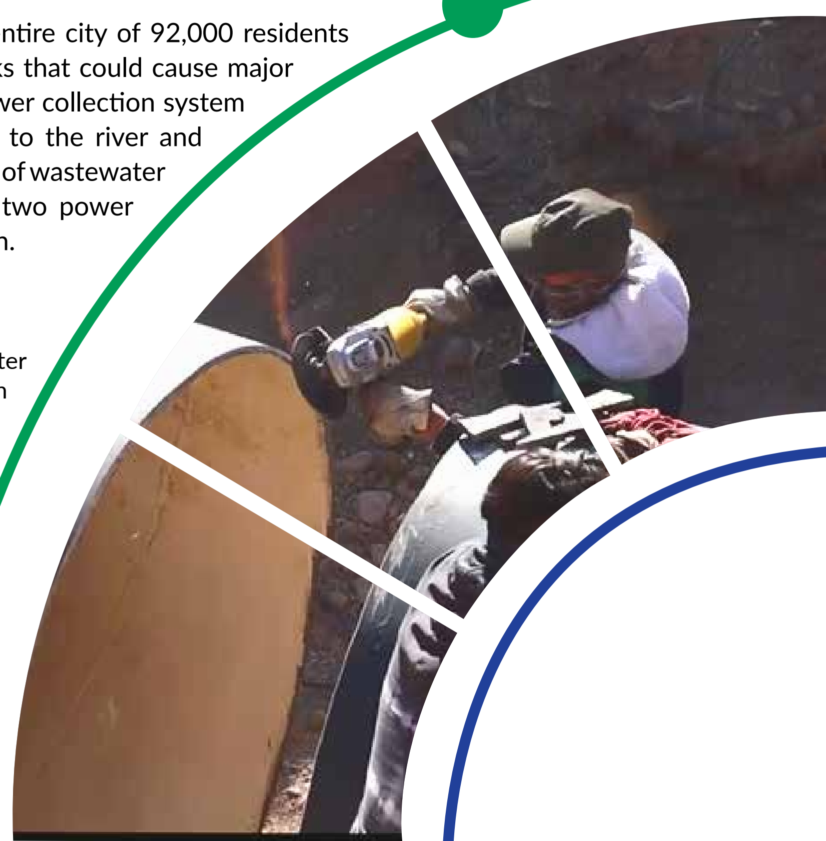
– Irma Gabriela Villalobos Herrera
General Manager
Magdalena water utility (OOMAPAS)

Three new water transmission lines and the replacement of deteriorated and undersized distribution lines, among other system improvements, are providing safer and more reliable drinking water service for approximately 12,200 residents in the San Isidro, Fátima and El Polvorín neighborhoods by eliminating leaks, regulating pressure and introducing redundancy in the distribution system. The project is expected to prevent an estimated 264 million gallons a year in water losses, as well as the risk of cross-contamination from leaks and stagnant water in the lines.

Local river and residents protected from potential sewage spills

Replacement of the Main Outfall in the Wastewater Collection System
Agua Prieta, Sonora

A 1.5-mile section of the sewer main serving the entire city of 92,000 residents was replaced, greatly reducing the risk of line breaks that could cause major sewage spills to the Agua Prieta River. The city's sewer collection system discharges to the main outfall, which runs parallel to the river and conveys approximately 5.7 million gallons a day (mgd) of wastewater to the Agua Prieta treatment plant, as well as to two power plants to be treated and reused for power generation.



"With the investment of NADBank and the National Water Commission, the existing main outfall was replaced, which has improved the wastewater collection and treatment system of the city of Agua Prieta by eliminating wastewater spills onto roads and preventing contamination of the Agua Prieta River, thus providing a better quality of life and environment for residents."

– David Armando Márquez Samaniego
General Manager,
Agua Prieta water utility (OOMAPAS)

Flood controls shielding Rio Grande from potential contamination

Stormwater Infrastructure Improvements
Ciudad Acuña, Coahuila

Improvements to two major stormwater channels are not only reducing the risk of flooding for an estimated 8,210 residents in the surrounding neighborhoods, but are also protecting a major sewer main, which due to erosion in both channels, was vulnerable to collapse. Consequently, the project is preventing the potential discharge of up to 11.4 million gallons a day of raw sewage from flowing into the Rio Grande, thereby indirectly benefitting the entire local population, as well as communities downstream on both sides of the border who depend on the river for their water supply.

“During 2014, we had significant flooding that severely damaged numerous neighborhoods, as well as the La Misión and Santa Martha drains. Then, in 2015, our city was hit by a tornado that killed 13 residents and resulted in huge property losses. Under those tragic circumstances NADBank contacted the municipal government and provided grant funding to help us rebuild our infrastructure to channel surface runoff properly, in addition to minimizing risks to the life and property of the people of Acuña.”

– Emilio A. De Hoyos Montemayor
Mayor, Ciudad Acuña, Coahuila

Helping water utility cope with economic fallout from pandemic

Refinancing of Existing Debt for Agua de Hermosillo
Hermosillo, Sonora

Through the COVID-19 Recovery Program (ProRec), NADBank refinanced $269.4 million pesos (US$13.9 million) in existing debt at a lower interest rate for the local water utility, Agua de Hermosillo. This transaction is expected to reduce the utility’s debt service obligations by approximately $19 million pesos (US$928,00) during the first year of the loan. The annual savings can be redirected to support the maintenance and ongoing operation of existing water services for the 924,700 residents of Hermosillo.

“With this transaction, we have freed up approximately $1.6 million pesos a month or an additional $35 million pesos for the remainder of this administration, equivalent to the installation of approximately 24,000 residential meters. However, the greatest benefits will be seen in the next two administrations, with savings of more than $160 million pesos.”

– Renato Ulloa
Director General, Hermosillo water utility (AguaH)

Technical Assistance and Capacity Building

Advancing partnerships and knowledge for sustainable development

Technical assistance has served as a linchpin in advancing NADBank's mission by fortifying sustainable project development, building the institutional capacities of border communities, generating knowledge on new technologies and emerging issues, and forging strong collaborative relationships among stakeholders at all levels of government, as well as with civil organizations, academia and the private sector.

During the year, 51 communities benefitted from technical support for the planning and development of environmental infrastructure projects or to strengthen their institutional capacity to manage and operate public services. A total of 22 studies, seminars and other activities were completed with a total investment of just over US$2.4 million. These initiatives were collaborative efforts supported by federal and state agencies, as well as local utilities, with about 78% of the cost covered by grants from NADBank through its Technical Assistance Program (TAP) and Utility Management Institute (UMI), which in 2022 were funded by the U.S. Department of State, or through PDAP, which is funded by EPA and managed by NADBank.

As indicated in Table 3, the majority of the technical assistance was used to support the development of 17 infrastructure projects in the priority sector of water—mainly to develop final designs and related engineering reports, analyze alternatives and perform environmental impact studies.

In addition, through UMI, the Bank presented four virtual seminars specifically targeted to the institutional strengthening of water utilities or water management issues (Box 4). Altogether, 582 people registered for the four webinars, with approximately 78% registering for all four sessions. The participants represented 34 border communities, as well as 19 U.S. and Mexican communities outside the border region, thanks to the online format of the seminars.

TABLE 3: 2022 Technical Assistance Activity

	Activities Completed	NADBank (USD)
Total	**22**	**$ 1,888,896**
By Type		
Project development	16	$ 1,825,046
Capacity building	4	8,850
Sector development	1	25,000
ProRec	1	30,000
By Sector[1]		
Water	17	$ 1,615,031
Air quality	3	178,361
Sustainable energy	1	65,504
ProRec	1	30,000
By Program[2]		
TAP	6	$ 495,765
UMI	4	8,850
ProRec	1	30,000
PDAP	11	1,354,281

[1] Water includes initiatives and seminars related to drinking water and wastewater; air quality includes mobility and emission studies; ProRec refers to activities financed through the COVID-19 Recovery Program.

[2] NADBank Technical Assistance Program (TAP) and Utility Management Institute (UMI); and Project Development Assistance Program (PDAP) funded by EPA and administered by NADBank.

In the area of air quality, the Bank supported efforts to assess and monitor air emissions impacting three U.S. counties and two Mexican municipalities, as well as explored ways to optimize urban mobility at an international crossing. In the latter case, the study identified several low-cost measures to facilitate traffic flows that could be implemented in the short term, without requiring large investments in new infrastructure. The Bank also supported the development of the final designs for the construction of covered parking using solar panels, which in addition to the benefits of generating clean energy, also optimizes the use of a developed area by creating shade and protecting vehicles from the elements.

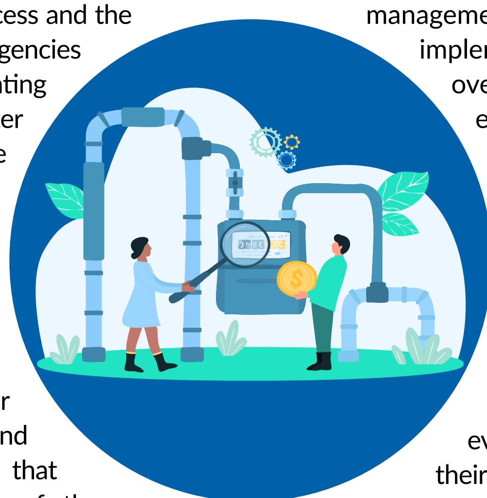
BOX 4: Capacity Building in Water Management

Guide to Achieve a Credit Rating from Rating Agencies

Presented by Fitch Ratings, the seminar focuses on understanding the rating process and the criteria and risks that rating agencies analyze in assigning a credit rating to public and private water utilities in Mexico and the United States.

Water Policy and Governance through Demand Management: Case of Tucson, AZ

Examines state, regional and local water management policies and programs implemented in the City of Tucson over several decades and their effectiveness in reducing water demand.



Updating Rate Structures – Water and Wastewater Services

Looks at the elements utilities should consider when establishing a viable and sustainable rate structure that covers the operating costs of the utility, is accessible for users and promotes conservation.

Are You a Traditional or Modern Water Utility? – A Quick and Easy Evaluation Calculator

Provides a tool to help utilities evaluate the performance of their drinking water system, identify areas of opportunity to improve system management and prioritize investments.

The materials presented in these UMI webinars are available on the NADBank website.

Addressing Air Quality & Mobility Issues along the Border

Assessment of Emissions and Environmental Benefits at Ports of Entry in Hidalgo County, TX

The study estimated the net difference in emissions in the region by comparing current emissions and wait times at the fourth busiest port on the U.S.-Mexico border versus the emissions resulting from diverting part of that traffic to two other ports of entry. The study results, which took into account both northbound and southbound traffic, showed that in the first year of operation this diversion would result in a net reduction in the emission of greenhouse gases and criteria pollutants from commercial traffic in the region, including approximately 19,563 metric tons of carbon dioxide (CO_2), 131 metric tons of nitrogen oxides (NOx) and 54 metric tons of carbon monoxide (CO).

Study for Optimizing Urban Mobility at International Crossing No. 1 in Downtown San Luis Rio Colorado, Son.

The alternative recommended as the best solution for its low cost and rapid implementation consisted of redirecting traffic flows and changing traffic signals, along with a series of complimentary actions: prohibiting parking in the vicinity of the crossing, implementing a bicycle path and constructing a modal transfer center and satellite parking lots. Constructing a bypass that diverts traffic from the immediate vicinity of the crossing was also recommended as a medium- or long-term solution.

Air Quality Monitoring Fund for the Juarez-El Paso-Doña Ana Air Basin

Under a cooperative agreement with the Texas Commission on Environmental Quality (TCEQ), a fund was established within NADBank to support air quality monitoring actions in the Paso del Norte air basin formed by municipality of Juarez, Chihuahua, El Paso County, Texas and Doña Ana County, New Mexico. NADBank matched the initial US$25,000 donation made by TCEQ to cover the operation and maintenance of existing monitoring stations in Ciudad Juarez for six months. Additional donations from the Paso del Norte Community Foundation and from TCEQ through an EPA grant will be used to purchase more air quality monitoring equipment and to continue monitoring services.

BOX 5: Border 2025: U.S.-Mexico Environmental Program

Supporting bilateral efforts for a clean and healthy border

This binational program was developed by EPA and its Mexican counterpart, Secretaría de Medio Ambiente y Recursos Naturales (SEMARNAT) to improve the environment and protect the health of the millions of residents within 100 kilometers of both sides of the U.S.-Mexico border. NADBank provides logistical and administrative services with respect to identifying, contracting and managing projects and workshops funded by EPA under the program.

The first 19 initiatives to be funded under Border 2025 were selected in 2022 to receive close to US$1.3 million in funding and are currently in process. These initiatives cover the entire spectrum of goals under the program (Table 4). In addition, an initiative to reduce environmental exposure to lead in children was approved as a fundamental health strategy that complements efforts to fulfill the Border 2025 mission.

TABLE 4: Border 2025 Initiatives Approved in 2022

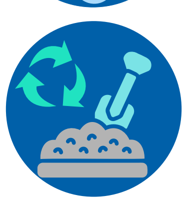
Goal	Initiatives	Border 2025 (USD)
1. Reduce air pollution	5	$ 345,193
2. Improve water quality	8	541,342
3. Promote sustainable waste management	4	247,141
4. Improve joint emergency preparedness	1	63,224
* Fundamental health strategy	1	84,000
Total	**19**	**$ 1,280,900**

During the same period, the last five initiatives funded through the previous Border 2020 Program were completed for a total cost of US$728,118 in benefit of four border communities. Border 2020 funding covered 50% of the cost, with the remainder covered by the respective sponsors. More information about the Border 2020 and 2025 programs is available on the EPA website at www.epa.gov/border2020.

Highlights of the Iniatives Completed in 2022

Inventory of the Emissions from the Coal-fired Power Plants in Nava, Coahuila, which identified and calculated the level of pollutants released into the air and their area of dispersion throughout the year. Communities that require air quality monitoring were identified, and outreach materials on air quality and its impacts on health were developed and are currently being disseminated.

Our Water, Our Future: A Transboundary Water Care Project in Ciudad Juarez, Chihuahua, which established a permanent interactive exhibit for children and the general public in the La Rodadora Interactive Museum to promote and encourage awareness with respect to the efficient use of water resources. Among the activities developed is an outreach campaign that calls on children to become "Water Guardians," committed to monitoring water use in their school, home or other places and promoting water conservation activities.



Sustainable Use of Biosolids through Composting in Ciudad Juarez, Chihuahua, which used the sludge from wastewater treatment processes and organic waste from park maintenance (pruning) to produce compost appropriate for use in green areas, as well as established the technical capacities to continue the program. The drought-resistant characteristics of the compost also reduces irrigation requirements.

COMMUNITY Impact

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

As of December 31, 2022, 267 environmental infrastructure projects financed by NADBank were in operation and already helping an estimated 18 million people in the region achieve a better quality of life in a variety of ways, whether it is 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.

Many of the projects are also helping the border region reduce greenhouse gas emissions and increase resilience to climate change. Climate mitigation benefits stem mainly from renewable energy and energy efficiency projects, while climate adaptation benefits arise mostly from stormwater and water conservation projects. Some water projects also include energy efficiency components that contribute to emission reductions (e.g., cogeneration systems, reduced pumping requirements).

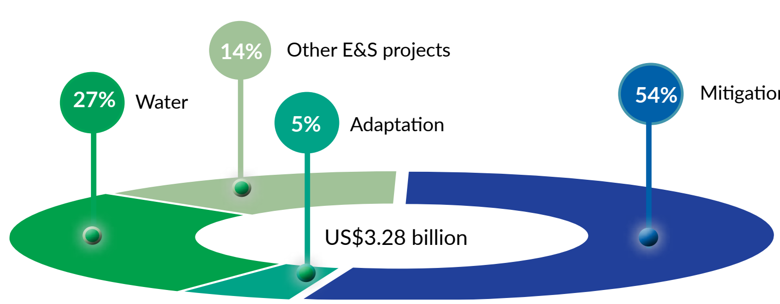
TABLE 5: Completed Projects by State 1995-2022

(Million USD)

	Population Benefitted	Total Projects	NADBank Disbursed
UNITED STATES			
Arizona	149,668	23	$ 205.80
California	1,686,641	26	435.67
New Mexico	178,061	11	41.44
Texas	957,392	70	708.96
Subtotal U.S.	**2,971,762**	**130**	**$ 1,391.87**
MEXICO			
Baja California	2,840,000	29	$ 362.71
Chihuahua	2,713,324	32	188.28
Coahuila	1,061,898	9	122.47
Nuevo Leon	4,586,048	11	273.61
Sonora	2,125,852	32	385.74
Tamaulipas	2,117,804	21	478.29
Border region		3	76.64
Subtotal Mexico	**15,444,926**	**137**	**$ 1,887.74**
TOTAL	**18,416,688**	**267**	**$ 3,279.61**

It is also important to note that most of the projects funded by NADBank have been a collaborative effort supported by equity investments from project sponsors, grants from state and federal agencies and loans from co-financing partners, among others. The total investment in these projects is close to US$10 billion, with every dollar invested by NADBank leveraging approximately two dollars from other funding sources.

FIGURE 2: NADBank Financing With Climate Change Benefits



Mitigation includes renewable energy generation, energy efficiency, biofuel production and mobility. Adaptation consists of water conservation and storm drainage projects. Water consists of drinking water and wastewater projects. Other environmental and social (E&S) projects.

Water

Objectives:

- Increase access to sustainable and safe drinking water and eliminate exposure to unsanitary water conditions by collecting and treating wastewater.
- Conserve freshwater resources in the semi-arid and drought-prone border region.
- Provide adequate stormwater infrastructure to prevent flooding and contaminated runoff and to harness rainwater for beneficial uses.

Projects:

175 projects in operation

- 147 water and/or wastewater
- 24 water conservation
- 4 storm drainage

Investments:

- US$2.6 billion in total investments
- US$1.1 billion in NADBank disbursements

Environmental and Social Benefits:

13.5 million people benefitting in 120 communities

1,988 miles of pipeline installed, more than the entire length of the border—350 miles of waterlines and 1,638 miles of sewer lines

66 wastewater treatment plants built, expanded or rehabilitated with sufficient capacity to serve 9.3 million people

329 million gallons a day of wastewater discharges eliminated or prevented, equivalent to the volume generated by 6.4 million people

524 cubic feet per second of water being saved for irrigation districts and municipal water systems, sufficient to supply 4.5 million people

108 million gallons of reservoir capacity for stormwater, equivalent to about 191 Olympic swimming pools

Solid Waste

Objectives:

- Promote comprehensive waste management systems, including recycling and waste reduction efforts.
- Support proper waste disposal facilities to protect groundwater resources, prevent soil and air pollution and control the proliferation of disease-carrying rodents and insects.

Projects:

26 projects in operation

Investments:

- US$49.6 million in total investments
- US$22.2 million in NADBank disbursements

Environmental and Social Benefits:

3.5 million people benefitting in 40 communities

17 sanitary landfills built or expanded for proper disposal of municipal waste

13 open-air dumpsites closed, preventing wind-blown litter, fires and proliferation of disease-carrying vectors

164 vehicles purchased for waste collection or disposal

3,386 metric tons a day of new waste management capacity in landfills

29,730 cubic meters/year of sludge diverted from landfills, equivalent to loading 10 dump trucks a day for an entire year

BOX 6: Waste Management Impact Assessment

Solid Waste Landfill Expansion, Transfer Station Improvements and Equipment Replacement Project in Doña Ana County, New Mexico

The 12-month study carried out by the Udall Center for the Study of Public Policy at the University of Arizona concluded that NADBank funding arrived at a critical time to support necessary facility upgrades in the Corralitos Regional Landfill operated by the South Central Solid Waste Authority (SCSWA), which allowed the entity to begin generating revenue rather than operating at a deficit. From that important turning point, SCSWA was able to transition from a local utility into a regional sanitation system and introduce more sustainable solid waste management practices, including curbside recycling and reuse programs that have been recognized nationwide.

Key results of the study, along with recommendations for ongoing improvements, are summarized below. The full report is available on the NADBank website (Doña Anna County Impact Assessment).

Project Data	
Certified	June 2003
Completed	Sept. 2005
Total investment	US$3.1 million
NADBank funding:	US$2.5 million
Loan	US$1,510,000
Grant	US$ 999,660
Population benefitted	174,682

Study Results	Recommendations
The assessment found no observable adverse impact on ground and surface water quality, indicating the landfill was properly designed and built to prevent contamination from leachates.	Continue innovating in terms of managing unusual types of waste to minimize potential exposure to unknown materials that carry a higher risk of toxicity but are often thrown into household or commercial waste streams.
Waste management capacity increased 68.5%, from 131,000 tons in 2004 to 191,831 tons in 2021.	Create a centralized, electronic data management system to facilitate trend analyses.
Based on the results of a community survey, 72% of respondents were generally satisfied with solid waste management services and 80% felt their quality of life with respect to those services had improved over the past two decades.	Develop site-based disaster management planning to mitigate erosion and contaminated sediment, implement additional storm event-based water monitoring and provide improved wind barriers to prevent litter escaping due to heavy winds.
	Improve communication regarding waste management successes and project completions

Objective:

- Support efforts to reduce the emission of greenhouse gases and other airborne pollutants produced by industrial processes, motor vehicles and fossil fuel-based power plants

Projects:

60 projects in operation

- 38 sustainable energy
- 19 roadway improvements
- 3 mobility

Investments:

- US$7.2 billion in total investments
- US$2.1 billion in NADBank disbursements

Environmental and Social Benefits:

10.3 million people benefitting in 48 communities

3.2 gigawatts (GW) of generation capacity installed from renewable sources, sufficient to supply the annual demand of 750,000 households

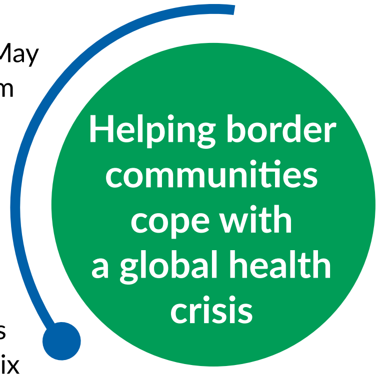
12.6 million square meters of streets paved or rehabilitated

785 buses with cleaner technology

4.5 million metric tons a year of carbon dioxide (CO_2) emissions avoided, equivalent to removing 1 million cars from the road

13,493 metric tons a year of suspended particulate matter (PM_{10}) avoided

BOX 7: Final Results of COVID-19 Recovery Program



In light of the economic crisis caused by the global pandemic, in May 2020, the Board of Directors approved a two-year financing program to support projects that have both environmental benefits and direct positive impacts on the economy and well-being of residents in the U.S.-Mexico border region. A maximum of US$200 million was allocated to the program, with up to US$15 million set aside for technical assistance initiatives.

The program concluded at the end of 2022, with seven projects approved to receive up to US$63.7 million in loan financing. Six refinancing projects totaling US$49.2 million were fully executed for three U.S. communities and two water utilities, one in each country. These six projects are expected to save a combined US$1.7 million in debt service obligations in the first year of the loans, easing liquidity constraints caused by the pandemic and lessening the need to raise rates or taxes to continue providing crucial public services.

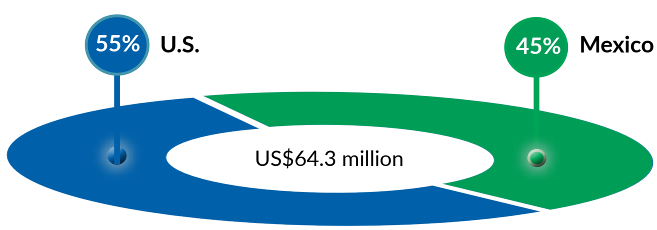
The last project consists of building a hospital and a medical specialties center in Sonora focused on serving seasonal agricultural workers. The project will incorporate sustainable construction techniques and thermally efficient building materials. As a result, the buildings are expected to use 43% less water than a typical healthcare facility and 18% less electricity. The financing agreement for the US$14.2 million loan is expected to be executed in early 2023.

Detailed information about the completed projects and those still in process is available on the NADBank website (www.nadb.org.)

With respect to technical assistance, a total of US$580,000 was approved to support two communities in the United States and one community in Mexico. Of that amount, US$80,000 in grant funding was used to help cover the financial costs associated with the debt refinancing for two communities in Texas. In addition, a US$500,000, reimbursable grant was contracted with a microbank in Baja California to facilitate access to affordable financing for vulnerable populations. With these funds, the microbank expects to finance approximately 250 home improvement and small business loans to help address the lack of adequate housing and develop more employment opportunities, especially for rural and indigenous communities.

FIGURE 3: ProRec Funding By Type And Country

	Mexico	U.S.
Financing	$ 28.41	$ 35.30
Technical assistance	0.50	0.08
Total	**$ 28.91**	**$ 35.38**



CONTINUED GROWTH in Green Initiatives

For more than two decades NADBank has been committed to carrying out its mission of promoting and investing in infrastructure that helps protect, preserve and enhance the environment and quality of life of residents in the U.S.-Mexico border region. In 2022, the Bank strengthened its support for global initiatives to combat climate change by creating new financing tools and incorporating the latest international environmental, social and governance (ESG) standards into its policies and procedures, as highlighted below.

Facilitating the transition to a greener, more sustainable border region

Green Finance

Creation of Green Loan Program

The Bank established this program to extend its financing to small businesses and individual entrepreneurs by supporting financial intermediaries in their efforts to provide financing for a greater number of small projects that have a positive impact on the environment. For this purpose, the Bank developed its Green Loan Framework, which defines eligible project categories under this program, as well as project evaluation and reporting requirements, and is aligned with green financing standards accepted and followed internationally (Box 2).

Supporting Subnational Entities in Green Finance

The Bank worked with the State of Baja California and the Mexican Ministry of Finance and Public Credit to develop a sustainability framework for financing water and wastewater projects statewide. This innovative financial instrument promotes accountability and transparency with respect to the expected outcomes of infrastructure investments, as well as facilitates the expedited financing of municipal infrastructure works. Recognizing the environmental, social and financial advantages of this approach, NADBank will work with other Mexican border states to develop similar financing instruments.

Peso Debt Aligned with Green Framework

Taking advantage of prevailing market conditions, NADBank contracted US$100 million in debt denominated in Mexican pesos, which will help lower the cost of lending to projects in Mexico. This transaction also included provisions to align the use of the debt proceeds with the NADBank green bond framework, making it a bona fide sustainable investment vehicle for the private investor, similar to its green bonds.

Enhanced ESG Risk Management

ESG Risk Scoring

NADBank strengthened its ESG scoring methodology by incorporating financial and reputational risks to ensure a more comprehensive assessment. This standardized risk assessment tool is used in conjunction with the internal loan credit ratings for decision-making throughout the project approval process, as well as for monitoring potential risks during project implementation and operation.

Updates to Environmental and Social Risk Management System (ESRMS)

NADBank conducted a comprehensive assessment of its existing project due-diligence process and is implementing updates to improve the evaluation and documentation of potential environmental risks during project implementation, as well as to incorporate a standardized analysis of potential social risks, including gender-related issues.

Disclosures and Transparency

NADBank is committed to the transparent disclosure of all relevant information regarding its operations and project investments and is constantly working to enhance its disclosure practices and align them to international standards.

- **Green Bond Reporting** – NADBank further strengthened the merits of its 2022 Green Bond Impact Report by aligning the environmental results with the United Nations Sustainable Development Goals and support for the Nationally Determined Contributions of the U.S. and Mexico under the Paris Agreement. To date, NADBank has issued three green bonds totaling US$478 million, and the last of the proceeds were fully allocated to eligible projects prior to year-end.

  NADBank is proud to note that in 2022, the Climate Bonds Initiative (CBI) ranked NADBank's 2021 Green Bond Impact Report among the top two for development banks worldwide.

- **TCFD Reporting** – Since 2020, NADBank has included Task Force on Climate-related Financial Disclosures (TCFD) in its annual reports. This section summarizes the Bank's climate-related investments and outlines the activities undertaken to gear its operations toward a lower carbon economy (page 35).

- **OECD TOSSD Reporting** – Since 2020, NADBank has supported the Organization for Economic Cooperation and Development (OECD) by reporting its sustainable development investments for inclusion in its Total Official Support for Sustainable Development (TOSSD) system.

MANAGEMENT DISCUSSION and Analysis of Financial Results

Executive Summary

During 2022, the diversification of the development asset portfolio continued, while prepayments tapered, and the project pipeline strengthened. Sustainable energy development assets were down to 66% of the total portfolio by year end, from 71% in 2021. As interest rates climbed, prepayments fell to $133 million in the three prior years. With a deeper commitment to green infrastructure and the growing trend in sustainable nearshoring, the Bank's pipeline at the end of the year suggests significant disbursements in water-related projects in the coming year. The quality of the development asset portfolio remained high, with no impaired loans.

At the end of the year, NADBank established the Environment Investment and Capacity Facility (EICF) to hold its grant programs for project implementation and technical assistance purposes, including funds provided by third-party donors. Following its first peso-denominated debt transaction, NADBank reached an important

FIGURE 4: Total Assets

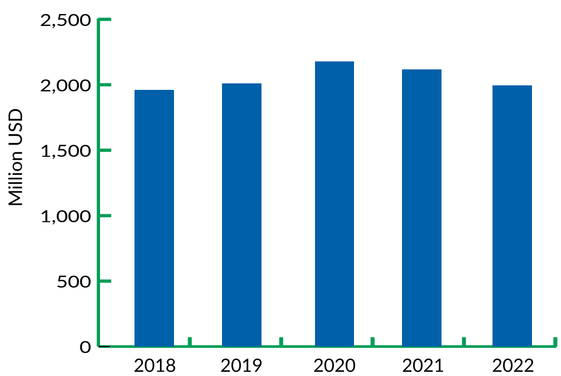


FIGURE 5: Composition of Assets

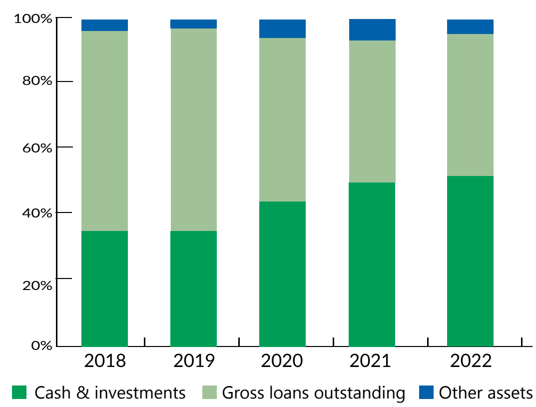


FIGURE 6: Total Liabilities and Equity

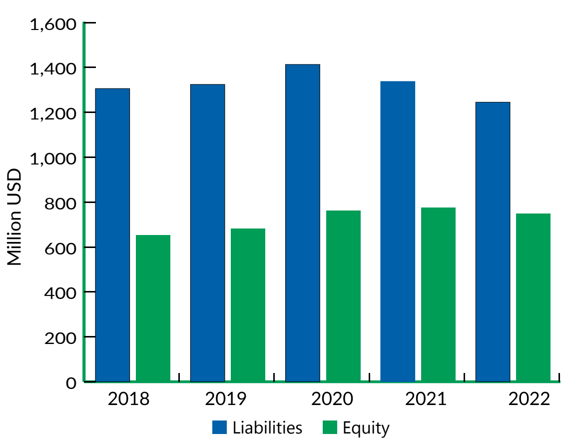
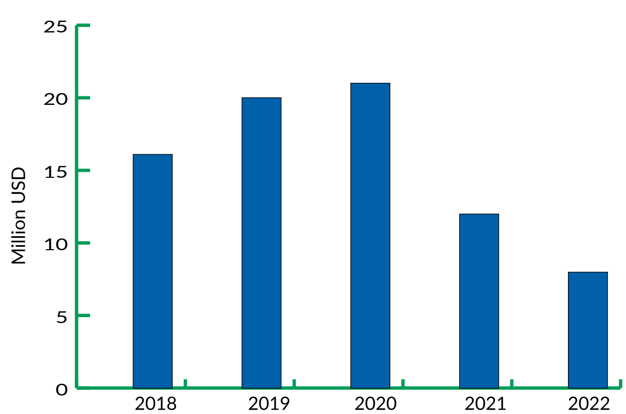


FIGURE 7: Operating Income



milestone by establishing a Mexican peso-denominated treasury. This landmark financing was recognized by a global investment bank for its innovation. The Bank continues to meet the requirements of its credit, liquidity and debt policies.

NADBank's balance sheet is well-capitalized, liquid and invested in high quality development assets and securities. The development asset and investment portfolios represent the majority of its $2.0 billion in assets, as shown in Figure 5. Despite the reduction in prepayments and more than $90 million in loan disbursements, the loan book declined by $56 million or 6% compared to 2021 due to scheduled payments, driving the decline in total assets depicted in Figure 4 above. The capital position of the Bank continued to improve, as debt fell in absolute terms and relative to equity, a trend begun in 2020. At the same time, Figure 7 illustrates the resilience of the Bank's operating income, despite a reduced development asset portfolio and the impact of interest rates, which although rising, were below long-term average levels for most of the year. Opportunities for growth come from increased public awareness of the need for investment in water infrastructure, as well as the Bank's deepening commitment to support climate-change mitigation and adaption efforts and address the demands from sustainable nearshoring.

In 2022, NADBank disbursed US$104.3 million, driven mostly by loans for five infrastructure projects. NADBank ended the year with eight new projects certified to receive up to US$342.7 million in financing, including one CAP and two BEIF grants. New lending totaled US$90 million and included the first financing operation for sustainable food value chains and the expansion of a land port of entry.

Beyond the loan program, self-funded and administered grant disbursements in 2022 totaled US$14.3 million, up 14% from a year earlier. With the establishment of the EICF, the Bank has further expanded the information presented on all the grant programs.

The project pipeline at the end of 2022 is encouraging for disbursements in the coming year. As of December 31, 2022, the Bank was working with the sponsors of 37 potential environmental infrastructure projects seeking an estimated US$279.8 million in financing.

Table 6 shows the trend of loans, grants and technical assistance funded by NADBank for the last five years.

TABLE 6: Disbursements by Sector and Country

(Thousand USD)

	2018	2019	2020	2021	2022/[1]
Loans					
Water	$ –	$ –	$ 11,867	$ 27,804	$ –
Solid waste	–	2,845	–	–	–
Air quality	15,010	16,570	6,953	–	63,000
Sustainable energy	151,648	144,879	245	86,209	3,044
Urban development[2]	351	–	–	–	–
Sustainable food value chains	–	–	–	–	10,121
ProRec	–	–	32,095	3,200	13,865
Total loans	167,009	164,294	51,160	117,213	90,030
Mexico	160,657	161,449	13,275	4,759	23,986
United States	6,352	2,845	37,885	112,454	66,044
NADBank Grants[3]					
Water	$ 834	$ 405	$ 2,342	$ 352	$ –
Solid waste	1,535	77	28	–	–
Air quality	159	32	48	77	–
Sustainable energy	7	0	112	49	–
ProRec	–	–	50	–	30
Total NADBank grants	2,535	514	2,580	478	30
Mexico	2,069	210	574	217	–
United States	466	304	2,006	261	30
Third-party Grants[3]					
Water	$ 25,656	$ 11,983	$ 9,329	$ 11,646	$ 13,629
Solid waste	80	53	78	91	174
Air quality	178	218	197	259	198
Climate resilience	–	–	–	–	29
Sustainable energy	85	66	–	–	192
Sustainable buildings & industrial parks	–	–	–	–	25
Total third-party grants	25,999	12,320	9,604	11,996	14,247
Mexico	4,329	6,122	5,133	7,551	9,160
United States	21,670	6,198	4,471	4,445	5,087
Total loan & grant disbursements	**$ 195,543**	**$ 177,128**	**$ 63,344**	**$ 129,687**	**$ 104,307**
Mexico	167,055	167,781	18,982	12,527	33,176
United States	28,488	9,347	44,362	117,160	71,131

[1] As of December 31, 2022, lending operations of the Bank are reported in the Ordinary Capital Resources financial statements and the grant financing activities are reported in the EICF financial statements.

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

[3] Includes financing for infrastructure projects and technical assistance initiatives.

In addition to loans, technical assistance and grants funded internally, the Bank also administers third-party funds to advance its mission. EPA funds the BEIF program for the implementation of water and wastewater infrastructure projects, as well as two technical assistance programs: PDAP, which supports the development of water and wastewater projects; and the Border 2020/2025 Programs. Likewise, the Bank manages contributions from the Texas Commission on Environmental Quality (TCEQ) and the Paso del Norte Community Foundation to support air quality monitoring in the Paso del Norte air basin. In the last two years, NADBank also received funding from the U.S. Department of State for its CAP and TAP programs. Table 7 highlights the funds administered by the Bank over the past five years.

TABLE 7: Disbursements of Third-party Administered Funds

(Thousand USD)

	2018	2019	2020	2021	2022
By Program					
BEIF	$ 24,959	$ 10,723	$ 8,097	$ 8,980	$ 11,333
PDAP	617	977	1,101	1,044	1,080
Border 2020/2025	412	542	406	531	467
CAP	–	–	–	1,441	802
TAP/UMI	–	–	–	–	539
Air Quality Fund	–	–	–	–	18
Other	11	78	–	–	8
Total	$ 25,999	$ 12,320	$ 9,604	$ 11,996	$ 14,247

For the year ended December 31, 2022, NADBank delivered solid operational results as economic activity normalized following the COVID-19 pandemic, and the impact of high inflation and rising interest rates were felt globally.

Operating income for 2022 was US$8.2 million, a 33% decrease from US$12.3 million in 2021, mainly due to a smaller loan portfolio and inflationary impacts on operating expenses.

As of December 31, 2022, outstanding loans totaled US$920.3 million, a decrease of US$56 million from 2021, as discussed above.

Investments: Liquid investments decreased by 1.0% to $1,118.9 million at December 31, 2022 from a year earlier. The Bank's minimum liquidity requirement was US$298 million at the beginning of 2022. During 2022, return on liquid investments was 1.0% (0.5% in 2021).

External funding: In December 2022, the Bank entered into its first peso-denominated debt transaction with another financial institution for MXN$1,978 million (US$100 million), which will mature in 2027. The cost of borrowings for the year was 2.4% (1.3% in 2021), reflecting the first increases in interest rates since the pandemic.

Lending capacity: As of December 31, 2022, the lending capacity of the Bank was US$2,496 million, compared to US$2,590 million in 2021.

TABLE 8: Select Financial Data of NADBank

(Million USD)

	2018	2019	2020	2021	2022
Balance Sheet Data					
Total assets	$ 1,959.0	$ 2,007.5	$ 2,177.2	$ 2,114.6	$ 1,994.1
of which					
Gross loans outstanding	1,284.5	1,301.7	1,126.3	976.5	920.3
Cash & Investments	799.2	753.5	1,008.1	1,129.8	1,118.9
Total liabilities	1,306.0	1,324.5	1,413.4	1,337.7	1,245.3
of which					
Outstanding borrowings	1,314.6	1,309.3	1,126.0	1,120.7	1,065.5
Deferred U.S. capital contribution	-	-	165.0	165.0	165.0
Total equity	653.0	683.0	763.8	776.9	748.8
of which					
Paid-in capital	415.0	415.0	475.0	486.5	496.0
Retained earnings and reserves	228.9	258.6	273.5	285.6	286.6
Income Statement Data					
Interest income	$ 78.9	$ 84.3	$ 57.0	$ 47.1	$ 53.3
Interest expense	47.2	44.6	21.2	14.3	26.1
Operating expense	17.6	19.1	15.1	17.6	19.0
Operating income	15.8	20.5	20.6	12.3	8.2
Net income	21.1	29.7	14.9	12.1	1.0
Ratios					
Loans / Equity (%)	196.7	190.6	147.5	125.7	122.9
Assets / Equity (%)	300.0	293.9	285.1	272.2	266.3
Gross debt / Callable capital (%)	50.4	50.2	39.3	41.9	35.7
Liquid assets / Short-term debt (%)	15,184.5	295.2	19,151.1	729.2	21,255.8
Net income / Equity (%)	3.3	4.4	2.1	1.6	0.1
Operating income / Equity (%)	2.5	3.1	2.8	1.6	1.1
Non-accrual loans / Loans outstanding (%)	1.1	1.1	1.2	1.4	–
Operating expenses per $1 M outstanding loans ($)	13,680	14,663	13,410	17,973	20,698

Ratings

During 2022, Fitch Ratings upgraded NADBank's credit rating by one notch to AA+, and Moody's Investors Service affirmed its view of NADBank's credit rating at Aa1. Both agencies noted the strength and stability of NADBank's finances, the prudent management of credit, its sound capital and liquidity position, as well as its strong risk management practices and continued support from shareholders. A strong credit profile is a strategic priority for NADBank management since it serves as the basis of its low cost of funding and active lending.

TABLE 9: NADBank Credit Ratings

	2018	2019	2020	2021	2022
Fitch	AA	AA	AA	AA	AA+
Moody's	Aa1	Aa1	Aa1	Aa1	Aa1

Institutional Overview

NADBank was established on January 1, 1994, by an agreement between the Governments of the United States and Mexico (the Charter) to finance environmental infrastructure projects in the border region between the two countries. The Bank was designated as an international organization through an Executive Order of the president of the United States on March 16, 1994.

The Bank is governed by a Board of Directors appointed by the two governments (Appendix). The geographic area it serves extends 100 kilometers north of the U.S.-Mexico border in the U.S. states of Texas, New Mexico, Arizona and California and 300 kilometers south of the border in the Mexican states of Tamaulipas, Nuevo Leon, Coahuila, Chihuahua, Sonora and Baja California.

Unlike other multilateral institutions, NADBank does not exclusively finance federal governments or programs. It was created to provide financing to public and private entities for infrastructure projects that preserve, protect or enhance the environment in the border region.

Its main financing instruments are loans, grants and technical assistance. These instruments are funded by the Bank from three sources: borrowings from the capital markets and private placements; paid-in capital provided by shareholders; and accumulated retained earnings and reserves.

The Bank also administers grant funding provided by other entities. To facilitate lending to the Mexican public sector, the Bank established COFIDAN, a multipurpose financial institution. Its results are consolidated with those of the Bank.

Shareholder Support

In 2015, the Bank's shareholders approved a general capital increase (GCI) of US$3 billion. Following the capital increase, the Bank has US$6 billion in subscribed capital, composed of US$5.1 billion of callable capital and US$900 million of paid-in capital.

The Bank has received GCI contributions from both shareholders. To date, Mexico has contributed US$31 million in paid-in capital, of which US$9.5 million were received in 2022. Mexico has also unqualified US$175.7 million in callable capital. To date, the United States has contributed US$225.0 million in paid-in capital, of which US$165.0 million is restricted from commitment until corresponding payments are received from Mexico, and has unqualified US$255 million of callable capital.

TABLE 10: NADBank Capital

(Thousand USD)	2018	2019	2020	2021	2022
Total subscribed capital[1]	$ 6,000	$ 6,000	$ 6,000	$ 6,000	$ 6,000
of which					
Callable capital[2]	5,100	5,100	5,100	5,100	5,100
Qualified	2,493	2,493	2,238	2,173	2,119
Unqualified	2,607	2,607	2,862	2,927	2,981
Paid-in capital	415	415	475	487	496

[1] *Paid-in capital* consists of cash funds contributed to NADBank by the two governments. *Callable capital* is composed of funds that are pledged to be provided to NADBank from the two countries only if required to meet the Bank's guarantee obligations or obligations on borrowings of funds for inclusion in its capital resources as specified in the charter.

[2] *Qualified* capital shares are subject to the necessary legal requirements of each subscribing country. *Unqualified* capital shares have either been funded or authorized for purchase by the subscribing country.

As of December 31, 2022, total equity was US$748.8 million, a decrease of 4% compared to US$776.9 million at the close of 2021. The decrease was primarily due to the aforementioned increase in paid-in capital, US$1 million in net income and an accumulated comprehensive loss of US$33.8 million, itself related to temporary, non-cash differences in hedging operations.

External Funding

In December 2022, NADBank reached a significant milestone when it was able to start its Mexican peso treasury through a collateralized debt operation for MXN$1,978 million that will mature in 2027.

Like prior debt operations, this debt was contracted in line with the NADBank Green Bond Framework. As of December 31, 2022, none of the proceeds from this 2022 borrowing had been allocated, while the remainder of 2020 bond proceeds were fully allocated to eligible projects by year-end.

The NADBank Green Bond Framework is in line with the 2018 Green Bond Principles of the International Capital Market Association (ICMA) and has been reviewed and certified by an independent third party. Further details about the NADBank Green Bond Program and its allocations are available on the Bank website (Green Bond Impact Report).

As of December 31, 2022, total gross debt was US$1,065.5 million, a decrease of 5% compared to US$1,120.7 million at the close of 2021. The Bank's debt maturity schedule is shown in Figure 8.

FIGURE 8: NADBank Debt Amortization Profile

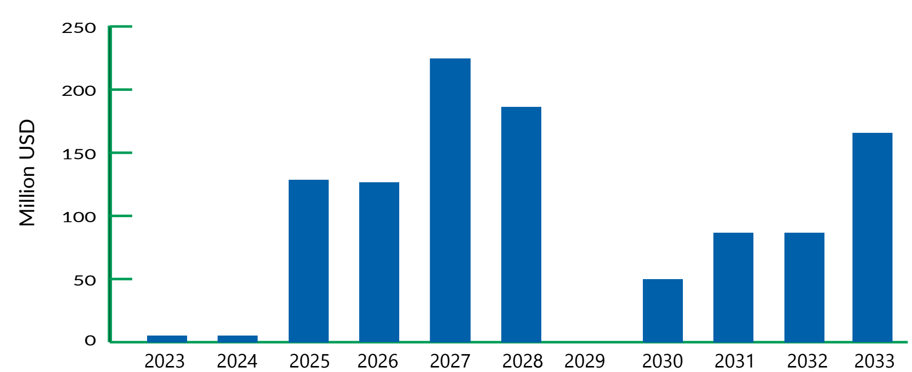


Table 11 shows gross outstanding debt by currency for the past five years. NADBank hedges the foreign exchange risk of debt that is not denominated in U.S. dollars.

TABLE 11: Gross Debt by Currency

(Million USD)	2018	2019	2020	2021	2022
USD	$ 761.6	$ 756.3	$ 221.1	$ 215.8	$ 60.6
CHF	379.6	379.6	731.5	731.5	731.5
NOK	173.4	173.4	173.4	173.4	173.4
MXN	–	–	–	–	100.0
Total	$ 1,314.6	$ 1,309.3	$ 1,126.0	$ 1,120.7	$ 1,065.5

The NADBank debt limit policy establishes that total debt outstanding may not exceed the callable portion of the subscribed capital shares, plus the minimum liquidity level required under the liquidity policy. With US$2,980.7 million in subscribed callable capital and a minimum liquidity level of US$298 million, the maximum debt limit in 2022 was US$3,023.7 million, compared to the maximum limit of US$2,922.8 million in 2021.[1] At the close of 2022, total debt outstanding (US$1,065.5 million) was 35% of the debt limit.

Development Asset Portfolio

In 2022, eight loans were approved totaling US$357 million, four of which were contracted and executed prior to year-end. Altogether, a total of US$90.0 million was disbursed for five projects.

During the year, NADBank received a total of US$146 million in principal payments, of which US$72.5 million were repayments and US$73.8 million were prepayments. In comparison, during 2021, the Bank received US$267 million in payments, of which US$82.5 million were repayments and US$184.5 million were prepayments.

TABLE 12: Outstanding Loan Portfolio

(Million USD)	2018	2019	2020	2021	2022
Water	$ 162.4	$ 121.3	$ 121.1	$ 129.7	$ 121.6
Solid waste	-	2.8	2.3	1.8	1.2
Air quality	125.2	120.5	106.5	83.3	115.8
Sustainable energy	960.9	1,022.6	831.4	696.3	607.8
Urban development	36.0	34.5	32.9	31.2	16.7
Sustainable food value chains	–	–	–	–	10.1
ProRec	–	–	32.1	34.2	47.1
Total	$ 1,284.5	$ 1,301.7	$ 1,126.3	$ 976.5	$ 920.3

As a result of this activity, NADBank closed the year with an outstanding loan balance of US$920.3 million, a decrease of 6% compared to the balance at the end of 2021 (US$976.5 million).

Additionally, at the end of the year, the Bank had US$174.8 million in loans contracted pending disbursement for ten projects, as well as up to US$257 million in approved loans pending contracting for eight projects. Consequently, as of December 31, 2022, loans outstanding and pending disbursement and commitment totaled just over US$1,352.1 million.

Loan Quality

The Bank rates its loan portfolio internally using a credit risk scorecard developed by an internationally recognized credit rating agency, which replaced its internal credit risk methodologies. The Bank uses the standard rating scale of that agency, and the probability of default is estimated using the remaining maturity of the loan.

Table 13 shows a breakdown of the loan portfolio by rating. Loans rated AAA through AA- represented 2.9% of loans

TABLE 13: Internal Rating of Loan Portfolio

(Million USD)	2021	2022
AAA	$ 75.0	$ –
AA+	–	–
AA	12.3	26.2
AA-	–	–
A+	51.1	1.4
A	128.6	4.6
A-	5.2	115.0
BBB+	17.4	115.5
BBB	150.9	124.6
BBB-	27.4	14.9
BB+	177.3	144.4
BB	102.3	132.3
BB-	183.4	141.0
B+	29.0	28.5
B	2.8	13.1
B-	13.8	58.8
C	–	–
Total	$ 976.5	$ 920.3

[1] The callable capital excludes US$255 million associated with the Domestic Programs. More information is provided in Note 7 of the consolidated financial statements.

outstanding in 2022. The comparison to 2021 is not exact, as the new methodology went into effect in 2022. As of December 31, 2022, all loans are current.

Investment Portfolio

As of December 31, 2022, the investment portfolio totaled US$1,118.9 million, down from US$1,129.8 million at year-end 2021, and represented 105% of total gross debt. The portfolio decreased 1.0% as a result of disbursements, debt payments and operating expenditures.

The NADBank investment policy limits the investment portfolio to highly rated, liquid fixed-income securities. Table 14 shows the guidelines for the NADBank investment portfolio and its allocation as of December 31, 2021 and 2022.

TABLE 14: NADBank Investment Portfolio

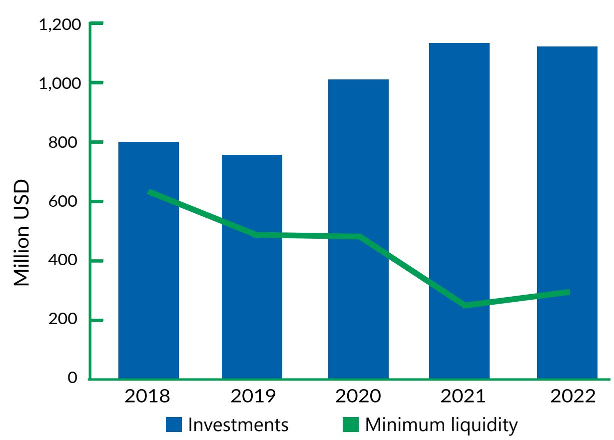
(Million USD)

Type	Limit (% of total)[1]	2021 USD	2022 USD	2022 %
Cash and cash equivalents	–	$ 163.9	$ 164.7	14.8
U.S. Treasury securities	25	503.0	560.2	50.1
U.S. agency securities	45	237.7	160.3	14.3
United Mexican States securities	30	6.6	14.4	1.3
Mexican government securities	–	–	14.9	1.3
Corporate debt securities	25	132.3	129.2	11.5
Other fixed-income securities	35	86.3	75.2	6.7
Total		$ 1,129.8	$ 1,118.9	100.0

[1] Minimum level for U.S. Treasury securities; maximum level for all other sectors.

Figure 9 shows cash and investments relative to the minimum liquidity requirement determined by the NADBank Liquidity Policy.

FIGURE 9: Cash and Investments



Net Interest Income

Net interest income after provision for loan losses in 2022 was US$27.2 million, a 9% decrease compared to the previous year (US$29.8 million). Interest income from loans was unchanged from the prior year at US$42.2 million but was offset by a 133% increase in interest income from investments, which grew from US$4.8 million to US$11.2 million. Interest expense was US$26.1 million, up from US$14.3 million a year earlier. Interest income from investments and interest expense responded to rising interest rates through 2022, and interest income from loans reflected the reduced size of the loan portfolio.

The Bank created provisions for loan losses for US$14,482 in 2022, compared to US$2.9 million in 2021, reflecting the stable quality of the loan portfolio.

TABLE 15: Interest Income

(Million USD)	2018	2019	2020	2021	2022
Loans	$ 62.0	$ 65.6	$ 49.8	$ 42.2	$ 42.2
Investments	16.9	18.7	7.2	4.8	11.1
Total interest income	78.9	84.3	57.0	47.0	53.3
Interest expense	47.2	44.6	21.2	14.3	26.1
Net interest income	31.7	39.7	35.8	32.7	27.2
Provision for loan losses	(2.0)	0.1	0.1	2.9	0.0
Net interest income after provision for loan losses	$ 29.7	$ 39.6	$ 35.7	$ 29.8	$ 27.2

Operating Expenses

Operating expenses for the year totaled US$19.0 million, a 9% increase compared to US$17.5 million in 2021.

TABLE 16: Operating Expenses

(Million USD)	2018	2019	2020	2021	2022
Personnel	$ 12.8	$ 14.8	$ 14.6	$ 15.5	$ 17.3
General and administrative	2.4	2.3	1.7	1.8	2.2
Consultants and contractors	2.2	1.8	1.7	2.1	1.8
Other	0.2	0.1	(1.6)	(0.7)	(0.9)
Grant expense reimbursements, net	–	–	(1.4)	(1.3)	(1.4)
Depreciation	0.2	0.1	0.1	0.1	–
Total operating expenses	$ 17.8	$ 19.1	$ 15.1	$ 17.5	$ 19.0

Hedging Activities

NADBank uses derivatives for the sole purpose of hedging its potential exposure to interest rate and foreign exchange fluctuations and does not engage in the use of derivatives for speculative purposes.

Until 2022, all loans provided in Mexican pesos were hedged through cross-currency swaps. With the establishment of its Mexican peso treasury, NADBank will have the choice of hedging its peso loans or funding them directly in that currency, matching the debt to the asset. The Bank has also executed derivative instruments to hedge its debt issued in Swiss francs and Norwegian kroner. Hedges are tailored to match the terms of the underlying loans and debt.

Additionally, to match loan revenue and the cost of funding, NADBank uses interest rate swaps for U.S.-dollar denominated fixed-rate loans and debt, converting both to floating rates, thereby mitigating interest rate risk.

TABLE 17: Hedge Exposure – Loan Portfolio

(Million USD)	Outstanding Balance	% Total	After Swap	% Total
Total loan portfolio	$ 920.3	100.0	$ 920.3	100.0
Fixed	742.4	80.7	291.5	31.7
Variable	177.9	19.3	628.8	68.3

TABLE 18: Hedge Exposure – Debt

(Million USD)	Gross Debt	% Total	After Swap	% Total
Total debt	$ 1,065.5	100.0	$ 1,065.5	100.0
Fixed	965.5	90.6	362.5	34.0
Variable	100.0	9.4	703.0	66.0

Basis of Financial Reporting

As of December 31, 2022, lending operations of the Bank are reported in the Ordinary Capital Resources consolidated financial statements, and grant activities are reported in the EICF financial statements.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (U.S. 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 amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

TCFD CLIMATE-RELATED Financial Disclosures

Since 2020, NADBank has been following the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) to guide its development of more effective climate-related financial disclosures. This third TCFD report outlines the actions taken and enhancements put in place in 2022 for identifying, assessing, managing and disclosing climate-related risks and opportunities. In keeping with the TCFD framework, the disclosures are grouped under the four pillars of governance, strategy, risk management, and metrics and targets.

Governance

Board Oversight of Climate-related Issues

During 2022, NADBank reviewed its project due-diligence processes and took actions to enhance its environmental, social and governance (ESG) framework. As part of this effort, NADBank management has been working closely with its Board of Directors to develop a comprehensive policy to formalize NADBank's commitment to ESG principles and their incorporation in all financing operations and project development processes. The proposed policy is based on the concept of double materiality, taking into consideration the potential impacts of NADBank-funded projects on the environment and communities, as well as potential ESG risks to its investments and the financial performance of the projects.

The proposed policy will apply to all infrastructure financing activities carried out by NADBank and includes the risk management systems for analyzing and tracking potential project impacts and related mitigation measures, the disclosure of potential ESG and climate-related financial risks, and employee training on ESG requirements, among other commitments and measures. The policy will also serve to inform NADBank clients and stakeholders about the Bank's ESG requirements for evaluating prospective projects and the monitoring of financed projects.

Management, Organizational Structure and Process Control

NADBank has a team dedicated to overseeing, managing and coordinating the TCFD alignment process, which is led by the Chief Environmental Officer (CEVO), who is responsible for embedding these recommendations into the decision-making processes of the Bank and enhancing its climate-risk management practices, as well as ensuring compliance with NADBank's commitment to transparency and disclosure of climate-related risks and opportunities.

To enhance the evaluation and management of ESG and climate-related risks and opportunities associated with the projects it supports, the proposed ESG policy outlines an enhanced methodology for the ESG Scoring System that is already being applied to all individual loans, as well as to the overall loan portfolio. The policy also incorporates an exclusion list for direct and indirect investments made through financial intermediaries. Through these actions, NADBank is ensuring that its investments are aligned with its sustainability goals, promoting environmentally and socially responsible practices, and mitigating the risks associated with climate change.

The Technical and Environmental Committee, chaired by the CEVO, identifies and analyzes climate-related risks and opportunities associated with the projects proposed for financing, as well as recommending any mitigation measures. In line with the proposed ESG Policy, the Funding Committee will begin using ESG analysis, including climate-related risk and opportunities, in its decision-making process for the approval of project financing.

Strategy

Under its environmental mandate NADBank has financed numerous projects with climate adaptation or mitigation components. In 2021 the Board expanded the Bank's lending program to include investments in a wider variety of infrastructure projects, broadening its potential to finance climate-change mitigation and adaptation projects.

In 2022, NADBank established a Green Loan Program, which is designed to provide financing to small- and medium-sized financial intermediaries for subsequent lending to eligible green projects. This program will support financial institutions in developing green finance products for small businesses that are often precluded from adopting green technology and improving their efficiencies due to a lack of term financing at a reasonable financial cost.

NADBank is committed to further aligning its operations with the goals of the Paris Agreement on climate change and is supporting the U.S. and Mexican governments in meeting their Nationally Determined Contribution (NDC) commitments by mobilizing capital for mitigation and adaptation measures. These efforts include mitigation actions related to renewable energy, energy efficiency, waste management and low-emission transportation. Additionally, the Bank prioritizes adaptation initiatives to address critical water supply and stormwater management issues that are of the utmost importance in the border region.

Impact of Climate-related Risks on Strategy

The infrastructure financed by the Bank is exposed in various degrees to physical climate-change risks, mainly related to drought, flooding and wildfires. NADBank recognizes its exposure to transition risks arising from regulatory shifts, market dynamics and technological changes.[2] However, given the inherently sustainable and resilient nature of the infrastructure projects the Bank finances, the impact is expected to be minimal. The focus on projects in low-carbon sectors positions the Bank favorably against potential transition challenges.

An assessment of the NADBank project portfolio indicates an overall low climate-related risk for the organization, with less than 5% of its portfolio falling into the moderate ESG risk category.

Resilience to Climate Change

Through its enhanced ESG Scoring methodology, NADBank identifies and evaluates climate-related risks and opportunities, as well as proposes mitigation measures. This process, coupled with its well-established project monitoring activities, provides a layer of control for managing climate-related risks appropriately, making the overall operations of the Bank more resilient.

NADBank is diligently advancing its strategy to track and reduce its own carbon footprint, as detailed in the Metrics and Targets section. The Bank is also promoting initiatives to educate its staff on climate change risks and opportunities within the institution. The Bank is designing a training program to raise general awareness and understanding about the potential impacts of climate change on its operations and to provide guidance on how to manage those risks effectively.

[2] Transition risks are those related to the transition to a lower-carbon economy, such as changes in policies and regulatory requirements, technology and markets, as well as reputational and legal risks.

Risk Management

The updated ESG Risk Scoring methodology is designed to manage risks that could affect the financial and operational performance of the projects financed by the Bank and the risk profile of its portfolio. The new methodology provides for the management and disclosure of ESG risks and opportunities at the project level, including climate-related physical and transition risks. Potential risks are assessed in terms of their relevance to the project and the project's exposure to such risk. Potential mitigation measures are also considered in the analysis to determine an ESG risk score for each project on a scale of 1 to 5, with 1 indicating very low risk and 5 a very high risk.

As of December 31, 2022, over 95% of projects with a loan component have an ESG Risk score of 2, meaning a low risk to the Bank. The rest of the loan portfolio has an ESG score of 3, equivalent to a moderate risk.

As a next step, the Bank will incorporate stress scenario analysis to assess project sensitivity and the likelihood of those climate risks materializing. Building on this approach at the project level, NADBank is also developing an ESG and climate risk management methodology at the portfolio level.

This tool is also used for monitoring and follow-up during the entire life cycle of the project. The Asset Management department, which continuously monitors the projects, has integrated following up on identified ESG risks into its standard procedures.

Metrics and Targets

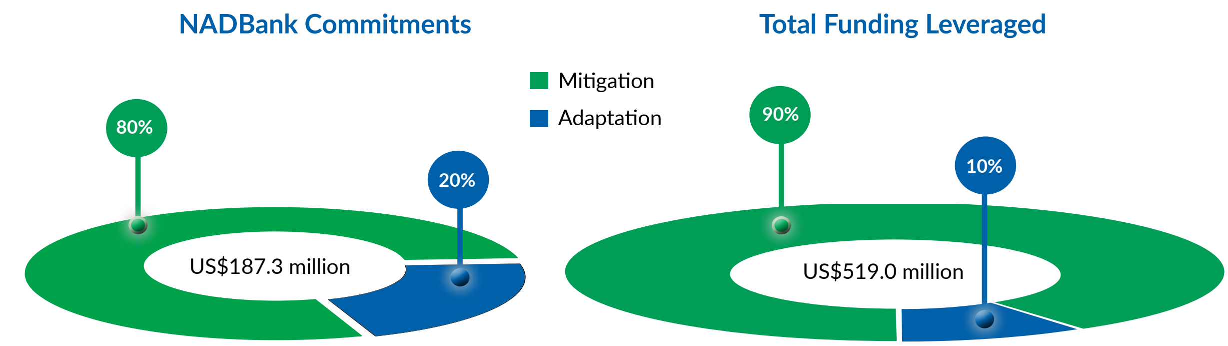
In line with TCFD recommendations, NADBank has taken steps to provide clear and consistent metrics to assess and monitor the climate-change risks and opportunities associated with the projects it finances.

In terms of climate-change mitigation, to date, NADBank has financed 41 sustainable energy and mobility projects that help avoid the emission of more than 4.7 million tons a year of CO_2 emissions, equivalent to removing over 1 million gasoline-powered vehicles from the road or the electricity consumption of almost 1 million homes in the United States.

In recent years, the Bank has increasingly focused on financing projects with specific climate-related benefits. In 2022, NADBank made financing commitments in the amount of US$187.3 million to support projects with climate-related benefits in various sectors, including renewable energy and energy efficiency, air quality (border crossing), and water and wastewater. These investments are expected to leverage US$331.8 million in additional funding from other sources, for a total investment of US$519 million.

All climate-related financing from NADBank in 2022 involved transactions that included either mitigation or both mitigation and adaptation measures. The former category includes projects designed to reduce vehicle emissions or improve energy efficiency, while the latter includes water-related projects and smaller projects to be implemented through financial intermediaries.

FIGURE 10: 2022 Climate Funding



NADBank Greenhouse Gas Emissions

NADBank is also committed to setting, monitoring and reporting key climate-related performance indicators, including Scope 1, 2 and 3 greenhouse gas (GHG) emissions in accordance with internationally recognized standards.[3] The following indicators account for NADBank's emissions at the corporate level and exclude emissions related to its project investments.

TABLE 19: NADBank GHG Emissions in 2022

Scopes & Categories	Tons of CO_2e
Scope 1: Direct emissions[1]	6.4
Scope 2: Emissions from purchased electricity[2]	252.4
Scope 3: Emissions from:[3]	100.0
Category 6: Business travel	*32.2*
Category 7: Employee commuting	*80.8*

1. Scope 1 are direct emissions from owned sources, both stationery and mobile, within the control of NADBank.

2. Scope 2 corresponds to emissions from purchased electricity at NADBank's two offices located in San Antonio, Texas, and Juarez, Chihuahua. It includes estimates based on energy used and, in the case of leased offices, on prorated consumption and is calculated based on the emission intensity of the local grid area where usage occurred.

3. Scope 3 includes emissions estimated from business travel and employee commuting. Since March 2021, NADBank has been operating under a hybrid work scheme, combining telework and work in office.

Source: NADBank calculations based on GHG Protocol: A Corporate Accounting and Reporting Standard.

NADBank has established 2022 as the base year for tracking emission performance. Over time, the Bank will refine its GHG calculation methodology and enhance the robustness of its disclosures. The Bank will also expand its GHG emission disclosures to include the projects financed, as well as any corresponding emission avoided.

[3] NADBank uses the definitions adopted by the GHG Protocol of the World Business Council for Sustainable Development (WBCSD) and World Resources Institute (WRI), where Scope 1 are direct emissions, Scope 2 are emissions from use of grid electricity, and Scope 3 are other upstream and downstream emissions

NORTH AMERICAN DEVELOPMENT BANK
Ordinary Capital Resources

Consolidated Financial Statements
and Supplementary Information
As of December 31, 2022 and 2021

Independent Auditor's Report

The Board of Directors
North American Development Bank
San Antonio, Texas

Opinion

We have audited the consolidated financial statements of North American Development Bank – Ordinary Capital Resources and its subsidiary (collectively, the Bank), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of income, comprehensive income (loss), changes in equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

The Bank did not include the account balances of the Environment Investment and Capacity Facility (EICF) in the accompanying consolidated balance sheet as of December 31, 2022 and the related consolidated statements of income, comprehensive income (loss), changes in equity, and cash flows for the year then ended. Since the Bank has control over these account balances, accounting principles generally accepted in the United States of America require such balances to be included in the Bank's consolidated financial statements. If the Bank included the account balances of the EICF in the consolidated financial statements, a decrease in due to Environment Investment and Capacity Facility of $8,729,539 and an increase in undisbursed grant funds of $1,229,539 would have been required as of December 31, 2022. Accordingly, the transfer to the Environment Investment and Capacity Facility would have decreased by $7,500,000 and net income and retained earnings would have increased by $7,500,000 as of and for the year ended December 31, 2022. In addition, a reclass of $7,500,000 from undesignated equity to designated equity would have been required as of December 31, 2022.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Bank and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Bank's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Bank's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Bank's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matter - Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit 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 consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

BDO USA, LLP

May 19, 2023

Consolidated Financial Statements

Ordinary Capital Resources

Consolidated Balance Sheets

December 31,	2022	2021
Assets		
Cash and cash equivalents:		
Held at other financial institutions	**$ 89,545,186**	$ 26,501,393
Repurchase agreements	**75,200,000**	137,400,000
Cash and Cash Equivalents	**164,745,186**	163,901,393
Held-to-Maturity Investment Securities, at amortized cost	**4,180,726**	4,126,913
Available-for-Sale Investment Securities, at fair value	**949,981,433**	961,786,427
Loans outstanding	**920,296,651**	976,510,337
Allowance for loan losses	**(22,153,814)**	(22,139,332)
Unamortized loan fees	**(6,924,616)**	(6,590,402)
Foreign currency exchange rate adjustment	**(32,171,930)**	(37,886,330)
Hedged items, at fair value	**(106,748,200)**	(93,844,578)
Net Loans Outstanding	**752,298,091**	816,049,695
Interest Receivable	**18,285,105**	11,466,441
Grant and Other Receivable	**3,584,515**	1,600,323
Furniture, Equipment, and Leasehold Improvements, Net	**81,789**	84,033
Other Assets	**100,914,303**	155,597,898
Total Assets	**$ 1,994,071,148**	$ 2,114,613,123

Ordinary Capital Resources

Consolidated Balance Sheets

December 31,	2022	2021
Liabilities and Equity		
Current Liabilities		
Accounts payable	**$ 4,119,604**	$ 842,333
Accrued liabilities	**3,012,294**	2,169,327
Accrued interest payable	**13,658,432**	9,024,926
Due to Environment Investment and Capacity Facility	**8,729,539**	-
Undisbursed grant funds	**-**	494,775
Other liabilities	**23,646,373**	309,166
Short-term debt, net of discounts and unamortized debt issuance costs	**5,264,000**	154,943,254
Hedged item, at fair value	**-**	1,477,591
Net Short-Term Debt	**5,264,000**	156,420,845
Total Current Liabilities	**58,430,242**	169,261,372
Long-Term Liabilities		
Long-term lease payable	**512,977**	-
Long-term post-retirement benefits payable	**3,136,908**	3,236,707
Deferred U.S. capital contribution	**165,000,000**	165,000,000
Long-term debt, net of discounts and unamortized debt issuance costs	**1,058,245,694**	963,232,477
Foreign currency exchange rate adjustment	**17,309,920**	20,504,957
Hedged items, at fair value	**(57,376,728)**	16,513,237
Net Long-Term Debt	**1,018,178,886**	1,000,250,671
Total Long-Term Liabilities	**1,186,828,771**	1,168,487,378
Total Liabilities	**1,245,259,013**	1,337,748,750
Equity		
Paid-in capital	**496,000,000**	486,500,000
General Reserve:		
Retained earnings:		
Designated	**177,224**	7,677,224
Reserved	**266,589,060**	192,382,949
Undesignated	**19,853,416**	85,552,407
Accumulated other comprehensive income (loss)	**(33,812,165)**	4,746,957
Non-controlling interest	**4,600**	4,836
Total Equity	**748,812,135**	776,864,373
Total Liabilities and Equity	**$ 1,994,071,148**	$ 2,114,613,123

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

Ordinary Capital Resources

Consolidated Statements of Income

Year ended December 31,	**2022**	2021
Interest Income		
Loans	**$ 42,163,642**	$ 42,245,220
Investments	**11,174,533**	4,828,036
Total Interest Income	**53,338,175**	47,073,256
Interest Expense	**26,110,498**	14,327,878
Net Interest Income	**27,227,677**	32,745,378
Provision for Loan Losses	**14,482**	2,903,850
Net Interest Income, after provision for loan losses	**27,213,195**	29,841,528
Operating Expenses (Income)		
General and administrative:		
Personnel	**17,324,037**	15,538,897
Administrative	**2,227,895**	1,808,658
Consultants and contractors	**1,786,685**	2,132,931
Other	**(917,210)**	(682,142)
Grant administrative reimbursements, net	**(1,430,451)**	(1,320,582)
Depreciation	**57,266**	72,901
Total Operating Expenses	**19,048,222**	17,550,663
Net Operating Income	**8,164,973**	12,290,865
Non-Interest and Non-Operating Income (Expenses)		
Gains (losses) on sale of securities, net	**(402,252)**	938,489
Grant disbursements	**(30,000)**	(478,429)
Fees and other income, net	**226,042**	908,863
Swap settlements, net	**1,819,476**	790,347
Expense from hedging activities, net	**(1,271,355)**	(2,319,328)
Total Non-Interest and Non-Operating Income (Expenses)	**341,911**	(160,058)
Transfer to Environment Investment and Capacity Facility (Board-Approved)	**7,500,000**	-
Net Income	**1,006,884**	12,130,807
Non-Controlling Interest in Net Loss	**(236)**	(207)
Controlling Interest in Net Income	**$ 1,007,120**	$ 12,131,014

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

Ordinary Capital Resources

Consolidated Statements of Comprehensive Income (Loss)

Year ended December 31,	**2022**	2021
Net Income	**$ 1,006,884**	$ 12,130,807
Non-Controlling Interest in Net Loss	**(236)**	(207)
Controlling Interest in Net Income	**1,007,120**	12,131,014
Other Comprehensive Income (Loss)		
Available-for-sale investment securities:		
Change in unrealized gains (losses) during the period, net	**(39,388,872)**	(11,238,857)
Reclassification adjustment for net (gains) losses included in net income	**402,252**	(938,489)
Total Unrealized Loss on Available-for-Sale Investment Securities	**(38,986,620)**	(12,177,346)
Post-retirement benefits liability adjustment	**427,567**	(142,488)
Foreign currency translation adjustment	**(103,908)**	50,317
Unrealized gains (losses) on hedging activities:		
Foreign currency translation adjustment, net	**8,251,033**	16,647,633
Fair value of cross-currency interest rate swaps, and options, net	**(8,147,194)**	(14,894,979)
Total Unrealized Gain on Hedging Activities	**103,839**	1,752,654
Total Other Comprehensive Loss	**(38,559,122)**	(10,516,863)
Total Comprehensive Income (Loss)	**$ (37,552,002)**	$ 1,614,151

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

Ordinary Capital Resources

Consolidated Statements of Change in Equity

		General Reserve			
	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interest	Total Equity
Beginning Balance, January 1, 2021	$ 475,000,000	$ 273,481,566	$ 15,263,820	$ 5,043	$ 763,750,429
Capital contribution	11,500,000	-	-	-	11,500,000
Net income	-	12,131,014	-	-	12,131,014
Other comprehensive loss	-	-	(10,516,863)	-	(10,516,863)
Non-controlling interest	-	-	-	(207)	(207)
Ending Balance, December 31, 2021	486,500,000	285,612,580	4,746,957	4,836	776,864,373
Capital contribution	9,500,000	-	-	-	9,500,000
Net income	-	1,007,120	-	-	1,007,120
Other comprehensive loss	-	-	(38,559,122)	-	(38,559,122)
Non-controlling interest	-	-	-	(236)	(236)
Balance, December 31, 2022	$ 496,000,000	$ 286,619,700	$ (33,812,165)	$ 4,600	$ 748,812,135

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

Ordinary Capital Resources

Consolidated Statements of Cash Flows

Year ended December 31,	2022	2021
Cash Flows from Operating Activities		
Net income	**$ 1,007,120**	$ 12,131,014
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	**57,266**	72,901
Amortization of net premiums on investments	**4,380,812**	7,878,399
Change in fair value of swaps, options, hedged items, and other non-cash items	**8,521,481**	(39,347,777)
Non-controlling interest	**(236)**	(207)
Losses (gains) on securities, net	**402,252**	(938,489)
Provision for loan losses	**14,482**	2,903,850
Post-retirement benefits payable	**(99,799)**	457,033
Transfer to Environment Investment and Capacity Facility	**7,500,000**	-
Change in other assets and liabilities:		
Decrease (increase) in interest receivable	**(6,818,664)**	883,005
Decrease (increase) in accounts receivable	**(1,984,192)**	720,464
Increase in accounts payable	**3,277,271**	75,151
Increase (decrease) in accrued liabilities	**842,967**	(8,937)
Increase (decrease) in accrued interest payable	**4,633,506**	(457,597)
Net Cash Provided by (Used in) Operating Activities	**21,734,266**	(15,631,190)
Cash Flows from Investing Activities		
Capital expenditures	**(55,026)**	(51,839)
Loan principal repayments	**146,244,118**	267,033,134
Loan disbursements	**(90,030,432)**	(117,213,388)
Purchase of held-to-maturity investment securities	**(2,423,715)**	(3,637,130)
Purchase of available-for-sale investment securities	**(707,174,649)**	(767,629,311)
Proceeds from maturities of held-to-maturity investments	**2,374,000**	2,951,000
Proceeds from sales and maturities of available-for-sale investments	**675,205,861**	727,900,389
Net Cash Provided by Investing Activities	**24,140,157**	109,352,855
Cash Flows from Financing Activities		
Capital contribution	**9,500,000**	11,500,000
Proceeds from other borrowings	**100,000,606**	-
Principal repayment of other borrowings	**(5,264,000)**	(5,264,000)
Principal repayment of notes payable	**(150,002,000)**	-
Grant funds from the EPA	**14,908,316**	12,724,552
Grant funds from other sources	**2,103,797**	1,927,000
Grant disbursements - EPA	**(14,908,312)**	(12,731,879)
Grant disbursements from other sources	**(1,369,037)**	(1,441,137)
Net Cash Provided by (Used in) Financing Activities	**(45,030,630)**	6,714,536
Net Increase (Decrease) in Cash and Cash Equivalents	**843,793**	100,436,201
Cash and Cash Equivalents, beginning of year	**163,901,393**	63,465,192
Cash and Cash Equivalents, end of year	**$ 164,745,186**	$ 163,901,393

Ordinary Capital Resources

Consolidated Statements of Cash Flows

Year ended December 31,	**2022**	2021
Supplemental Cash Information		
Cash paid during the year for interest	**$ 11,691,225**	$ 12,253,743
Significant Non-Cash Transactions		
Foreign currency translation adjustment	**$ 8,251,033**	$ 16,647,633
Non-cash investing and financing activities during the year upon adoption of the lease standard	**956,393**	-
Change in fair value of cross-currency interest rate swaps, net	**(8,147,194)**	(14,894,979)
Change in fair value of available-for-sales investments, net	**(38,986,620)**	(12,177,346)
Due to Environment Investment and Capacity Facility	**8,729,539**	-

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

Ordinary Capital Resources

Notes to Consolidated Financial Statements

1. Organization and Purpose

The North American Development Bank (NADBank or the Bank) was 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 environmental infrastructure projects in the U.S.-Mexico border region (the International Program) and support domestic programs for community adjustment and investment projects throughout the U.S. and Mexico (the Domestic Programs). 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 (the Board) appointed by the two countries. The operations of the Bank are subject to certain limitations outlined in the Charter. The geographic jurisdiction of the International Program is within 100 kilometers north of the U.S.-Mexico border and within 300 kilometers south of the border. The Bank is headquartered in San Antonio, Texas, and also has an office in Ciudad Juarez, Chihuahua (Juarez Office).

The Bank provides loan and grant financing and technical assistance for environmental infrastructure projects approved by the Board and administers grant funding provided by other entities.

On June 2, 1998, the Board authorized the establishment of a limited-purpose financial institution (sociedad financiera de objeto limitado, SOFOL) to facilitate 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. 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, 2022, COFIDAN is 99.90% owned by the Bank and 0.10% owned by the Government of Mexico. The accounts of COFIDAN are consolidated in the Bank's Ordinary Capital Resources, and all material intercompany accounts and transactions are eliminated in the consolidation. The noncontrolling 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.

On December 28, 2022, the Board approved the establishment of an Environment Investment and Capacity Facility (EICF) to hold the Bank's grant funds available for construction and technical assistance purposes, including funds provided by third-party donors. These funds will be accounted for separately from those of the Ordinary Capital Resources of the Bank. With the establishment of the EICF, the lending operations of the Bank will be carried out through the Ordinary Capital Resources, while grant financing and technical assistance activities will be carried out through the EICF. Additional information on the EICF is provided in Note 8.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates in Consolidated Financial Statements

The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP), except for the matters described in the Basis for Qualified Opinion section of the report. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported 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 included in other assets, the fair value of derivative instruments included in other liabilities, long-term post-retirement benefits payable, and debt. Actual results could differ from those estimates.

Principles of Consolidation

The consolidated financial statements include the accounts of the Bank and its subsidiary, COFIDAN. All significant intercompany accounts and transactions with COFIDAN have been eliminated in the consolidation. These consolidated statements are considered the Ordinary Capital Resources following the establishment of the EICF.

The EICF is not included in the consolidated financial statements of the Ordinary Capital Resources. The accounts of the EICF are audited separately.

Ordinary Capital Resources

Notes to Consolidated Financial Statements

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash deposits, money market accounts with other financial institutions, and overnight repurchase agreements. As of December 31, 2022, cash deposits with other financial institutions in demand deposit accounts and interest-bearing accounts totaled $1,434,286 and $88,110,900, respectively. As of December 31, 2021, cash deposits with other financial institutions in demand deposit accounts and interest-bearing accounts totaled $1,023,135 and $25,478,258, respectively.

Repurchase Agreements

The Bank has entered into repurchase agreements with other financial institutions. Shorter term repurchases may occur daily involving U.S. government and federally sponsored agency securities, which are included in cash and cash equivalents. Longer term repurchase agreements may be part of collateralized borrowings. The underlying securities related to the repurchase transaction are held in the possession of that financial institution. Additional information on investment securities and borrowings is provided in Notes 3 and 6, respectively.

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.

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 at December 31, 2022 and 2021.

Taxation

Pursuant to its Charter, as further implemented in the U.S. in the International Organizations Immunities Act, the Bank, its property, other assets, income, and the operations it carries out pursuant to the Charter are immune from all taxation and customs duties.

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.

Operating Lease

The Bank rents office space for its headquarters in San Antonio, Texas under an operating lease. Beginning January 1, 2022, the Bank implemented Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, which requires the recognition of operating lease obligations on a discounted basis and the recognition of a right-of-use lease asset. The Bank applied the optional modified retrospective method and recorded the lease as of the adoption date without any retrospective adjustment to comparative financial information. Additional information on the Bank's operating lease is provided in Note 13.

Ordinary Capital Resources
Notes to Consolidated Financial Statements

Retained Earnings

Retained earnings are classified as either designated for a specific program, reserved, or undesignated. Undesignated retained earnings in excess of 1% of total assets 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.

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.

Additional information on retained earnings of the Bank is provided in Note 7.

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 and impaired 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, and the ability of the borrower to fulfill the contractual repayment terms is fully expected. All three of these conditions must be met in order to return a loan to accrual status. 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 difficulty 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 consolidated 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 is established for all loans. The Bank calculates the general allowance by estimating probability of default for each loan using internal credit risk scorecard methodologies developed by a globally recognized credit rating agency, along with statistical cumulative recovery rates for each sector.

Notes to Consolidated Financial Statements

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 chargeoffs. Upon final settlement of impaired loans, any remaining loss is charged off.

Loan Portfolio Risk Rating

Beginning in 2022, the Bank replaced its internal credit risk rating methodologies with the credit risk scorecard methodology developed by an internationally recognized credit rating agency. As a result of this change, the Bank also adopted the standard rating scale of that agency in lieu of its previous internal scale. The scorecard methodology is tailored to the characteristics of each transaction and project type. It is based on a model that scores quantitative and qualitative variables to address both project and borrower risks. The analysis includes financial and operating metrics relevant to the overall performance of the project or loan, as well as relevant credit mitigating measures. The variables are well defined and consistently applied to each individual loan.

For each loan, a letter rating is assessed, and the probability of default is estimated using the risk horizon (remaining maturity) of the loan, which is mapped to the undiscounted default probability table provided by the credit agency. Loans in Mexico with sovereign/sub-sovereign repayment sources or guarantees are capped at BBB, equivalent to the foreign currency issuer rating of Mexico.

Ordinary Capital Resources

Notes to Consolidated Financial Statements

The following table presents the new rating scale, along with the Bank's previous rating scale for comparative purposes.

	2022 Rating Scale		2021 Rating Scale		
Description	Risk Grade	Scale	Borrower Rating	Scale	Risk Grade
Highest credit quality, minimum credit risk	AAA	A	1	A	A-1
Very high quality, very low credit risk	AA+	A	2	A	A-2
	AA	A	2	A	A-2
	AA-	A	2	A	A-2
High credit quality, strong payment capacity	A+	A	3	A	A-3
	A	A	3	A	A-3
	A-	A	3	A	A-3
Good credit quality, adequate payment capacity	BBB+	B	4	B	B-1
	BBB	B	4	B	B-1
	BBB-	B	4	B	B-1
Moderate credit quality, likely to meet obligations, some uncertainty under adverse conditions	BB+	B	5	B	B-2
	BB	B	5	B	B-2
	BB-	B	5	B	B-2
Low credit quality, still able to meet obligations, highly vulnerable to adverse conditions	B+	B	6	B	B-3
	B	B	6	B	B-3
	B-	B	7	C	C
Very low credit quality, highly vulnerable, high risk of default with some possibility of recovery	CCC+	C	7	C	C
	CCC	C	8	D	D
	CCC-	C	8	D	D
In or near default, lowest possible rating	D	D	9	E	E

Revenue Recognition

Interest income from financial instruments, such as investments, loans, and swaps used for hedging purposes, is recognized in the period earned and is not within the scope of Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts and Customers.* Revenue from advisory fees and other income not associated with those financial instruments is within the scope of ASC Topic 606 and is recognized by applying the following steps: (i) identify the contract, (ii) identify the performance obligations, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations, and (v) recognize revenue when a performance obligation is satisfied.

Grant Program Activity

Bank-Funded Grants - The Bank funds grants through the Community Assistance Program (CAP), Technical Assistance Program (TAP), and COVID-19 Recovery Program (ProRec). Grants are recognized at the date the Bank becomes obligated under the terms of the grant agreements, and associated costs are recognized as incurred. Bank-funded grant disbursements are reflected in the consolidated statements of income.

Third-Party Grants - The Bank receives grants from the U.S. Environmental Protection Agency (EPA), U.S. Department of State (DOS), and other sources associated with project financing, technical assistance activities, and program operating expense reimbursements. Third-party grant receipts and disbursements are reflected in the consolidated statements of cash flows, not the consolidated statements of income, as these grants are approved and funded by the respective grantors. The Bank's role is to administer these funds. The operating expenses and expense reimbursements for these grants are reflected in the consolidated statements of income.

Additional information on grant programs is provided in Note 8.

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 (loss).

The lending activities of the Bank include making loans that are denominated in Mexican pesos. When such loans are not funded by Mexican peso liabilities, 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, 2022 and 2021, the Bank had entered into counterparty agreements with 12 counterparties, two of which are backed by the federal government of Mexico, and the other ten are commercial financial institutions. The foreign currency translation adjustment on loans denominated in Mexican pesos as of December 31, 2022 and 2021 was $(32,171,930) and $(37,886,330), respectively.

All swaps relating to the lending activities of the Bank are designated as cash flow or fair value hedges and 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 (loss). 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 (loss) 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 counterparties 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, options, hedged items, and available-for-sale debt securities at fair value. 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 - This level consists of quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. This category generally includes U.S. government securities, U.S. agency securities, corporate debt securities, other fixed-income securities, mortgage-backed securities, and Mexican government securities (UMS).

Level 2 - This level consists of 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 cross-currency interest rate swaps, interest rate swaps, and options. For these consolidated financial statements, the Bank also obtains dealer quotations for comparative purposes to assess the reasonableness of the pricing models.

Level 3 - This level consists of 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 the fair value of hedged items where independent pricing information is not available for a significant portion of the underlying assets or liabilities.

Additional information on the fair value of the financial instruments of the Bank is provided in Note 10.

Accumulated Other Comprehensive Income (Loss)

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

Allocable Income

Allocable income is an internal management measure that reflects income available for allocation. The Bank defines allocable income on net income after certain adjustments that relate primarily to non-cash expenses. The Bank will transfer, under a formula-based approach, a proportion of allocable income to the EICF. Additional information on the EICF is provided in Note 8.

Ordinary Capital Resources
Notes to Consolidated Financial Statements

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.

December 31, 2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity:				
U.S. government securities	$ 3,019,254	$ -	$ (25,963)	$ 2,993,291
U.S. agency securities	1,161,472	-	(44,533)	1,116,939
Total Held-to-Maturity Investment Securities	4,180,726	-	(70,496)	4,110,230
Available-for-sale:				
U.S. government securities	436,321,490	127,413	(20,483,222)	415,965,681
U.S. agency securities	162,313,889	-	(8,380,477)	153,933,412
Corporate debt securities	138,700,987	75,636	(9,614,864)	129,161,759
Other fixed-income securities	79,211,369	24,922	(4,066,741)	75,169,550
Mexican government securities	30,548,265	5,786	(1,216,409)	29,337,642
Securities pledged under collateralized borrowings[1]	142,637,146	-	(1,410,974)	141,226,172
Mortgage-backed securities	5,853,994	-	(666,777)	5,187,217
Total Available-for-Sale Investment Securities	995,587,140	233,757	(45,839,464)	949,981,433
Total Investment Securities	$ 999,767,866	$ 233,757	$ (45,909,960)	$ 954,091,663

[1] Additional information on the securities pledged and collateralized borrowing is provided in Note 6.

December 31, 2021	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity:				
U.S. government securities	$ 1,748,543	$ 6,306	$ (4,195)	$ 1,750,654
U.S. agency securities	2,378,370	32	(11,459)	2,366,943
Total Held-to-Maturity Investment Securities	4,126,913	6,338	(15,654)	4,117,597
Available-for-sale:				
U.S. government securities	504,327,184	818,469	(3,866,906)	501,278,747
U.S. agency securities	229,863,207	66,267	(1,883,804)	228,045,670
Corporate debt securities	133,492,327	290,614	(1,469,712)	132,313,229
Other fixed-income securities	86,905,688	66,434	(660,087)	86,312,035
Mexican government securities	6,612,785	39,851	(46,804)	6,605,832
Mortgage-backed securities	7,204,323	47,792	(21,201)	7,230,914
Total Available-for-Sale Investment Securities	968,405,514	1,329,427	(7,948,514)	961,786,427
Total Investment Securities	$ 972,532,427	$ 1,335,765	$ (7,964,168)	$ 965,904,024

Ordinary Capital Resources

Notes to Consolidated Financial Statements

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.

December 31, 2022

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Held-to-maturity:						
U.S. government securities	$ 2,435,460	$ 9,376	$ 557,831	$ 16,587	$ 2,993,291	$ 25,963
U.S. agency securities	-	-	1,116,939	44,533	1,116,939	44,533
Total Held-to-Maturity Securities	2,435,460	9,376	1,674,770	61,120	4,110,230	70,496
Available-for-sale:						
U.S. government securities	145,850,471	4,159,725	227,596,894	16,323,497	373,447,365	20,483,222
U.S. agency securities	1,951,440	52,351	151,981,972	8,328,126	153,933,412	8,380,477
Corporate debt securities	20,219,964	834,376	104,643,455	8,780,488	124,863,419	9,614,864
Other fixed-income securities	13,426,992	526,900	57,591,923	3,539,841	71,018,915	4,066,741
Mexican government securities	6,604,290	592,874	7,842,350	623,535	14,446,640	1,216,409
Securities pledged under collateralized borrowings[1]	141,226,172	1,410,974	-	-	141,226,172	1,410,974
Mortgage-backed securities	1,278,034	132,122	3,909,183	534,655	5,187,217	666,777
Total Available-for-Sale Investment Securities	330,557,363	7,709,322	553,565,777	38,130,142	884,123,140	45,839,464
Total Temporarily Impaired Securities	$ 332,992,823	$ 7,718,698	$ 555,240,547	$ 38,191,262	$ 888,233,370	$ 45,909,960

[1] Additional information on the securities pledged and collateralized borrowing is provided in Note 6.

December 31, 2021

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Held-to-maturity:						
U.S. government securities	$ 584,425	$ 4,195	$ -	$ -	$ 584,425	$ 4,195
U.S. agency securities	1,693,077	11,459	-	-	1,693,077	11,459
Total Held-to-Maturity Securities	2,277,502	15,654	-	-	2,277,502	15,654
Available-for-sale:						
U.S. government securities	352,643,254	2,245,573	57,112,167	1,621,333	409,755,421	3,866,906
U.S. agency securities	213,703,196	1,694,762	7,719,093	189,042	221,422,289	1,883,804
Corporate debt securities	91,852,061	1,070,481	16,775,738	399,231	108,627,799	1,469,712
Other fixed-income securities	75,971,490	660,087	-	-	75,971,490	660,087
Mexican government securities	5,506,801	46,804	-	-	5,506,801	46,804
Mortgage-backed securities	2,802,374	21,201	-	-	2,802,374	21,201
Total Available-for-Sale Investment Securities	742,479,176	5,738,908	81,606,998	2,209,606	824,086,174	7,948,514
Total Temporarily Impaired Securities	$ 744,756,678	$ 5,754,562	$ 81,606,998	$ 2,209,606	$ 826,363,676	$ 7,964,168

Ordinary Capital Resources

Notes to Consolidated Financial Statements

None of the unrealized losses identified in the preceding tables are considered to be other than temporary or related to a credit impairment of an issuer as of December 31, 2022. 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.

Contractual maturities of investments are summarized in the following table.

December 31, 2022	Held-to-Maturity Securities		Available-for-Sale Securities	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
Less than one year	$ 4,110,230	$ 4,180,726	$ 280,128,965	$ 284,617,684
1-5 years	-	-	658,060,961	697,918,298
5-10 years	-	-	6,604,290	7,197,164
More than ten years	-	-	-	-
Mortgage-backed securities	-	-	5,187,217	5,853,994
	$ 4,110,230	$ 4,180,726	$ 949,981,433	$ 995,587,140

December 31, 2021	Held-to-Maturity Securities		Available-for-Sale Securities	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
Less than one year	$ 2,382,319	$ 2,376,262	$ 349,281,786	$ 349,283,489
1-5 years	1,735,278	1,750,651	596,683,974	603,023,691
5-10 years	-	-	8,589,753	8,894,011
More than ten years	-	-	-	-
Mortgage-backed securities	-	-	7,230,914	7,204,323
	$ 4,117,597	$ 4,126,913	$ 961,786,427	$ 968,405,514

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 and maturity activity of investment securities.

Year ended December 31,	**2022**	2021
Held-to-maturity investment securities:		
Proceeds from maturities	**$ 2,374,000**	$ 2,951,000
Available-for-sale investment securities:		
Proceeds from sales and maturities	**675,205,861**	727,900,389
Gross realized gains	**81,870**	1,008,830
Gross realized losses	**484,122**	70,341

Ordinary Capital Resources

Notes to Consolidated Financial Statements

The following table sets forth the net unrealized gains (losses) on securities available-for-sale and the reclassification adjustments required.

Year ended December 31,		2022		2021
Net unrealized gain (loss) on investment securities available-for-sale, beginning of year	**$**	**(6,619,087)**	$	5,558,259
Net unrealized losses on investment securities available-for-sale, arising during the year		**(39,388,872)**		(11,238,857)
Reclassification adjustments for net losses (gains) on investment securities available-for-sale included in net income		**402,252**		(938,489)
Net Unrealized Loss on Investment Securities Available-for-Sale, end of year	**$**	**(45,605,707)**	$	(6,619,087)

4. Loans

The following schedule summarizes loans outstanding.

December 31,		2022		2021
Loan balance	**$**	**920,296,651**	$	976,510,337
Allowance for loan losses:				
General		**(22,153,814)**		(19,737,912)
Specific		**-**		(2,401,420)
Unamortized loan fees		**(6,924,616)**		(6,590,402)
Foreign currency exchange rate adjustment		**(32,171,930)**		(37,886,330)
Fair value of hedged items		**(106,748,200)**		(93,844,578)
Net Loans Outstanding	**$**	**752,298,091**	$	816,049,695

At December 31, 2022 and 2021, outstanding undisbursed loan commitments on signed loan agreements totaled $174,784,983 and $81,670,001, respectively. As of December 31, 2022, the Bank had loan agreements under development for an additional $257,001,726.

The Bank, under certain circumstances, offered below-market-rate loans under its Low Interest Rate Lending Facility (LIRF) program, which was terminated in May 2013. As of December 31, 2022 and 2021, the Bank had LIRF loans outstanding of $16,847,839 and $20,330,073, respectively.

Ordinary Capital Resources

Notes to Consolidated Financial Statements

The following table presents the loan portfolio by sector.

December 31,		**2022**		2021
Water	**$**	**121,611,690**	$	129,704,494
Solid waste		**1,210,000**		1,780,000
Air quality		**115,736,121**		83,342,652
Sustainable energy		**607,764,116**		696,321,733
Urban development		**16,738,170**		31,150,045
Sustainable food value chains		**10,121,560**		-
ProRec[1]		**47,114,994**		34,211,413
	$	**920,296,651**	$	976,510,337

[1] On May 21, 2020, the Board of Directors approved ProRec for the purpose of enhancing the economic recovery and the general health and welfare of U.S.-Mexico border communities, while supporting projects with a positive environmental impact. The program was closed as of December 31, 2022.

The following table presents the loan portfolio by borrower type.

December 31,		**2022**		2021
Private	**$**	**629,196,767**	$	717,099,855
Public		**233,446,663**		197,480,140
Public-private		**57,653,221**		61,930,342
	$	**920,296,651**	$	976,510,337

In public-private transactions, a private company is the borrower backed by tax revenue.

Ordinary Capital Resources

Notes to Consolidated Financial Statements

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

December 31,	2022	2021[1]
AAA	**$ -**	$ 75,037,230
AA+	**-**	-
AA	**26,245,000**	12,285,000
AA-	**-**	-
A+	**1,355,000**	51,072,200
A	**4,580,000**	128,600,000
A-	**114,978,166**	5,224,251
BBB+	**115,440,279**	17,421,413
BBB	**124,634,901**	150,887,499
BBB-	**14,903,936**	27,379,423
BB+	**144,409,772**	177,357,817
BB	**132,346,373**	102,325,724
BB-	**141,038,827**	183,404,581
B+	**28,529,110**	28,958,541
B	**13,077,687**	2,805,000
B-	**58,757,600**	13,751,658
C	**-**	-
	$ 920,296,651	$ 976,510,337

[1] The 2021 figures are presented for comparative purposes since the scorecard rating methodologies became effective in 2022. The mapping for each category does not correlate exactly because the new methodologies consider the risk horizon of the projects when assigning a letter grade and probability of default.

No loans were on non-accrual or impaired as of December 31, 2022. One impaired loan was on nonaccrual as of December 31, 2021 with an outstanding balance of $13,464,043, which had been restructured in 2018. There was no charge-off of principal and interest related to this restructured loan. The specific allowance as of December 31, 2022 and 2021 totaled $0 and $2,401,420, respectively. During the years ended December 31, 2022 and 2021, interest income on the impaired loan totaled $854,765 and $679,142, respectively.

No loans were restructured during the years ended December 31, 2022 and 2021. The average impaired loan balance for the years ended December 31, 2022 and 2021 totaled $8,918,080 and $13,642,191, respectively.

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

December 31,	Loans 30-89 Days Past Due	Loans 90+ Days Past Due	Total Loans 30+ Days Past Due
2022	$ -	$ -	$ -
2021	-	-	-

Ordinary Capital Resources

Notes to Consolidated Financial Statements

There were no loans past due 90 or more days accruing interest as of December 31, 2022 and 2021.

The following table summarizes the allowance for loan losses by classification.

December 31, 2022

	Allowance for Loan Losses			
	General Allowance	Specific Allowance	Total	Total Loans Outstanding[1]
Mexico:				
Construction	$ 667,629	$ -	$ 667,629	$ 13,864,867
Operation	13,274,228	-	13,274,228	619,683,942
Total Mexico	13,941,857	-	13,941,857	633,548,809
United States:				
Construction	1,391,769	-	1,391,769	66,665,695
Operation	6,820,188	-	6,820,188	220,082,147
Total United States	8,211,957	-	8,211,957	286,747,842
	$ 22,153,814	$ -	$ 22,153,814	$ 920,296,651

December 31, 2021

	Allowance for Loan Losses			
	General Allowance	Specific Allowance	Total	Total Loans Outstanding[2]
Mexico:				
Construction	$ -	$ -	$ -	$ -
Operation	14,802,385	2,401,420	17,203,805	683,128,760
Total Mexico	14,802,385	2,401,420	17,203,805	683,128,760
United States:				
Construction	947,136	-	947,136	42,036,981
Operation	3,988,391	-	3,988,391	251,344,596
Total United States	4,935,527	-	4,935,527	293,381,577
	$ 19,737,912	$ 2,401,420	$ 22,139,332	$ 976,510,337

[1] As of December 31, 2022, there were no impaired loans.

[2] As of December 31, 2021, the Bank had one impaired loan in the amount of $13,464,043.

Ordinary Capital Resources

Notes to Consolidated Financial Statements

The following schedule summarizes the changes in the allowance for loan losses.

Year ended December 31, 2022

		Change in Allowance for Loan Losses			
	Beginning Balance	Specific Provisions	General Provisions	Loan Recoveries (Charge-Offs)	Ending Balance
Mexico:					
Construction	$ -	$ -	$ 667,629	$ -	$ 667,629
Operation	17,203,805	(2,401,420)	(1,528,157)	-	13,274,228
Total Mexico	17,203,805	(2,401,420)	(860,528)	-	13,941,857
United States:					
Construction	947,136	-	444,633	-	1,391,769
Operation	3,988,391	-	2,831,797	-	6,820,188
Total United States	4,935,527	-	3,276,430	-	8,211,957
	$ 22,139,332	$ (2,401,420)	$ 2,415,902	$ -	$ 22,153,814

Year ended December 31, 2021

		Change in Allowance for Loan Losses			
	Beginning Balance	Specific Provisions	General Provisions	Loan Recoveries (Charge-Offs)	Ending Balance
Mexico:					
Construction	$ 1,504,980	$ -	$ (1,504,980)	$ -	$ -
Operation	14,084,408	-	3,119,397	-	17,203,805
Total Mexico	15,589,388	-	1,614,417	-	17,203,805
United States:					
Construction	5,831	-	941,305	-	947,136
Operation	3,640,263	-	348,128	-	3,988,391
Total United States	3,646,094	-	1,289,433	-	4,935,527
	$ 19,235,482	$ -	$ 2,903,850	$ -	$ 22,139,332

Ordinary Capital Resources

Notes to Consolidated Financial Statements

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.

December 31, 2022

	Gross Amount	Master Netting Arrangements	Net Amount
Other Assets			
Cross-currency interest rate swaps	$ 116,994,965	$ (26,014,966)	$ 90,979,999
Interest rate swaps	22,901,624	(5,488,170)	17,413,454
Options	8,913,119	-	8,913,119
Collateral to counterparty	2,820,000	-	2,820,000
Collateral from counterparty	(18,200,000)	-	(18,200,000)
Credit valuation adjustment for swaps	(1,749,740)	-	(1,749,740)
Right-of-use lease asset	737,471	-	737,471
Total Other Assets	$ 132,417,439	$ (31,503,136)	$ 100,914,303
Other Liabilities			
Cross-currency interest rate swaps	$ 22,728,838	$ -	$ 22,728,838
Interest rate swaps	917,535	-	917,535
Total Other Liabilities	$ 23,646,373	$ -	$ 23,646,373

December 31, 2021

	Gross Amount	Master Netting Arrangements	Net Amount
Other Assets			
Cross-currency interest rate swaps	$ 166,428,744	$ (15,168,883)	$ 151,259,861
Interest rate swaps	7,811,447	-	7,811,447
Options	8,701,951	-	8,701,951
Collateral from counterparty	(9,600,000)	-	(9,600,000)
Credit valuation adjustment for swaps	(2,575,361)	-	(2,575,361)
Total Other Assets	$ 170,766,781	$ (15,168,883)	$ 155,597,898
Other Liabilities			
Cross-currency interest rate swaps	$ 309,166	$ -	$ 309,166
Total Other Liabilities	$ 309,166	$ -	$ 309,166

Ordinary Capital Resources

Notes to Consolidated Financial Statements

6. Debt

The following tables summarize the notes payable and other borrowings.

December 31, 2022

	Issue Date	Maturity Date	Rate (%)	Principal Amount	Unamortized Premium	Unamortized Debt Issuance Costs	FX Translation Adjustment	Fair Value of Hedged Items	Net Debt
Notes Payable									
USD issuance	12/17/12	12/17/30	3.30	$ 50,000,000	$ -	$ (136,867)	$ -	$ (5,260,536)	$ 44,602,597
CHF issuance	04/30/15	04/30/25	0.25	128,706,754	195,292	(193,824)	-	463,081	129,171,303
	04/26/17	10/26/27	0.20	124,443,117	201,081	(344,831)	-	(4,131,808)	120,167,559
	07/24/18	07/24/26	0.30	126,415,858	71,078	(362,925)	-	505,757	126,629,768
	05/28/20	11/28/28	0.20	186,316,116	14,887	(745,254)	8,390,040	-	193,975,789
	05/28/20	05/27/33	0.55	165,614,326	566,715	(848,485)	7,457,813	-	172,790,369
NOK issuance	03/10/17	03/10/31	2.47	86,724,283	-	(172,558)	-	(23,902,415)	62,649,310
	03/10/17	03/10/32	2.47	86,724,283	-	(180,716)	-	(25,050,807)	61,492,760
Total Notes Payable				954,944,737	1,049,053	(2,985,460)	15,847,853	(57,376,728)	911,479,455
Other Borrowings									
USD	03/17/17	06/30/23	1.90	2,632,000	-	-	-	-	2,632,000
	03/17/17	12/30/23	1.90	2,632,000	-	-	-	-	2,632,000
	03/17/17	06/30/24	1.90	2,632,000	-	-	-	-	2,632,000
	03/17/17	12/30/24	1.90	2,170,720	-	-	-	-	2,170,720
	11/13/17	12/30/24	1.90	461,280	-	-	-	-	461,280
MXN	12/14/22	11/30/27	TIIE variable	100,000,606	-	(27,242)	1,462,067	-	101,435,431
Total Other Borrowings				110,528,606	-	(27,242)	1,462,067	-	111,963,431
				$ 1,065,473,343	$ 1,049,053	$ (3,012,702)	$ 17,309,920	$ (57,376,728)	$ 1,023,442,886

CHF = Swiss franc; MXN = Mexican peso; NOK = Norwegian krone; USD = U.S. dollar.

Ordinary Capital Resources

Notes to Consolidated Financial Statements

December 31, 2021

	Issue Date	Maturity Date	Rate (%)	Principal Amount	Unamortized Premium (Discount)	Unamortized Debt Issuance Costs	FX Translation Adjustment	Fair Value of Hedged Items	Net Debt
Notes Payable									
USD issuance	12/17/12	10/26/22	2.40	$ 150,002,000	$ (258,419)	$ (64,327)	$ -	$ 1,477,591	$ 151,156,845
	12/17/12	12/17/30	3.30	50,000,000	-	(154,056)	-	3,322,021	53,167,965
CHF issuance	04/30/15	04/30/25	0.25	128,706,754	282,521	(276,892)	-	8,294,718	137,007,101
	04/26/17	10/26/27	0.20	124,443,117	245,878	(416,378)	-	9,221,997	133,494,614
	07/24/18	07/24/26	0.30	126,415,858	92,174	(464,761)	-	11,746,103	137,789,374
	05/28/20	11/28/28	0.20	186,316,116	17,628	(871,395)	10,855,566	-	196,317,915
	05/28/20	05/27/33	0.55	165,614,326	629,044	(930,025)	9,649,391	-	174,962,736
NOK issuance	03/10/17	03/10/31	2.47	86,724,283	-	(193,623)	-	(7,902,543)	78,628,117
	03/10/17	03/10/32	2.47	86,724,283	-	(200,375)	-	(8,169,059)	78,354,849
Total Notes Payable				1,104,946,737	1,008,826	(3,571,832)	20,504,957	17,990,828	1,140,879,516
Other Borrowings									
USD	07/29/15	06/30/22	1.90	266,455	-	-	-	-	266,455
	09/16/16	06/30/22	1.90	2,216,528	-	-	-	-	2,216,528
	03/17/17	06/30/22	1.90	149,017	-	-	-	-	149,017
	03/17/17	12/30/22	1.90	2,632,000	-	-	-	-	2,632,000
	03/17/17	06/30/23	1.90	2,632,000	-	-	-	-	2,632,000
	03/17/17	12/30/23	1.90	2,632,000	-	-	-	-	2,632,000
	03/17/17	06/30/24	1.90	2,632,000	-	-	-	-	2,632,000
	03/17/17	12/30/24	1.90	2,170,720	-	-	-	-	2,170,720
	11/13/17	12/30/24	1.90	461,280	-	-	-	-	461,280
Total Other Borrowings				15,792,000	-	-	-	-	15,792,000
				$ 1,120,738,737	$ 1,008,826	$ (3,571,832)	$ 20,504,957	$ 17,990,828	$ 1,156,671,516

CHF = Swiss franc; NOK = Norwegian krone; USD = U.S. dollar.

Ordinary Capital Resources

Notes to Consolidated Financial Statements

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 notes payable denominated in U.S. dollars was reported at December 31, 2022 and 2021 as other assets of $(4,343,000) and $4,799,612, respectively, and as other liabilities of $917,535 and $0, respectively. 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, 2022 and 2021 as other assets of $(11,202,057) and $29,595,181, respectively, and as other liabilities of $22,728,838 and $0, respectively. The fair value of hedges relating to options on notes payable not denominated in U.S. dollars was reported at December 31, 2022 and 2021 as other assets of $8,913,119 and $8,701,951, respectively. Additional information on the fair value of financial instruments and derivatives is provided in Notes 10 and 11.

Other Borrowings

On November 8, 2012, the Bank signed a loan commitment with another financial institution 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. At December 31, 2022 and 2021, the outstanding balance was $10,528,000 and $15,792,000, respectively.

On December 14, 2022, the Bank entered into a collateralized borrowing with another financial institution in the form of a repurchase agreement to borrow MXN $1,978 million ($100 million USD) with a maturity date of November 30, 2027. The loan carries a variable interest rate referenced to Mexico's Benchmark Interbank Deposit Rate (TIIE). This borrowing is collateralized by U.S. Treasury Notes. The collateral is reflected on the consolidated balance sheets as available-for-sale investment securities.

The following table summarizes the maturities of the notes payable and other borrowings.

December 31,		**2022**		2021
Less than one year	**$**	**5,264,000**	$	155,266,000
1-2 years		**5,264,000**		5,264,000
2-3 years		**128,706,754**		5,264,000
3-4 years		**126,415,858**		128,706,754
4-5 years		**224,443,723**		126,415,858
5-10 years		**409,764,682**		447,483,516
More than ten years		**165,614,326**		252,338,609
Total	**$**	**1,065,473,343**	$	1,120,738,737

Ordinary Capital Resources
Notes to Consolidated Financial Statements

The following table summarizes short-term and long-term debt.

December 31,		**2022**		2021
Short-term debt:				
Notes payable	**$**	**-**	$	150,002,000
Other borrowings		**5,264,000**		5,264,000
Total Short-Term Debt		**5,264,000**		155,266,000
Long-term debt:				
Notes payable		**954,944,737**		954,944,737
Other borrowings		**105,264,606**		10,528,000
Total Long-Term Debt		**1,060,209,343**		965,472,737
Total Debt	**$**	**1,065,473,343**	$	1,120,738,737

7. Equity

Subscribed Capital

At December 31, 2022 and 2021, the shareholders of the Bank had subscribed 600,000 shares of capital stock, with a par value of $10,000 per share. Subscribed capital is divided into paid-in and callable capital. Callable capital are shares that the Bank can request that its shareholders pay under Chapter II, Article II, Section 3(d) of the Bank's Charter. As defined in the Charter, subscribed shares can be unqualified or qualified. Qualified shares are subject to the respective domestic legal requirements of each subscribing country. Unqualified shares have completed the domestic legal requirements. The Bank's capital is shown in the following tables.

December 31, 2022	Mexico		United States		Total	
	Shares	USD Million	Shares	USD Million	Shares	USD Million
Subscribed capital	300,000	$ 3,000.0	300,000	$ 3,000.0	600,000	$ 6,000.0
Qualified callable capital	(109,934)	(1,099.3)	(102,000)	(1,020.0)	(211,934)	(2,119.3)
Unqualified callable capital	(145,066)	(1,450.7)	(153,000)	(1,530.0)	(298,066)	(2,980.7)
Qualified paid-in capital	(19,400)	(194.0)	-	-	(19,400)	(194.0)
Total Funded Paid-in Capital	25,600	256.0	45,000	450.0	70,600	706.0
Restricted from commitments	-	-	-	(165.0)	-	(165.0)
Transfer to domestic programs	-	(22.5)	-	(22.5)	-	(45.0)
Total Paid-in Capital	25,600	$ 233.5	45,000	$ 262.5	70,600	$ 496.0

Ordinary Capital Resources

Notes to Consolidated Financial Statements

December 31, 2021

	Mexico			United States			Total		
	Shares		USD Million	Shares		USD Million	Shares		USD Million
Subscribed capital	300,000	$	3,000.0	300,000	$	3,000.0	600,000	$	6,000.0
Qualified callable capital	(115,317)		(1,153.2)	(102,000)		(1,020.0)	(217,317)		(2,173.2)
Unqualified callable capital	(139,683)		(1,396.8)	(153,000)		(1,530.0)	(292,683)		(2,926.8)
Qualified paid-in capital	(20,350)		(203.5)	-		-	(20,350)		(203.5)
Total Funded Paid-in Capital	24,650		246.5	45,000		450.0	69,650		696.5
Restricted from commitments	-		-	-		(165.0)	-		(165.0)
Transfer for domestic programs	-		(22.5)	-		(22.5)	-		(45.0)
Total Paid-in Capital	24,650	$	224.0	45,000	$	262.5	69,650	$	486.5

In 1994, Mexico and the United States subscribed to the Bank's capital of 300,000 shares ($3 billion) with equal commitments from each country. All shares from the original subscription have been unqualified. In 2015, the member countries agreed to a General Capital Increase (GCI) of 300,000 shares ($3 billion), also with equal commitments from each government, bringing the Bank's subscribed capital to $6 billion. Mexico submitted its letter of subscription on May 6, 2016 and the United States did so on September 1, 2016.

As of December 31, 2022, Mexico has unqualified 3,100 shares of paid-in capital and 17,566 shares of callable capital from its GCI subscription. As of December 31, 2021, Mexico had unqualified 2,150 shares of paid-in capital and 12,183 shares of callable capital from its GCI subscription.

As of December 31, 2022 and 2021, the United States has unqualified 22,500 shares of paid-in capital from its GCI subscription. Of these shares, 16,500 shares were restricted from commitment, until Mexico unqualifies corresponding payments. As such, the restricted shares are recorded as a deferred U.S. capital contribution. As of the same dates, the United States has also unqualified 25,500 shares of callable capital from its GCI subscription.

In accordance with Board Resolution BR 2020-7, the shareholders have until December 31, 2028, or such later dates as the Board of Directors shall determine, to unqualify the remaining shares of their subscriptions.

Ordinary Capital Resources
Notes to Consolidated Financial Statements

Retained Earnings

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

December 31,		**2022**		2021
Designated retained earnings:				
Technical Assistance Program	**$**	**-**	$	1,814,766
Community Assistance Program		**177,224**		5,862,458
Total Designated Retained Earnings		**177,224**		7,677,224
Reserved retained earnings:				
Debt Service Reserve		**56,533,579**		22,103,000
Operating Expenses Reserve		**26,499,286**		23,913,682
Special Reserve		**30,000,000**		30,000,000
Capital Preservation Reserve		**153,556,195**		116,366,267
Total Reserved Retained Earnings		**266,589,060**		192,382,949
Undesignated retained earnings:				
Operations		**21,981,459**		86,409,095
Mark-to-market hedge valuations		**(2,128,043)**		(856,688)
Total Undesignated Retained Earnings		**19,853,416**		85,552,407
Total Retained Earnings	**$**	**286,619,700**	$	285,612,580

Additional information regarding the reserve funds and each program listed above is provided in Notes 2 and 8, respectively.

Accumulated Other Comprehensive Income (Loss)

The following table presents the changes in accumulated other comprehensive income (loss).

Year ended December 31, 2022						
		Beginning Balance		Period Activity		Ending Balance
Net unrealized loss on available-for-sale investment securities	$	(6,619,087)	$	(38,986,620)	$	(45,605,707)
Post-retirement benefit liability adjustment		(142,488)		427,567		285,079
Foreign currency translation adjustment		391,273		(103,908)		287,365
Unrealized gain (loss) on hedging activities:						
Foreign currency translation adjustment		(32,333,581)		8,251,033		(24,082,548)
Fair value of cross-currency interest rate swaps and options, net		43,450,840		(8,147,194)		35,303,646
Net Unrealized Gain on Hedging Activities		11,117,259		103,839		11,221,098
Total Accumulated Other Comprehensive Income (Loss)	$	4,746,957	$	(38,559,122)	$	(33,812,165)

Ordinary Capital Resources
Notes to Consolidated Financial Statements

Year ended December 31, 2021	Beginning Balance	Period Activity	Ending Balance
Net unrealized gain (loss) on available-for-sale investment securities	$ 5,558,259	$ (12,177,346)	$ (6,619,087)
Post-retirement benefit liability adjustment	-	(142,488)	(142,488)
Foreign currency translation adjustment	340,956	50,317	391,273
Unrealized gain (loss) on hedging activities:			
Foreign currency translation adjustment	(48,981,214)	16,647,633	(32,333,581)
Fair value of cross-currency interest rate swaps, and options, net	58,345,819	(14,894,979)	43,450,840
Net Unrealized Gain on Hedging Activities	9,364,605	1,752,654	11,117,259
Total Accumulated Other Comprehensive Income (Loss)	$ 15,263,820	$ (10,516,863)	$ 4,746,957

Hedging Activities in Other Comprehensive Income (Loss)

The following table summarizes the net unrealized gain on derivatives designated as cash flow hedges and their related hedged items included in other comprehensive income (loss).

Year ended December 31,	**2022**	2021
Cross-currency swaps and hedged items for loans, net	**$ (3,865,185)**	$ (1,280,660)
Cross-currency swaps, options, and hedged items for debt, net	**3,969,024**	3,033,314
Total	**$ 103,839**	$ 1,752,654

For the years ended December 31, 2022 and 2021, $0 and $787,836, respectively, were reclassified from other comprehensive income (loss) and recorded as a component of swap settlements, net, in the consolidated statements of income.

8. Grant Programs

Bank-Funded Grant Programs

Community Assistance Program

In February 2011, the Board of Directors approved a grant program to support public projects in all sectors eligible for Bank financing. Subject to annual limits, the CAP program is funded from the Bank's undesignated retained earnings as authorized by the Board. As of December 31, 2022, a cumulative total of $14,092,840 has been allocated to the CAP and $10,474,038 has been disbursed. For the years ended December 31, 2022 and 2021, the Bank disbursed $0 under this program.

Technical Assistance Program

The Bank designated 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, subject to annual limits. For the years ended December 31, 2022 and 2021, $0 and $465,131, respectively, were disbursed under this program. These grant disbursements are reported in the consolidated statements of income.

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, 2022 and 2021, $0 and $13,298, respectively, were disbursed under this program. These grant disbursements are reported in the consolidated statements of income.

Ordinary Capital Resources
Notes to Consolidated Financial Statements

COVID-19 Recovery Program

On May 21, 2020, the Board of Directors approved the ProRec program, including an allocation of $3 million for technical assistance grants (see Note 4). For the years ended December 31, 2022 and 2021, $30,000 and $0, respectively, were disbursed under this program. These grant disbursements are reported in the consolidated statements of income. The program was ended as of December 31, 2022.

The following table summarizes Bank-funded grant disbursements, as reported in the consolidated statements of income.

Year ended December 31,	**2022**	2021
Community Assistance Program	**$ -**	$ -
Technical Assistance Program	-	465,131
Utility Management Institute	-	13,298
COVID-19 Recovery Program	**30,000**	-
Total Grant Disbursements	**$ 30,000**	$ 478,429

Since 2021, the Bank has received grant funding from the U.S. DOS designated for CAP and TAP. For the years ended December 31, 2022 and 2021, the Bank disbursed DOS funds for $802,229 and $1,441,137, respectively, under CAP; $500,975 and $0, respectively, under TAP; and $38,454 and $0, respectively, under UMI. The disbursement of DOS funds is reflected in the consolidated statements of cash flows. As of December 31, 2022 and 2021, the remaining DOS funds totaled $1,021,205 and $460,863, respectively. The remaining funds as of December 31, 2022 were transferred to the EICF. At December 31, 2021, $460,863 was included in undisbursed grant funds in the consolidated balance sheets.

Grant Programs Funded by Third Parties

Border Environment Infrastructure Fund

Through this program, the Bank administers grant funds from the EPA to support the implementation of priority water and wastewater infrastructure projects. EPA grant awards since the initial grant made in April 1997 to December 31, 2022 total $783,055,932. Under the terms of the grants, the Bank reviews and submits prospective projects to EPA. EPA approves the projects, which are subsequently certified for financing by the Board of Directors. 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 the EPA and receives an allocation of the EPA grant funds for administrative expenses incurred.

As of December 31, 2022, the EPA has approved project funding proposed by the Bank totaling $713,709,980, of which $678,227,951 has been disbursed through the Bank. For the years ended December 31, 2022 and 2021, the Bank disbursed $11,333,441 and $8,979,915, respectively, in grants for project implementation. Since the Bank administers these funds, the grant disbursements are reflected in the consolidated statements of cash flows. The Bank recognized $977,932 and $1,243,430 as reimbursement of expenses incurred for the years ended December 31, 2022 and 2021, respectively. These expenses and reimbursements are reflected in the consolidated statements of income.

Project Development Assistance Program (PDAP)

The Bank administers grant funding from the EPA to provide technical assistance to communities for the development of water and wastewater projects that have been prioritized by EPA to receive a Border Environment Infrastructure Fund (BEIF) grant. For the years ended December 31, 2022 and 2021, the Bank disbursed $1,079,538 and $1,044,684, respectively, for technical assistance. Since the Bank administers these funds, the grant disbursements are reflected in the consolidated statements of cash flows. The Bank recognized $854,621 and $878,406 as reimbursement of expenses incurred for the years ended December 31, 2022 and 2021, respectively. These expenses and reimbursements are reflected in the consolidated statements of income.

U.S.-Mexico Environmental Border 2025 Program

The Bank administers grant funding from EPA to support the 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 technical assistance projects and workshops funded through the program. For the years ended December 31, 2022 and 2021, the Bank disbursed $467,168 and $530,986, respectively, to support these projects. Since the Bank administers these funds, the grant disbursements are reflected in the consolidated statements of cash flows. The Bank recognized $269,932 and $152,007 as reimbursement of expenses incurred for the years ended December 31, 2022 and 2021, respectively. These expenses and reimbursements are reflected in the consolidated statements of income.

Environment Investment and Capacity Facility

In December 2022, the Board approved the establishment of the EICF to hold the Bank's grant funds available for construction and technical assistance purposes, including funds provided by third-party donors. As of December 31, 2022, the Bank had a due to EICF of $8,729,539, of which $7,500,000 comes from the Bank's designated retained earnings and $1,229,539 were undisbursed grant funds from third parties. After the transfer, undisbursed grant funds totaled $0 on the consolidated balance sheet as of December 31, 2022. The transfer of the CAP and TAP designated retained earnings is reflected as a Board-approved transfer to EICF in the consolidated statements of income. As of December 31, 2022, the Bank has a due from EICF of $130,106 for reimbursable grant administrative expenses. Additional information regarding the creation of the EICF fund is provided in Note 1.

The administrative expenses of the EICF will be paid by the Bank; no administrative expenses will be reported by the EICF. Administrative expenses incurred for third-party grants are subject to reimbursements to the Bank. As part of the establishment of the EICF, the Board agreed to provide additional support for it from the Bank's Ordinary Capital Resources under a formula-based approach by transferring a portion of the Bank's allocable income.

9. 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, 2022 and 2021, the Bank expended $1,293,772 and $1,239,768, respectively, relating to the plan.

Post-Retirement Health Insurance Plan

The Bank has a post-retirement 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 the plan limits. The plan is funded by the Bank as benefits are paid. The Bank paid benefits of $45,232 and $34,455 for the years ended December 31, 2022 and 2021, respectively. As of December 31, 2022, the unfunded portion of the plan totaled $3,215,908 and is reflected in the consolidated balance sheet as a component of accrued liability and long-term liability of $79,000 and $3,136,908, respectively. As of December 31, 2021, the unfunded portion of the plan totaled $3,296,707 and is reflected in the consolidated balance sheet as a component of accrued liabilities and long-term liabilities of $60,000 and $3,236,707, respectively.

The following table presents the change in benefit obligations.

December 31,		**2022**		2021
Beginning balance	**$**	**3,296,707**	$	2,840,674
Service expense		**303,000**		267,000
Interest expense		**89,000**		81,000
Net benefits paid		**(45,232)**		(34,455)
Actuarial loss (gain)		**(427,567)**		142,488
Ending Balance	**$**	**3,215,908**	$	3,296,707

The change in post-retirement health plan assets is presented in the following table.

December 31,		**2022**		2021
Beginning balance	**$**	**-**	$	-
Employer contributions		**45,232**		34,455
Net benefits paid		**(45,232)**		(34,455)
Ending Balance	**$**	**-**	$	-

Ordinary Capital Resources
Notes to Consolidated Financial Statements

The following table presents post-retirement health plan liabilities.

December 31,		**2022**		2021
Current liabilities	**$**	**79,000**	$	60,000
Non-current liabilities		**3,136,908**		3,236,707
Total	**$**	**3,215,908**	$	3,296,707

The net periodic benefit cost of the post-retirement health plan is presented in the following table.

Year ended December 31,		**2022**		2021
Service expense	**$**	**303,000**	$	267,000
Interest expense		**89,000**		81,000
Total	**$**	**392,000**	$	348,000

Service expenses are reflected in the consolidated statements of income as a component of personnel under operating expenses (income). Interest expense in relation to post-retirement benefit obligations is reported as a non-operating income (expenses) in the consolidated statements of income.

The assumptions used to determine the benefit obligations and net periodic post-retirement benefit costs of the plan are presented below.

December 31,	**2022**	2021
Discount rate (%)	**4.36**	2.71
Current healthcare trend rate (%)	**6.30**	6.30
Ultimate healthcare trend rate (%)	**5.00**	5.00
Year in which ultimate trend is reached	**2028**	2028

The following schedule summarizes the estimated cash obligations that are expected to be paid for post-retirement health benefits.

Year ending December 31,		
2023	$	79,000
2024		102,000
2025		137,000
2026		177,000
2027		220,000
2028-2032		1,531,000

10. 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.

Available-for-Sale Securities

Securities classified as available-for-sale are reported at fair value using Level 1 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.

Ordinary Capital Resources

Notes to Consolidated Financial Statements

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 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 2 observable 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 other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The Bank's cross-currency interest rate swaps are all Mexican-peso for U.S.-dollar operations except for six 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 2 observable 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 other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Options

Options are reported at fair value using Level 2 observable inputs. The Bank uses options to hedge its foreign exchange exposure related to debt issuance.

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 Swiss franc issuances, and the NOK swap curve for the Norwegian krone issuance, as well as on external pricing models and counterparty pricing.

Long-Term Post-Retirement Benefits Payable

Long-term post-retirement benefits payable are reported at fair value. The fair value of these liabilities is estimated based on a third-party actuarial study.

Ordinary Capital Resources

Notes to Consolidated Financial Statements

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

December 31,	2022		2021	
	Carrying Amount	**Estimated Fair Value**	Carrying Amount	Estimated Fair Value
Assets				
Cash and cash equivalents	**$ 164,745,186**	**$ 164,745,186**	$ 163,901,393	$ 163,901,393
Held-to-maturity securities	**4,180,726**	**4,110,230**	4,126,913	4,117,597
Available-for-sale securities	**949,981,433**	**949,981,433**	961,786,427	961,786,427
Loans, net	**752,298,091**	**757,489,681**	816,049,695	890,844,826
Interest receivable	**18,285,105**	**18,285,105**	11,466,441	11,466,441
Cross-currency interest rate swaps	**90,979,999**	**90,979,999**	151,259,861	151,259,861
Interest rate swaps	**17,413,454**	**17,413,454**	7,811,447	7,811,447
Options	**8,913,119**	**8,913,119**	8,701,951	8,701,951
Liabilities				
Accrued interest payable	**13,658,432**	**13,658,432**	9,024,926	9,024,926
Short-term debt, net	**5,264,000**	**5,264,000**	154,943,254	154,943,254
Long-term debt, net	**1,058,245,694**	**1,057,392,602**	963,232,477	963,354,521
Long-term post-retirement benefits payable	**3,136,908**	**3,136,908**	3,236,707	3,236,707
Cross-currency interest rate swaps	**22,728,838**	**22,728,838**	309,166	309,166
Interest rate swaps	**917,535**	**917,535**	-	-

Ordinary Capital Resources

Notes to Consolidated Financial Statements

The Bank's financial assets and liabilities measured at fair value on a recurring basis 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.

December 31, 2022	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total Fair Value
Assets				
Available-for-sale securities:				
U.S. government securities	$ 415,965,681	$ -	$ -	$ 415,965,681
U.S. agency securities	153,933,412	-	-	153,933,412
Corporate debt securities	129,161,759	-	-	129,161,759
Other fixed-income securities	75,169,550	-	-	75,169,550
Mexican government securities	29,337,642	-	-	29,337,642
Securities pledged under collateralized borrowings	141,226,172	-	-	141,226,172
Mortgage-backed securities	5,187,217	-	-	5,187,217
Total Available-for-Sale Securities	949,981,433	-	-	949,981,433
Cross-currency interest rate swaps	-	90,979,999	-	90,979,999
Interest rate swaps	-	17,413,454	-	17,413,454
Options	-	8,913,119	-	8,913,119
Hedged items for loans	-	-	(106,748,200)	(106,748,200)
Total Assets, at fair value	$ 949,981,433	$ 117,306,572	$ (106,748,200)	$ 960,539,805
Liabilities				
Cross-currency interest rate swaps	$ -	$ 22,728,838	$ -	$ 22,728,838
Interest rate swaps	-	917,535	-	917,535
Hedged items for notes payable	-	-	(57,376,728)	(57,376,728)
Total Liabilities, at fair value	$ -	$ 23,646,373	$ (57,376,728)	$ (33,730,355)

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December 31, 2021

	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total Fair Value
Assets				
Available-for-sale securities:				
U.S. government securities	$ 501,278,747	$ -	$ -	$ 501,278,747
U.S. agency securities	228,045,670	-	-	228,045,670
Corporate debt securities	132,313,229	-	-	132,313,229
Other fixed-income securities	86,312,035	-	-	86,312,035
Mexican government securities	6,605,832	-	-	6,605,832
Mortgage-backed securities	7,230,914	-	-	7,230,914
Total Available-for-Sale Securities	961,786,427	-	-	961,786,427
Cross-currency interest rate swaps	-	151,259,861	-	151,259,861
Interest rate swaps	-	7,811,447	-	7,811,447
Options	-	8,701,951	-	8,701,951
Hedged items for loans	-	-	(93,844,578)	(93,844,578)
Total Assets, at fair value	$ 961,786,427	$ 167,773,259	$ (93,844,578)	$ 1,035,715,108
Liabilities				
Cross-currency interest rate swaps	$ -	$ 309,166	$ -	$ 309,166
Hedged items for notes payable	-	-	17,990,828	17,990,828
Total Liabilities, at fair value	$ -	$ 309,166	$ 17,990,828	$ 18,299,994

The following table summarizes the changes to hedged items included in financial assets and liabilities measured at fair value on a recurring basis using unobservable inputs (Level 3). Additional information on how the Bank measures fair value is provided in Note 2.

Year ended December 31,	**2022**	2021
	Fair Value of Level 3 Instruments	
Assets		
Beginning balance	**$ (93,844,578)**	$ (33,183,106)
Total realized and unrealized gains (losses):		
Included in earnings (expenses)	**(22,615,941)**	(39,892,598)
Included in other comprehensive income (loss)	-	-
Purchases	-	-
Settlements	**9,712,319**	(20,768,874)
Transfers in/out of Level 3	-	-
Ending Balance	**$ (106,748,200)**	$ (93,844,578)
Liabilities		
Beginning balance	**$ 17,990,828**	$ 60,574,814
Total realized and unrealized losses (gains):		
Included in expenses (earnings)	**(75,367,556)**	(42,583,986)
Included in other comprehensive income (loss)	-	-
Purchases	-	-
Settlements	-	-
Transfers in/out of Level 3	-	-
Ending Balance	**$ (57,376,728)**	$ 17,990,828

Ordinary Capital Resources

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The Bank has no nonfinancial assets or liabilities measured at fair value on a recurring or nonrecurring basis as of December 31, 2022 and 2021. The Bank had an impaired loan in the amount of $13,464,043 measured on a recurring basis with a specific allowance of $2,401,420 for a net amount of $11,062,623 as of December 31, 2021.

11. 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 the terms of the loans denominated in Mexican pesos that the Bank has entered into directly or through COFIDAN. In the latter case, the swaps are entered into on the exact same terms COFIDAN signs 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 for some loans and certain of its long-term notes payable. The swaps are structured so that the notional amounts match the expected maturity of the loans and the 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.

In the past, the Bank used the London Interbank Offered Rate (LIBOR) as its benchmark interest rate. Like the rest of the industry, the Bank is transitioning to the Secured Overnight Financing Rate (SOFR) rate as its benchmark interest rate.

The Bank uses options to hedge a portion of its long-term notes payable. The options have been designated as hedging instruments and are structured to match the expected maturity of the notes payable.

The Bank may be required to post or receive collateral based on the outstanding fair value of its derivatives and other collateralized borrowings. Cash collateral and receivables totaling $18,200,000 and $9,600,000 were posted from counterparties to the Bank as of December 31, 2022 and 2021, respectively. As of those same dates, $2,820,000 and $0 collateral were posted by the Bank.

The notional amounts and estimated fair values of the swaps outstanding 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,	2022		2021	
	Notional Amount	**Estimated Fair Value**	Notional Amount	Estimated Fair Value
Cross-currency interest rate swaps	**$ 1,055,763,596**	**$ 68,251,161**	$ 1,117,228,611	$ 150,950,695
Interest rate swaps	**231,832,891**	**16,495,919**	389,292,605	7,811,447
Options	**175,965,221**	**8,913,119**	175,965,221	8,701,951

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, 2022 and 2021.

Gains and Losses on Derivative Cash Flows

Cross-Currency Interest Rate Swaps and Options -The effective portion of the gain or loss due to changes in the fair value of cross-currency interest rate swaps and options designated as cash flow hedges is included in the accompanying consolidated statements of comprehensive income (loss), while the ineffective portion is included in income (expense) from net hedging activities. The accumulated net unrealized gain related to the swaps and options included in accumulated other comprehensive income (loss) totaled $11,221,098 and $11,117,259 at December 31, 2022 and 2021, respectively.

Ordinary Capital Resources
Notes to Consolidated Financial Statements

Gains or losses due to changes in the fair value of cross-currency interest rate swaps designated as fair value hedges and ineffective swaps and options are reported in income (expense) from net hedging activities. For the years ended December 31, 2022 and 2021, changes in the aforementioned swaps and options included in the accompanying consolidated statements of income were $2,096,976 and $1,893,133, respectively.

Interest Rate Swaps - The changes in the fair value of the interest rate 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, 2022 and 2021, changes in the aforementioned swaps included in the accompanying consolidated statements of income were $0.

Income (Expense) from Hedging Activities

The following table summarizes the net income (expense) from hedging activities for the years ended December 31, 2022 and 2021.

Year ended December 31,		2022		2021
Fair value hedges with swaps and hedged items for loans	**$**	**(4,777,558)**	$	(1,013,025)
Fair value hedges with swaps and hedged items for debt		**1,607,055**		(1,507,884)
Cash flow hedges with options and hedged items for debt		**1,073,527**		627,776
Credit valuation adjustment		**825,621**		(426,195)
Expense from Hedging Activities, Net	**$**	**(1,271,355)**	$	(2,319,328)

The net income (expense) from hedging activities is included as a component of non-operating income (expense) in the accompanying consolidated statements of income.

12. 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 equivalents, investments, loans receivable, options, and swaps. The Bank maintains 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.

13. 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, 2022, 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 consolidated financial statements.

Operating Lease Commitments

The Bank rents office space for its headquarters in San Antonio, Texas under an operating lease that expires on February 28, 2026. As of December 31, 2022, the right-of-use lease asset totaled $737,471 and is reflected in the consolidated balance sheets as a component of other assets. As of that same date, the operating lease obligation is reflected in the consolidated balance sheets in accrued liabilities and as a long-term lease payable of $224,494 and $512,977, respectively. For the years ended December 31, 2022 and 2021, operating lease expenses recognized on a straight-line basis totaled $229,712 and $223,064, respectively, and are included as a component of operating expenses in the consolidated statements of income.

Ordinary Capital Resources
Notes to Consolidated Financial Statements

As of December 31, 2022, the weighted-average term of the lease remaining was 3.2 years and the weighted average discount rate used on the lease liability was 1.26%, which is considered a risk-free rate by the Bank in determining the present value of future lease payments, as follows:

Year ending December 31,		
2023	$	232,492
2024		239,436
2025		240,732
2026		40,122
Total Operating Lease		752,782
Discount		(15,311)
Operating Lease Liability	$	737,471

Under the previous lease accounting standard, ASC 840, *Leases*, the total commitment for noncancelable operating leases was $982,494 for the year ended December 31, 2021. Future minimum lease payments under noncancelable operating leases as of December 31, 2021 were as follows:

Year ending December 31,		
2022	$	229,712
2023		232,492
2024		239,436
2025		240,732
2026		40,122
	$	982,494

14. Accounting Standards Updates

ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, 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 201910 amended the effective date of ASU 2016-13, making it effective for the Bank on January 1, 2023. The Bank is evaluating the potential impact of ASU 2019-10 on its consolidated financial statements.

ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, provides temporary optional guidance on contract modifications and hedging accounting to ease the financial reporting burdens of the expected market transaction from LIBOR to alternative reference rates. In January 2021, the Financial Accounting Standards Board (FASB) issued ASU 2021-01, which refines the scope of Topic 848 and clarifies some of its guidance as part of the FASB's monitoring of global reference rate activities. This new guidance was effective upon issuance, and the Bank is allowed to elect to apply contract amendments prospectively through December 31, 2022. The Bank evaluated the impact of implementing ASU 2021-01 and determined that the standard will not have a material effect on its consolidated financial statements.

15. Subsequent Events

The Bank has evaluated the events subsequent to December 31, 2022 and through May 19, 2023, the date the consolidated financial statements were available to be issued.

Supplementary Information

Ordinary Capital Resources

Third-Party Grant Activity
For the Years Ended December 31, 2022 and 2021

	EPA						Other		
	BEIF	**PDAP**	**Border 2025**	**Other**	**Subtotal**	**DOS**	**Air Quality Fund**	**Other**	**Total**
Undisbursed Grant Funds									
Balance, January 1, 2022	$ 1,005	$ -	$ -	$ -	$ 1,005	$ 460,863	$ 25,000	$ 7,907	$ 494,775
Grant receipts	12,301,807	1,885,843	717,007	3,659	14,908,316	1,902,000	201,797	-	17,012,113
Grant disbursements	(12,301,803)	(1,885,843)	(717,007)	(3,659)	(14,908,312)	(1,341,658)	(19,472)	(7,907)	(16,277,349)
Subtotal	1,009	-	-	-	1,009	1,021,205	207,325	-	1,229,539
Transfer to EICF	(1,009)	-	-	-	(1,009)	(1,021,205)	(207,325)	-	(1,229,539)
Balance, December 31, 2022	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

	EPA						Other		
	BEIF	PDAP	Border 2025	Other	Subtotal	DOS	Air Quality Fund	Other	Total
Undisbursed Grant Funds									
Balance, January 1, 2021	$ 1,005	$ 7,327	$ -	$ -	$ 8,332	$ -	$ -	$ 7,907	$ 16,239
Grant receipts	10,125,796	1,915,763	682,993	-	12,724,552	1,902,000	25,000	-	14,651,552
Grant disbursements	(10,125,796)	(1,923,090)	(682,993)	-	(12,731,879)	(1,441,137)	-	-	(14,173,016)
Balance, December 31, 2021	$ 1,005	$ -	$ -	$ -	$ 1,005	$ 460,863	$ 25,000	$ 7,907	$ 494,775

Ordinary Capital Resources

Operating Expenses by Program

Year ended December 31, 2022

		EPA					
	NADBank	BEIF	PDAP	Border 2025	Air Quality Fund	Other	Total
Operating Expenses (Income)							
General and administrative:							
Personnel	$ 15,851,841	$ 698,168	$ 575,261	$ 193,954	$ 1,568	$ 3,245	$ 17,324,037
Administrative	2,227,895	-	-	-	-	-	2,227,895
Consultants and contractors	1,786,685	-	-	-	-	-	1,786,685
Other	(917,210)	-	-	-	-	-	(917,210)
Grant expenses*	-	279,764	279,360	117,292	512	845	677,773
Grant expense reimbursements	-	(977,932)	(854,621)	(269,932)	(2,080)	(3,659)	(2,108,224)
Grant Expense Reimbursements, Net**	-	(698,168)	(575,261)	(152,640)	(1,568)	(2,814)	(1,430,451)
Depreciation	57,266	-	-	-	-	-	57,266
Total Operating Expenses	$ 19,006,477	$ -	$ -	$ 41,314	$ -	$ 431	$ 19,048,222

Year ended December 31, 2021

		EPA					
	NADBank	BEIF	PDAP	Border 2025	Air Quality Fund	Other	Total
Operating Expenses (Income)							
General and administrative:							
Personnel	$ 14,119,644	$ 577,366	$ 637,761	$ 204,126	$ -	$ -	$ 15,538,897
Administrative	1,808,658	-	-	-	-	-	1,808,658
Consultants and contractors	2,132,931	-	-	-	-	-	2,132,931
Other	(682,142)	-	-	-	-	-	(682,142)
Grant expenses*	-	666,064	240,645	46,552	-	-	953,261
Grant expense reimbursements	-	(1,243,430)	(878,406)	(152,007)	-	-	(2,273,843)
Grant Expense Reimbursements, Net**	-	(577,366)	(637,761)	(105,455)	-	-	(1,320,582)
Depreciation	72,901	-	-	-	-	-	72,901
Total Operating Expenses	$ 17,451,992	$ -	$ -	$ 98,671	$ -	$ -	$ 17,550,663

* Grant expenses are total reimbursable general and administrative expenses, excluding personnel.
** Net grant expense reimbursements are the sum of grant expenses and grant expense reimbursements.

Ordinary Capital Resources

Disbursements by Program and Source

Year ended December 31,		**2022**		2021
By Program				
Loan disbursements	**$**	**90,030,432**	$	117,213,388
Grant disbursements:				
BEIF		**11,333,441**		8,979,915
PDAP		**1,079,538**		1,044,684
Border 2025		**467,168**		530,986
CAP		**802,229**		1,441,137
TAP		**500,975**		465,131
UMI		**38,454**		13,298
ProRec		**30,000**		-
Air Quality Fund		**17,392**		-
Other		**7,907**		-
Total	**$**	**104,307,536**	$	129,688,539
By Source				
NADBank	**$**	**90,060,432**	$	117,691,817
EPA		**12,880,147**		10,555,585
DOS		**1,341,658**		1,441,137
Air Quality Fund		**17,392**		-
Other		**7,907**		-
Total	**$**	**104,307,536**	**$**	**129,688,539**

NORTH AMERICAN DEVELOPMENT BANK

Environment Investment and Capacity Facility

Financial Statements
(Unaudited)
December 31, 2022

Environment Investment and Capacity Facility
Financial Statements (Unaudited)
December 31, 2022

Balance Sheet

As of December 31, 2022

Assets		
Cash	$	8,729,539
Grant and other receivable		130,106
Total assets	$	8,859,645
Liabilities and Fund Balance		
Due to Ordinary Capital Resources and other payables	$	130,106
Undisbursed grant funds		1,229,539
Total liabilities		1,359,645
Fund balance		7,500,000
Total liabilities and fund balance	$	8,859,645

Statement of Changes in Fund Balance

For the Period December 28, 2022 to December 31, 2022

Additions		
Transfer from Ordinary Capital Resources (Board approved)	$	7,500,000
Change in fund balance		7,500,000
Fund balance, December 28, 2022		-
Fund balance, December 31, 2022	$	7,500,000

Statement of Cash Flows

For the Period December 28, 2022 to December 31, 2022

Cash flows from operating activities		
Change in fund balance	$	7,500,000
Adjustments to reconcile change in fund balance to net cash provided by operating activities:		
Change in other assets and liabilities:		
Increase in grant and other receivable		(130,106)
Increase in Due to Ordinary Capital Resources and other payable		130,106
Net cash provided by operating activities		7,500,000
Cash flows from financing activities		
Transfer-in undisbursed grant funds from OCR		1,229,539
Net cash provided by financing activities		1,229,539
Net increase in cash		8,729,539
Beginning cash, December 28, 2022		-
Ending cash, December 31, 2022	$	8,729,539

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

Environment Investment and Capacity Facility
Notes to Financial Statements (Unaudited)
December 31, 2022

1 Organization and Purpose

The North American Development Bank (NADBank or the Bank) was 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 environmental infrastructure projects in the U.S.-Mexico border region (the International Program) and support domestic programs for community adjustment and investment projects throughout the U.S. and Mexico (the Domestic Programs). 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 (the Board) appointed by the two countries. The operations of the Bank are subject to certain limitations outlined in the Charter. The geographic jurisdiction of the International Program is within 100 kilometers north of the U.S.-Mexico border and within 300 kilometers south of the border. The Bank is headquartered in San Antonio, Texas, and also has an office in Ciudad Juarez, Chihuahua (Juarez Office).

The Bank provides loan and grant financing and technical assistance for environmental infrastructure projects approved by the Board and administers grant funding provided by other entities.

On December 28, 2022, the Board approved the establishment of an Environment Investment and Capacity Facility (EICF) to hold the Bank's grant funds available for construction and technical assistance purposes, including funds provided by third-party donors. These funds will be accounted for separately from those of the Ordinary Capital Resources of the Bank. With the establishment of the EICF, the lending operations of the Bank will be carried out through the Ordinary Capital Resources while grant financing and technical assistance activities will be carried out through the EICF.

As of December 31, 2022, the EICF received a transfer from the Ordinary Capital Resources of $8,729,539 cash, of which $7,500,000 comes from the Bank's designated retained earnings and $1,229,539 were undisbursed grant funds from third parties. The transfer of $7,500,000 to the EICF is reflected as a transfer from Ordinary Capital Resources in the statement of changes in fund balance. The transfer of $1,229,539 in undisbursed grant funds is reflected on the balance sheet.

Grant Programs

Grants are recognized at the date the Bank becomes obligated under the terms of the grant agreements, and associated costs are recognized as incurred. Grant disbursements from fund balance are reflected in the statement of changes in fund balance. Third-party grant receipts and disbursements are reflected in the statement of cash flows, not the statement of changes in fund balance, as these grants are approved and funded by the respective grantors. Undisbursed third-party grant funds are reflected on the balance sheet.

Community Assistance Program (CAP)

The CAP was established in 2011 to provide grants to support the implementation of public projects in all sectors eligible for Bank financing. Disbursements for CAP are funded with fund balance or with grants from the U.S. Department of State (DOS).

Technical Assistance Program (TAP)

The TAP was established in 2009 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.

As part of its technical assistance program, the Utility Management Institute (UMI) was established to provides water utility managers and their staff with an opportunity for ongoing professional development aimed at enhancing their managerial and financial skills.

Disbursements for TAP and UMI are funded with fund balance or with grants from DOS.

Environment Investment and Capacity Facility
Notes to Financial Statements (Unaudited)
December 31, 2022

1. Organization and Purpose (continued)

Border Environment Infrastructure Fund (BEIF)

Through this program, the Bank administers third-party grant funds from U.S. Environmental Protection Agency (EPA) to support the implementation of priority water and wastewater infrastructure projects. Under the terms of the grants, the Bank reviews and submits prospective projects to EPA. EPA approves the projects, which are subsequently certified for financing by the Board of Directors. The Bank also oversees progress and compliance requirements for EPA and receives an allocation of the EPA grant funds for administrative expenses incurred.

Project Development Assistance Program (PDAP)

The Bank administers grant funding from EPA to provide technical assistance to communities for the development of water and wastewater projects that have been prioritized by EPA to receive a BEIF grant. The Bank also oversees progress and compliance requirements for EPA and receives an allocation of the EPA grant funds for administrative expenses incurred.

U.S.-Mexico Environmental Border 2025 Program

The Bank administers grant funding from EPA to support the 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 technical assistance projects and workshops funded through the program. For the administrative services provided, the Bank receives an allocation of the EPA grant funds for administrative expenses incurred.

Air Quality Monitoring Fund

Through this program, the Bank administers third-party grants funds from various sources to support air quality monitoring actions in the air basin formed by the Municipality of Juarez, Chihuahua, El Paso County, Texas, and Dona Ana County, New Mexico. For the administrative services provided, the Bank receives an allocation of these grant funds for administrative expenses incurred.

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). 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions from fund balance during the reporting period. Actual results could differ from those estimates.

Income Transfers from Ordinary Capital Resources

With the establishment of the EICF, the Board has approved for the Bank to provide transfers to the EICF through a formula-based calculation of its allocable income. Allocable income is an internal management measure that reflects income available for allocation. The Bank defines allocable income on net income of the Ordinary Capital Resources after certain adjustments that relate primarily to non-cash expenses.

Grant operating expenses and reimbursements

All administrative expenses of the EICF are paid by the Bank. Administrative expenses incurred for third-party grants are subject to reimbursement to the Bank. As such, no administrative expenses are reported for the EICF.

Environment Investment and Capacity Facility
Notes to Financial Statements (Unaudited)
December 31, 2022

2. Summary of Significant Accounting Policies (continued)

Due to Ordinary Capital Resources

Due to Ordinary Capital Resources represents grant administrative expenses incurred by the Bank and pending reimbursement from the third-party grantors. As of December 31, 2022, the amount due from EICF to Ordinary Capital Resources was $130,106.

3. Undisbursed Grant Funds

The following is a summary of the changes in undisbursed grants from third-party grantors from December 28, 2022 (establishment of the EICF) to December 31, 2022.

	Beginning Balance 12/28/2022	Receipts [1]	Disbursements	Ending Balance 12/31/22
EPA	$ –	$ 1,009	$ –	$ 1,009
DOS	–	1,021,205	–	1,021,205
Other	–	207,325	–	207,325
Total	$ –	$ 1,229,539	$ –	$ 1,229,539

[1] Amounts transferred from the Ordinary Capital Resources to the EICF following its establishment.

APPENDIX

Governance

Board of Directors

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)
Border state representative	Border state representative
Border resident representative	Border resident representative

* Board chair, 2022

Bank Organization as of December 31, 2022

Management

Managing Director	Calixto Mateos Hanel
Deputy Managing Director	John Beckham
Chief Environmental Officer	Salvador López Córdova

Directors

Chief Financial Officer	Julio R. Zamora
General Counsel	Lisa A. Roberts
Director of Risk Management and Control	Bernardo Salas
Director of Environmental Infrastructure Finance	Carlos Carranza
Director of Technical Services and Grants	Renata Manning-Gbogbo
Director of Asset Management	Michael Ratliff
Director of Public Affairs	Jesse J. Hereford
Director of Administration	Eduardo Macías

CREDITS

Offices responsible for Publication

Finance Department and Institutional Relations & Communication Unit

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Comisión Municipal de Agua Potable y Alcantarillado

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North American Development Bank

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