Information Statement

North American Development Bank

Banco de Desarrollo de América del Norte

The North American Development Bank (the "Bank" or "NADB") intends from time to time to issue its debt securities with maturities and on terms based on market conditions at the time of sale. The debt securities may be sold to dealers or underwriters, who may resell them in public offerings or otherwise, or they may be sold by the Bank directly or through agents. The terms of the debt securities being offered at a particular time and the manner of their distribution will be described in a prospectus, offering memorandum or supplemental information statement.

Unless otherwise stated, all information in this Information Statement is provided as of September 30, 2009, and all amounts are expressed in current United States dollars.

AVAILABILITY OF INFORMATION

NADB will provide, upon request, copies of this Information Statement without charge. Written or telephone requests should be directed to the principal office of the Bank located at 203 South St. Mary's, Suite 300, San Antonio, Texas, Attention: Juan Antonio Flores, telephone: (210) 231-8000.

The Information Statement is also available on the Bank's website at http://www.nadb.org/BondsAndInvestment. Other documents and information on this website are not intended to be incorporated by reference in this Information Statement.

Recipients of this Information Statement should retain it for future reference, since it is intended that each prospectus or offering memorandum and any supplemental information statement issued after the date hereof will refer to this information statement for a description of NADB and its results of operations and financial condition, until a subsequent Information Statement is issued. Recipients are also directed to any prospectus or offering memorandum which refers to this Information Statement for additional information on NADB and any offered securities.

February 1, 2010

SUMMARY

The North American Development Bank ("NADB" or the "Bank") is a binational development financing institution established by the United States and Mexico to finance environmental infrastructure projects in the U.S.-Mexico border region. The Bank's financing activities are principally focused on creating and sustaining drinking water supplies and developing wastewater treatment and municipal solid waste management facilities. In 2000, its mandate was expanded to include other environmental sectors that have health and/or environmental benefits for the residents of the border region, including air quality, clean energy, energy efficiency, public transportation and water management. The technical feasibility and environmental impact of, and public participation with respect to, all projects to be financed by the Bank are required to be evaluated and certified by the Border Environment Cooperation Commission ("BECC").

Capitalization. NADB's total authorized capital is $3 billion, consisting of $450 million in paid-in capital and $2.55 billion in associated callable capital with equal commitments from the United States and Mexico. Callable capital may be called if and when required to meet the Bank's debt or guarantee obligations, subject to certain procedural requirements but it may not be used to make loans. As of September 30, 2009, the Bank has received all paid-in capital contributions. As of September 30, 2009, the Bank had no outstanding indebtedness.

Recent Lending Activity. During the nine months ended September 30, 2009, the Bank signed seven new loan agreements totaling $167.6 million, more than twice the total amount of new loans contracted in 2008 ($72 million). NADB disbursed $96.5 million of these funds as of the end of the third quarter. The Bank's outstanding loan balance, which has more than tripled since its balance at the beginning of 2007, totaled $281.1 million as of September 30, 2009.

Lending Policies. The Bank's lending operations are designed to ensure that loans are made to financially sound entities and that funds are utilized as intended to implement technically and economically viable projects. The majority of the Bank's outstanding portfolio are loans to state and local municipalities in Mexico and the United States and 100% of its portfolio is secured by some form of credit support, which may include federal tax revenues pledged to an irrevocable trust or pursuant to a mandate contract, system revenues and borrower cash flows. NADB's loans are generally offered at fixed, market rates with maturities of up to 25 years.

Administration and Governance. The Bank is governed by a ten-member board of directors comprised of federal government and local representatives. The federal representatives include the U.S. Secretary of the Treasury, Secretary of State and Administrator of the Environmental Protection Agency, and the Mexican Secretary of Finance and Public Credit, Secretary of Foreign Relations and Secretary of the Environment and Natural Resources. The Bank is managed on a day-to-day basis by its Managing Director and Chief Executive Officer, Jorge Garcés, and its Deputy Managing Director and Chief Operating Officer, Héctor Camacho. Mr. Garcés is scheduled to retire in October 2010, and it is expected that Mr. Camacho will assume the role of Managing Director for a five-year term.

Risk Management. The Bank evaluates the creditworthiness of its borrowers on a case-by-case basis and continually monitors the financial stability of each borrower throughout the life of its loans. Proposed loans must be approved by Bank's funding committee and by its Board of Directors. To mitigate its exchange rate risk, the Bank hedges its exposure through cross-currency interest rate swaps with respect to its peso-denominated loans.

Earnings. For the year ended December 31, 2008 and the nine months ended September 30, 2009, the Bank had total revenues of $20.01 million and $15.84 million, respectively, and net income of $9.37 million and $7.13 million, respectively.

Liquidity Management. NADB maintains a portfolio of liquid investments to ensure that it can meet its obligations to disburse loans and satisfy its operating liabilities at all times and has sufficient cash flows to cover its operational needs. The Bank has established a minimum liquidity balance of $115.7 million for the 2010 fiscal year. NADB's liquid asset portfolio totaled $198.68 million as of September 30, 2009.

THE BANK

The Bank is a binational development financing institution established in 1994 to finance environmental infrastructure projects in the U.S.-Mexico border region. Communities eligible to receive NADB financing must be located within 100 kilometers (62 miles) north and within 300 kilometers (186 miles) south of the U.S.-Mexico border (the "border region"), which includes the U.S. states of Texas, New Mexico, Arizona and California and the Mexican states of Tamaulipas, Nuevo Leon, Coahuila, Chihuahua, Sonora, and Baja California. NADB was created under the auspices of the North American Free Trade Agreement (NAFTA) and operates under the Agreement between the Government of the United States of America and the Government of the United Mexican States Concerning the Establishment of a Border Environment Cooperation Commission and a North American Development Bank, as amended (the "Charter"). At the same time, the United States and Mexico created the BECC to evaluate and certify the technical feasibility and environmental impact of, and elicit public participation with respect to, all infrastructure projects to be financed by the Bank. NADB and the BECC are each governed by a common board of directors comprised of, among others, federal government officials from each country (the "Board"). See "Administration and Governance—Board of Directors."

Together with the BECC, NADB works to develop integrated, sustainable and financially sound projects with broad community support in a framework of close cooperation and coordination between Mexico and the United States. The Bank's activities are directed towards enhancing the affordability, financing, long-term development and effective construction of infrastructure that promotes a clean, healthy environment for the citizens of the border region.

The United States and Mexico are the sole members of the Bank (the "member countries"). NADB's total authorized capital is $3 billion, consisting of $450 million in paid-in capital and $2.55 billion in associated callable capital (available to the Bank upon request, subject to certain procedural requirements) with equal commitments from each member country. As of September 30, 2009, the Bank has received all paid-in capital contributions. The obligations of the United States and Mexico, respectively, to make payment of the callable portion of their subscriptions for capital shares of the Bank are independent, and the failure of one member country to make payment on any such call would not excuse the other member from its obligations.

Pursuant to the Bank's Charter, 10% of the Bank's capital has been set aside to fund domestic community adjustment and investment programs in each country. NADB has fully disbursed the funds for the Mexican domestic program, but continues to administer the funds allocated to the U.S. domestic program, the Community Adjustment and Investment Program ("USCAIP"). See "Business Operations—The Domestic Programs." USCAIP is funded entirely from this allocated capital and any net income earned by the program and its profits, losses, expenses and disbursements do not affect the Bank's retained earnings or paid-in capital nor would any USCAIP net income be available to support the Bank's obligations, including those under any of the Bank's debt securities or other borrowings.

This Information Statement contains forward looking statements which may be identified by such terms as "anticipates," "believes," "intends," "plans," or words of similar meaning. Such statements involve a number of assumptions and estimates that are based on current expectations, which are subject to risks and uncertainties beyond the Bank's control. Consequently, actual future results could differ materially from those currently anticipated.

The Bank's office is located at 203 South St. Mary's, Suite 300, San Antonio, Texas. Its telephone number is (210) 231-8000.

USE OF PROCEEDS

Unless otherwise disclosed in the prospectus, offering memorandum or supplemental information statement relating to a particular offering of securities by NADB, the net proceeds to the Bank from offerings of its debt securities will be used to fund loan disbursements. Pending their application to this purpose, the proceeds will be invested in accordance with the Bank's investment policy.

BUSINESS OPERATIONS

General

NADB offers loans to project sponsors to finance environmental infrastructure within the U.S.-Mexico border region. The Bank focuses its lending principally on states and local municipalities ("governmental borrowers"), although private borrowers are also eligible to receive NADB financing. As of September 30, 2009, approximately 93% of the Bank's outstanding loan portfolio, measured by principal amount, was comprised of loans to governmental borrowers. Unless otherwise specified, all references to the Bank's outstanding loan portfolio in this Information Statement have been calculated before taking into account any allowances for loan losses or the effect of foreign currency exchange rate adjustments, and exclude loans (and any associated reserves) made under USCAIP. See "—The Domestic Programs—United States Domestic Program."

The following table sets forth certain information on the Bank's total outstanding loan portfolio:

Outstanding Loan Portfolio, by Borrower Type

(amounts in U.S. $ Million)

	Total Outstanding Loan Portfolio(1)	Governmental Borrowers	% of Total Portfolio	Private Borrowers	% of Total Portfolio
As of December 31, 2007	$147.2	$139.3	95%	$7.9	5%
As of December 31, 2008	186.4	176.2	95	10.2	5
As of September 30, 2009	281.1	261.0	93	20.1	7

(1) Excludes loans made under USCAIP.

In certain limited circumstances and under well defined criteria, the Bank can make available grant funds to its borrowers and certain other eligible grantees. The Bank's largest grant program is fully funded by the U.S. Environmental Protection Agency (the "EPA") and administered by the Bank. NADB has also funded two smaller grant programs and a technical assistance program out of its retained earnings. See "—Grants" and "—Other Activities."

Since its creation and as of September 30, 2009, the Bank has contracted a total of $1.03 billion in infrastructure development financing, consisting of $411.2 million (40%) in loans and $621.3 million (60%) in grants, to finance 130 BECC-certified projects estimated to cost a total of $2.86 billion to build. Of that amount, the Bank has disbursed over $894.7 million to project sponsors for the implementation of 119 projects.

Business Objectives

The Bank's original mandate was to finance and facilitate the development of environmental infrastructure projects aimed at creating and sustaining drinking water supplies and developing wastewater treatment and municipal solid waste management facilities. These sectors continue to comprise the core focus of the Bank's financing efforts. In 2000, the Bank's mandate was expanded to encompass financing in other environmental sectors that have health and/or environmental benefits for the residents of the border region, including air quality, clean energy, energy efficiency, public transportation and water management. Under this expanded mandate, the Bank has financed projects such as street paving, storm drainage and construction of a commercial port of entry (border crossing).

Recent Lending Activity

In 2008, the Bank contracted nine loan agreements totaling $72 million, a 34% increase over the amount contracted the previous year and a new record for the Bank. In total, the Bank disbursed $49.1 million in loan proceeds to borrowers over the course of the year and received just under $10 million in principal repayments. During the nine months ended September 30, 2009, the Bank signed seven new loan agreements totaling $167.6 million, more than twice the total amount of new loans contracted in 2008. Of this amount, $96.5 million had been disbursed as of September 30, 2009. The Bank received $8.2 million in principal repayments during the first nine months of 2009.

The following table sets forth certain information on the Bank's total outstanding loan portfolio:

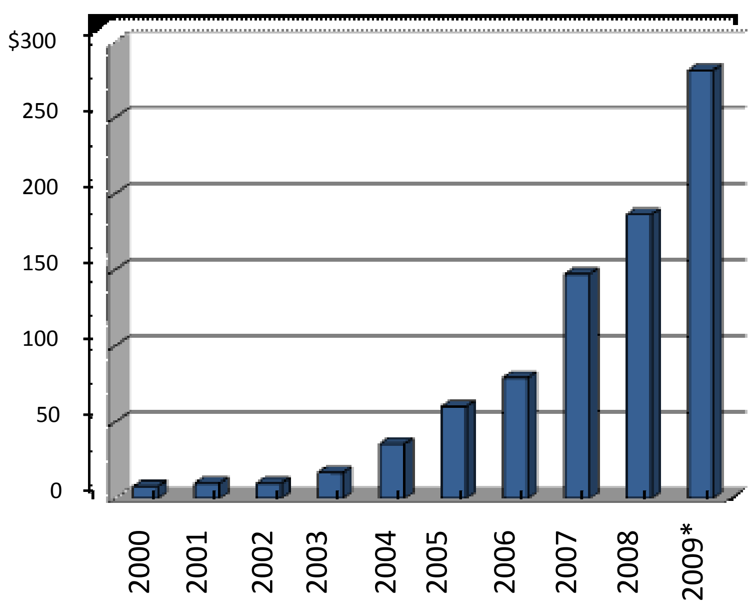
Outstanding Loan Portfolio

(in U.S. $ Million)

	As of September 30, 2009	As of December 31, 2008
Total disbursements made	$321.1	$218.2
Total principal repayments received..............................	(39.99)	(31.8)
Outstanding loan balance (at period end)	$281.1	$186.4
Total contracted loans	$411.2	$245.2
Signed commitments, not yet disbursed	$90.1	$27.0

The Bank's outstanding loan balance equaled $186.4 million and $281.1 million as of December 31, 2008 and September 30, 2009, respectively. The strong growth of the Bank's loan portfolio is clearly evident from the increase in the outstanding balance, which has more than tripled from its balance at the beginning of 2007. This represents an average compound annual growth rate of 58.4% for the period from December 31, 2006 to September 30, 2009. With its ongoing expansion into new environmental sectors and significant unmet needs remaining in its original sectors, NADB expects the balance of its total loan portfolio to continue to grow significantly in the coming years.

Growth in NADB's Outstanding Loan Portfolio
(in U.S. $ Millions)



* As of September 30.

During 2008 and the first nine months of 2009, NADB has made significant strides in diversifying the sectors in which it operates and the borrowers to which it lends. Projects under the Bank's expanded mandate during this period represented 46% of its contracted loans, including its first port of entry project, four air quality projects and its first clean energy project. Additionally, this period brought ten new borrowers to the Bank, three in the U.S. and seven in Mexico. While during the initial years of the Bank's operations, 100% of NADB's financing was disbursed to support drinking water supply and wastewater projects, only 8% of new lending approved in 2008 was allocated to these types of projects. As of September 30, 2009, water supply and wastewater projects constituted 45% of the Bank's outstanding loan portfolio, with 26% in storm drainage projects, 26% in air quality and the remainder in clean energy and solid waste.

The following table sets forth certain information on the Bank's total outstanding loan portfolio:

Outstanding Loan Portfolio, by Project Type

(amounts in U.S. $ Million)

	as of the Year Ended December 31,								
	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009***
Outstanding Loan Portfolio	$0.2	$6.9	$26.3	$45.8	$60.2	$79.4	$147.3	$186.4	$281.1
Project Type (as a percentage of the total portfolio):									
Water and Wastewater...........	100.0%	100.0%	27.7%	58.5%	65.4%	65.6%	74.3%	68.5%	45.3%
Storm Drainage......................	-	-	-	-	-	-	-	10.5	25.8
Air Quality.............................	-	-	70.5	40.5	30.2	33.1	23.6	17.4	26.2
Solid Waste............................	-	-	1.8	1.0	4.4	1.3	2.1	1.6	1.5
Clean Energy	-	-	-	-	-	-	-	2.0	1.2

* As of September 30.

Lending Policies

General

The Bank's lending operations conform to certain principles designed to ensure that loans are made to financially sound entities and that funds are utilized as intended to implement technically and economically viable projects. These principles are described in Box 1: Lending Operations Principles below. The Bank negotiates individual loan agreements according to these principles and the needs of a particular borrower or project. Loan disbursements are made subject to the fulfillment of conditions set forth in each individual loan agreement.

Loans to governmental borrowers in Mexico are made through the *Corporación Financiera de América del Norte, S.A. de C.V. SOFOM E.N.R* ("COFIDAN")—a multi-purpose financial institution established by the Bank in 1999 to facilitate lending activities in the Mexican territory. COFIDAN is a consolidated subsidiary owned 99.88% by the Bank and 0.12% by the Mexican government. Of the Bank's total outstanding portfolio of $186.4 million as of December 31, 2008, 30 loans totaling over $152.0 million were contracted through COFIDAN. As of September 30, 2009, 36 of the Bank's outstanding loans, totaling over $185.0 million, have been contracted through COFIDAN.

Box 1: Lending Operations Principles

(1) In general, the Bank makes loans to governmental and private borrowers for environmental infrastructure projects. Drinking water supply and wastewater treatment projects comprise the principal areas of the Bank's financing operations.

(2) All projects financed by the Bank must be certified by the BECC as meeting certain technical, environmental and public participation criteria, and must be located within the border region. Projects located outside the border region may be approved for loan financing if the Board determines the project would remedy a transboundary environmental or health problem.

(3) Project sponsors must submit a detailed proposal to the Bank specifying the technical, economic and financial feasibility of the project.

(4) In making loans, the Bank evaluates the borrower's ability to repay its obligations in accordance with the applicable loan repayment schedule. In making this determination, the Bank generally considers the loan payment mechanism, as well as the capacity of the borrower and/or project to generate sufficient revenues through various sources of cash flows to service its debt, the characteristics of the individual borrower and the nature and size of the project being financed.

(5) The Bank usually requires additional security arrangements, guarantees or sources of repayment or additional equity support to ensure repayment of the obligation.

(6) Loans may be extended with limited recourse to the cash flows from the operations of the project and its assets and/or full recourse to the project sponsor or a guarantor if necessary to provide reasonable assurance of repayment.

(7) To ensure that loan proceeds are used appropriately by project sponsors, the Bank monitors project construction and completion.

The Bank acts as sole lender in the substantial majority of the projects it finances, approximately 71% of its outstanding loan portfolio as of September 30, 2009. When appropriate for a given project, the Bank may provide financing in conjunction with another public or private financier. Almost all of the Bank's co-financed projects are financed in a consortium with other governmental lenders. Traditionally the Bank's lending activity has been with governmental borrowers and in its core sectors. In the medium-term, however, the Bank expects to expand its financing activities to also include projects with public-private partnerships, particularly given current market conditions as government spending is tightened and more private funding is made available for infrastructure financing, provided that such projects are consistent with NADB's risk management philosophy.

Collateral and Security

The Bank's core lending principles include an emphasis on risk aversion and a commitment to a strong payment structure. As of September 30, 2009, approximately 72% of the loans in the Bank's outstanding portfolio (measured by principal amount) are with Mexican borrowers and 28% are with U.S. borrowers. Of the Bank's loans to Mexican borrowers, approximately 67% are backed by federal tax revenues that have been pledged to an irrevocable trust for the benefit of the Bank or that are held by the state government and have been pledged as credit support pursuant to a mandate contract, which serves as a source of payment and/or guaranty to service the loan. All of the Bank's loans to U.S. governmental borrowers are structured as revenue bonds and are backed by specific system revenues.

Loans to private borrowers are secured by borrower cash flows, which may take the form of dedicated taxes, project cash flows or other dedicated sources of revenue. The Bank may require additional collateral from its borrowers, such as other project assets, including a mortgage on fixed assets (land, plant and other buildings), personal and corporate guarantees, a mortgage on or security interest in movable assets (equipment and other business assets), a pledge of a project sponsor's share in the project or the assignment of the sponsor's insurance policies and other contractual benefits. Where appropriate, the Bank may also require these types of credit support from its governmental borrowers.

In addition to its credit support requirements, the Bank imposes a debt service coverage ratio on all its loans. This requirement is intended to ensure that borrowers have sufficient cash flows available to cover the required debt service of NADB loans. The ratio is equal to the total net cash flow divided by the total fixed obligations of a project. A minimum debt service coverage ratio of 1.0 is required; however, for loans without a pledge of tax revenues, a minimum 1.2 debt service coverage ratio is generally required. In addition, the Bank may require borrowers to maintain a debt service reserve account with respect to loans other than those backed by a pledge of tax revenues.

To protect its assets and manage its loan portfolio credit risk, the Bank may require a guarantee of the principal and interest payments under the loan by the member country (or a public institution or similar agency of such member country acceptable to NADB) in whose territory the project is located. In addition, the Bank may require limited or general guarantees from project sponsors, borrowers, equity investors or other relevant parties to guarantee the technical or financial performance and completion of a project.

Lending Limits

To ensure the Bank has capital resources sufficient to meet its financing activities and obligations, the Bank is subject to certain lending limits. Under its Charter, the total amount of NADB's outstanding loans (including guarantees) may not exceed, at any time, the total amount of unimpaired subscribed capital of the Bank, plus the unimpaired reserves and undistributed surplus that are included in the capital resources of the Bank. The Charter defines "capital resources" to include (i) all authorized capital of the Bank, including paid-in and callable shares, (ii) funds raised by borrowings, (iii) funds received in repayment of loans and income derived from loans (or guarantees) made by the Bank from its authorized capital or borrowings, and (iv) the Bank's retained earnings. As of September 30, 2009, the total unimpaired subscribed capital of the Bank was $2.7 billion (paid-in capital and callable capital allocated to the Bank's financing activities) and its unimpaired reserves were $44.35 million, for a resulting total loan limit of $2.74 billion. This limit does not include income on capital resources that are specifically assigned by the Board to reserves not available for loans (or guarantees), for example, amounts relating to USCAIP.

As a matter of prudent risk management, the Bank imposes additional limits on a per obligor and per project basis. The maximum allowable credit exposure, net of disbursements repaid and any financing cancellations, to any single borrower is limited to 15% of the Bank's "available capital resources," which for this purpose is the sum of the Bank's funded unimpaired paid-in capital (*i.e.*, paid-in capital not otherwise dedicated to a specific program or investment), plus undesignated retained earnings, plus callable capital corresponding to the Bank's borrowings. As of September 30, 2009, the Bank's unimpaired paid-in capital was $405.0 million, its undesignated retained earnings were $35.0 million and it had no outstanding borrowings, for a total of $440.0 million in "available capital resources." This exposure limit may be increased by an amount equal to an additional 10% of NADB's available capital resources if (i) the loan is to a state (or political subdivision thereof) and constitutes a general obligation of the state (or political subdivision thereof), (ii) the obligor provides marketable collateral to secure its loans, or (iii) payments on the loan are made through a Mexican municipal or state irrevocable trust.

NADB may only provide financing for up to 85% of a project's eligible costs, and may require project sponsors or other private entities to provide a portion of the funding necessary for a project in the form of equity contributions or other loans. Under the Bank's lending policies, eligible project costs include the acquisition of land and buildings, site preparation and development, design, construction, reconstruction, rehabilitation, improvement, the acquisition of necessary machinery and equipment, legal, finance and development costs, interest during construction, contingency or reserve funds, customs and other duties and other incidental costs approved by NADB.

Currently Available Loan Terms

NADB's loans generally are offered at market rates. On a limited basis and under stringent eligibility criteria, the Bank may also offer subsidized interest rate lending. Market rate loans represented approximately 86% ($62.2 million) of the new loans contracted by the Bank in 2008, and 100% ($167.6 million) of the new loans contracted during the first nine months of 2009.

The following table provides the composition of the Bank's total outstanding loan portfolio with respect to market rate loans and subsidized interest rate loans ("LIRF") as of December 31, 2007 and 2008 and as of September 30, 2009.

The following table sets forth certain information on the Bank's loan portfolio:

Outstanding Loan Portfolio, by Loan Type

(amounts in U.S. $ Million)

	Total Outstanding Loan Portfolio[(1)]	**Market Rate Loans**	**% of Total Portfolio**	**LIRF Loans**[(1)]	**% of Total Portfolio**
As of December 31, 2007	$ 147.2	$ 84.1	57%	$ 63.1	43%
As of December 31, 2008	186.4	115.7	62	70.7	38
As of September 30, 2009	281.1	212.8	76	68.3	24

(1) Since November 2007, there have been no new approvals of loans under the subsidized interest rate program, although $9.9 million of LIRF loans were approved prior to November 2007 and contracted in 2008. As of September 30, 2009, only $17.8 million of funding remains available under this program.

(2) Excludes loans made under USCAIP.

Loans are generally offered at fixed rates payable monthly, quarterly or semi-annually and with maturities of up to 25 years. For U.S. borrowers, loans are available in U.S. dollars. For Mexican borrowers, loans are available in Mexican pesos or in U.S. dollars if the project generates a U.S. dollar cash flow. For loans made in Mexican pesos, the Bank's exchange rate risk is fully hedged through cross-currency swaps. As of September 30, 2009, 72% of the outstanding balance of the Bank's loans were in pesos. For information on the Bank's currently available market rate loan terms and applicable fees see Box 2 below.

Box 2: Currently Available Market Rate Loan Terms[(1)]

Base Rate	Available base rates include the yield on U.S. treasury securities, LIBOR, the TIIE rate[(2)], or any other USD or MXP reference rate, depending on the terms of the loan.[(3)]
Administrative Margin[(4)]	Based on the aggregate principal loan amount of: • Less than $5 million: 100-150 basis points (bps) • Greater than $5 million but less than $17 million: 60-150 bps • Greater than $17 million but less than $50 million: 40-150 bps • Greater than $50 million: 25-150 bps
Risk Exposure Spread[(5)]	0-400 bps[(6)]
Commitment Fee	0.75% per annum on the undisbursed balance of the loan

(1) In lieu of a portion of the basis points payable as interest on the loan, a borrower under a market rate loan may pay points up front. The total amount of basis points over the benchmark in the all-in interest costs of the loan, excluding commitment fee, may not exceed 550 bps.
(2) TIIE (*Tasa de Interés Interbancaria de Equilibrio*) is the representative rate for credit among banks in Mexico, and is calculated and published daily by the Bank of Mexico.
(3) Prior to June 2009, the Bank only offered base rates based on the yield on U.S. treasury securities.
(4) Prior to 2009, the administrative margin applicable to market rate loans was 100 bps, regardless of the size of the loan.
(5) From 2001 to 2007, the applicable range of risk exposure spread was 0-75 bps. In 2007, the Bank increased its risk exposure spread to 0-150 and increased it again in 2008 to its current level.
(6) The amount of risk exposure spread varies depending on credit worthiness of the borrower (or guarantor, if applicable) for direct recourse loans, or of the project, for limited recourse financing.

Project Evaluation, Certification and Implementation

Infrastructure financing projects are evaluated for technical feasibility prior to disbursement of funds. Contemporaneously with the creation of the Bank, the United States and Mexico created the BECC to fulfill this role. Accordingly, pursuant to the Charter, the BECC evaluates and certifies the technical feasibility and environmental impact of, and elicits public participation with respect to, all infrastructure projects to be financed by the Bank. Certification of projects requires the affirmative vote of a majority of the directors appointed by each member country and must include the affirmative vote of the respective representatives of the U.S. Department of Treasury (the "Treasury"), the Mexican Department of Finance and Public Credit (the "SHCP"), the EPA and the Mexican Ministry of the Environment and Natural Resources (the "SEMARNAT").

In addition to the BECC certification process, potential borrowers are required to submit extensive project descriptions to NADB that include, among other information, engineer's reports, feasibility studies, draft agreements for key elements of the project, borrower financials for the previous three to five years, project implementation and disbursement schedules, and anticipated project costs and assumptions on financial projections. With this information, NADB's staff undertakes an in-depth analysis of the historical credit trends, verification of data to validate the reasonableness of assumptions, modeling of projections with sensitivity and stress-test scenarios, legal review of documentation, design of collateral structure and loan payment mechanism, as well as project risks, including construction, operating, technology, management, input or supply, market, foreign exchange, interest rate, and regulatory risks. The Bank may only extend loan financing if it is satisfied, on the basis of this review, that the project is technically, environmentally, financially and economically sound, and that the project sponsors have the institutional, managerial and operating capacity to carry out the project.

Although project development and implementation—from design through the bidding processes and construction—is the responsibility of the project sponsors, NADB has a strong interest in ensuring that the proceeds of its loans and grants are used efficiently and for the purposes designated in the scope of the certified project. To that end, the Bank provides substantial project oversight and support during the procurement and construction phases of project implementation.

Non-Performing Loans and Loss Allowances

The Bank classifies loans as non-performing when payments of principal or interest on the loan are delinquent for 90 days or more, or where reasonable doubt exists as to timely collection. Loans are generally placed in nonaccrual status when principal or interest is delinquent for 180 days or more, or where reasonable doubt exists as to timely collection.

To guard against the risk of delinquent and non-performing loans, the Bank allocates an allowance for expected loan losses on its financial statements. Of the 56 loans in its outstanding portfolio, the Bank currently has only one non-performing loan. This $6.5 million loan has been in non-accrual status since 2005. NADB has received final judgment in Mexican courts against the borrower and is in the process of foreclosing on certain collateral. At September 30, 2009, the Bank had an allowance for loan losses of $4.0 million (excluding the $0.1 million loan loss allowance allocated to USCAIP) relating to this loan. At November 30, 2009, the Bank increased its allowance by $0.8 million. The Bank also designates certain funds from its retained earnings as reserves, which are available to cover its operating and other expenses and to offset any unexpected loan losses. See "Funding Resources—General and Special Reserves."

In certain cases where a borrower experiences financial difficulties, the Bank is authorized to restructure or modify the contractual terms of the loan. To date, none of NADB's borrowers have required renegotiation or restructuring of their loans.

Use of Derivatives

The Bank's policies require it to establish a currency hedge for peso-denominated loans unless the source of funding for the loan is also in pesos. For such loans, the Bank enters into cross-currency interest rate swaps ("swaps"), which virtually eliminate its economic exposure to fluctuations in foreign currency exchange rates and interest rates. The Bank's principal swap counterparty is *Fondo de Apoyo a Estados y Municipios* ("FOAEM"), a fund owned by the government of Mexico and administered by the federally run development bank, *Banco National de Obras y Servicios Públicos, S.N.C.* ("Banobras"), which acts as a counterparty with respect to its loans to governmental borrowers. The Bank engages in swaps directly with Banobras in connection with all of its private lending activities; Banobras is also available to act directly as a counterparty on swaps related to the Bank's loans to governmental borrowers. The obligations of Banobras are fully backed by the Mexican federal government.

Guarantees

Under its Charter, as part of its development financing, the Bank may guarantee loans made by third parties to a project in whole or in part, and may also guarantee securities issued in connection with a project. The Bank currently does not have an active guarantee program, has no outstanding guarantees and does not currently anticipate instituting a guarantee program in the near future. If NADB were to develop an active guarantee program as part of its financing efforts in the future, the Charter permits it to charge a guarantee fee based on the amount of the loan outstanding and attach other conditions to the making of guarantees as it deems appropriate.

Grants

In addition to its loan program, NADB administers a grant program that is fully funded by the EPA, the Border Environment Infrastructure Fund ("BEIF"), for the implementation of selected drinking water supply and wastewater infrastructure projects in the U.S. and Mexico. To be eligible to receive BEIF funds, projects in Mexico must have a transboundary impact. The Bank also has funded two grant programs out of its retained earnings, the currently active Solid Waste Environmental Program (SWEP) and the Water Conservation Investment Fund (WCIF), which as of the date hereof is fully committed and substantially depleted.

By far, the Bank's most significant grant program is BEIF. This program has been awarded funds annually by appropriation from the U.S. Congress. During the first nine months of 2009, BEIF grants totaling $2.4 million were approved. No SWEP grants were approved during the same period.

As of September 30, 2009, the Bank has contracted a total of $1.03 billion in infrastructure development financing since its inception, of which $621.3 million or 60% was contracted in the form of grants. During the initial years of the Bank's operations, disbursed grants represented the majority of the Bank's financing, as compared to its outstanding loan portfolio. Although the total amounts of grants disbursed by the Bank have grown as the Bank's financing activities and funding resources have increased over the years, grants as a percentage of total disbursed funds have steadily decreased since 2001. Total grant disbursements were $194.6 million, $438.7 million and $530.1 million as of the years ended December 31, 2001, 2007 and 2008, respectively. However, while grants represented 95% of all disbursements as of December 31, 2001, disbursed grants represented only 71% of the Bank's total disbursements as of December 31, 2008.

Technical Assistance Programs

The Bank uses a limited portion of its retained earnings to provide technical assistance and training to project sponsors to support the development of environmental infrastructure projects. The project sponsors are required to contribute at least 25% of the cost of technical assistance programs funded by the Bank. During fiscal year 2008, $2.0 million in grant funding was approved for NADB's technical assistance programs. In the nine months ended September 30, 2009, $0.4 million in grant financing was approved for technical assistance programs.

Investments

The Bank's primary investment objective is the maintenance of sufficient liquidity. Investments for the Bank's portfolio are undertaken in a manner that seeks to ensure the preservation of capital. Total return, while an important consideration, is of lesser importance than liquidity and safety of principal. As of September 30, 2009, the Bank had a liquid asset portfolio (excluding USCAIP's liquid assets) of $198.68 million. See "Financial Risk and Liquidity Management—Liquidity Policies and Liquidity Risk Management" and "Financial Risk and Liquidity Management–Investment Policy" for further information about the Bank's liquidity policy, liquid asset portfolio and investment policy.

The Domestic Programs

General

When NADB was established in 1994, the U.S. and the Mexican governments agreed that 10% of NADB's capital would be set aside to fund community adjustment and investment programs in the U.S. and Mexico. Unlike the Bank's environmental infrastructure financing activities, the projects funded under these domestic programs are not limited to communities located within the border region and do not require BECC certification.

In addition to the financing limits established by the Bank's Charter and described under "Lending Policies—Lending Limits" above, limits to the Bank's funding of domestic programs apply. NADB's Charter provides that the total amount of loans, guarantees and grants may not exceed ten percent (10%) of the sum of the paid-in capital paid by the member country, plus the amount of such member country's unqualified subscription for callable shares.

United States Domestic Program

NADB assists the United States in administering the U.S. domestic program, USCAIP. USCAIP is designed to assist communities and the private sector in creating new jobs and preserving existing jobs in areas adjusting to changes in their economies as a result of NAFTA. USCAIP operates under the direction of a Finance Committee comprised of representatives of the U.S. Departments of the Treasury, Agriculture (USDA) and Housing and Urban Development (HUD), and the U.S. Small Business Administration (SBA), along with other agencies selected by the Department of the Treasury, which serves as Finance Committee chair. Since its inception, more than $7.7 million in loans and $13.4 million in grants have been authorized under USCAIP and $13.1 million has been disbursed by the Bank to support 50 projects, serving over 40 communities in 19 states.

NADB holds and administers funds for the USCAIP. Accordingly, USCAIP accounts are reported with and included in the accounts for the Bank's financing activities and in NADB's consolidated financial statements. However, the Bank is not involved in decisions regarding the use of USCAIP funds. As of September 30, 2009, USCAIP had available $11.07 million in equity (consisting of $10.935 million of allocated paid-in capital, $5,835 in designated retained earnings and $0.124 million for its special reserve) and $6.2 million in cash and cash equivalents. USCAIP is funded entirely from these allocated sources (and any net income earned by the program). Profits, losses, expenses, disbursements and other activities relating to USCAIP are funded through USCAIP's designated retained earnings and do not affect the Bank's retained earnings or paid-in capital nor would any USCAIP net income be available to support the Bank's obligations, including those under any of the Bank's debt securities or other borrowings.

More detailed information with respect to USCAIP's financial information may be found in the financial statements appended hereto.

Mexican Domestic Program

In June 1996, the Mexican federal government, through the SHCP, entered into a mandate agreement with the Mexican federal development bank, Banobras, to operate the Mexican domestic program and administer its funds. Accordingly, the Bank disbursed $22.5 million to Banobras, representing all of Mexico's paid-in capital for its domestic program. The Bank is not directly involved in, nor does it track or report on, the Mexican domestic program.

Properties

The Bank's office is located at 203 South St. Mary's, Suite 300, San Antonio, Texas and is leased from the City of San Antonio. Pursuant to its 1995 lease with the City of San Antonio, the Bank does not pay rent on the substantial majority of its leased premises, and pays a nominal amount of rent for additional space in the same office building leased by the Bank in 2000.

Litigation

There is no material litigation pending or threatened against the Bank. Recently, the Bank has litigated a $6.5 million loan, which has been in non-accrual status since 2005. NADB has received final judgment in Mexican courts against the borrower under this loan and is currently in the process of foreclosing on certain collateral pledged as credit support for the defaulted loan.

FUNDING RESOURCES

Capital Resources

NADB's total authorized capital is $3 billion, with equal commitments from the United States and Mexico. Each country has authorized the subscription of 150,000 shares of the Bank's capital stock with a par value of $10,000 per share: $225 million in paid-in capital, payable in installments as agreed to by the two member countries, and $1.275 billion in callable capital. Fifteen percent of NADB's authorized capital is in the form of paid-in capital, and the remaining eighty-five percent is callable capital available to the Bank upon request, subject to certain procedural requirements.

As of September 30, 2009, the Bank has received all installments of paid-in capital contributions from the U.S. and Mexico, totaling $450 million. The remaining $2.55 billion in callable capital is callable by NADB and must be provided by the two governments if and when required to meet the Bank's outstanding debt and guaranty obligations. Callable capital may not be used to make loans or acquire investments. Any capital call must be made uniformly to both member countries, but the obligations of the United States and Mexico, respectively, to make payment of the callable portion of their subscriptions for capital shares of the Bank are independent of each other. As a result, the failure of one member country to make payment on any such call would not excuse the other member from its obligation to make payment, and, if necessary to meet the Bank's obligations, the Bank may make successive calls on the non-defaulting member, up to its subscribed callable capital limit. Neither member country may be required to pay more than the unpaid balance of its capital subscription. The United States' subscription of $1.275 billion of callable capital stock has been authorized by the U.S. Congress but not yet appropriated. Further action by Congress would be required to enable the Secretary of the U.S. Treasury to pay any portion of this amount. Similarly, Mexico's subscription of $1.275 billion of callable capital stock has been fully authorized by its legislature, but payment upon a call would be subject to an allocation of Mexican budgetary resources for such purposes.

If the Board of Directors deems it necessary to make a capital call, the Board must pass a resolution authorizing the capital call on the U.S. and Mexican governments. In such event, it is expected that the call would be sent to the U.S. Treasury and the Mexican Department of Finance and Public Credit, the Secretaries of which are members of the Bank's Board of Directors. The Charter does not prescribe time frames by which the U.S. or Mexican governments must honor a request for callable capital.

As set forth in its Charter, ninety percent (90%) of NADB's authorized capital is used to finance environmental infrastructure projects in the border region, and ten percent (10%) of the capital subscribed by each country was set aside to finance the member countries' domestic programs. As a result, $405 million in paid-in capital is available to support the Bank's financing activities and the remaining $45 million of the Bank's paid-in capital (and $255 million in associated callable capital) was allocated to the domestic programs at the Bank's inception.

General and Special Reserves

The Bank also maintains general and special reserves to cover operating expenses, offset any unexpected losses on loans or guarantees and to pay expenses relating to the enforcement of the Bank's rights under outstanding loans and guarantee agreements. These reserves are distinct from the Bank's allowance for expected loan losses, which as of September 30, 2009 totaled $4.1 million. Of this amount, $0.1 million is allocated to USCAIP and the remaining $4.0 million is available to offset losses on loans made by the Bank. See "Business Operations—Lending Policies—Non-Performing Loans and Loss Allowance."

The general reserve is funded by an amount equal to the Bank's net income, after any required deposits made to the special reserve, plus transfers from paid-in capital for the U.S. domestic program. As of December 31, 2008 and September 30, 2009, the general reserve balance was $63.21 million and $66.86 million, respectively, with approximately $11.09 million and $10.94 million, respectively, representing the allocated paid-in capital and retained earnings of USCAIP, and the remaining balances relating to the Bank's lending activities.

The special reserve is funded out of the Bank's retained earnings. The Bank's policy is to maintain this reserve at 3% of the outstanding amount of loans disbursed and 1% of the undisbursed loan commitments. As of December 31, 2008 and September 30, 2009, the special reserve balance was $5.98 million and $9.45 million, respectively, with approximately $5.86 million and $9.33 million, respectively, relating to the Bank's lending activities. Special reserves allocated to USCAIP were $0.115 million as of December 31, 2008 and $0.124 million as of September 30, 2009.

The USCAIP portions of the general and special reserves are not available to cover NADB's operating expenses, offset losses or pay expenses relating to the Bank's financing activities. In addition, expenses and losses relating to USCAIP are limited to its general and special reserve amounts; if those reserves were depleted, the remainder of the Bank's reserves would not be available to satisfy USCAIP's obligations.

Borrowings

As of the date of this Information Statement, the Bank had no outstanding borrowings. The Board has approved a borrowing program for the Bank, which permits NADB to borrow, from time to time, up to $376.0 million, either directly from a third-party bank or by issuing debt securities, during the 2010 fiscal year. The Bank has not determined the amount, if any, it will seek to borrow through the issuance of notes or otherwise, in future years.

SELECTED FINANCIAL DATA

The following information is derived from the Bank's consolidated statements of income, balance sheets and statements of cash flows for the years ended December 31, 2007 and 2008 and for the nine months ended September 30, 2008 and 2009. The Bank's consolidated financial statements include amounts for the U.S. domestic program, USCAIP, and for the EPA-funded BEIF grant program, each of which is administered by the Bank.

Although USCAIP is consolidated in the Bank's financial statements, including its retained earnings, USCAIP is funded entirely from its allocated paid-in capital and any net income earned by the program. Profits, losses, expenses and disbursements for the USCAIP program affect USCAIP's designated retained earnings, but do not affect the Bank's retained earnings or paid-in capital nor would any USCAIP net income be available to support the Bank's obligations, including those under any of the Bank's debt securities or other borrowings. Similarly, although funds relating to the BEIF program are consolidated in the Bank's financial statements, funds disbursed for grants under the BEIF program are received from the EPA prior to disbursement by the Bank to the grantees, and any BEIF-related operating expenses incurred by the Bank are reimbursed by the EPA. More detailed information with respect to USCAIP and BEIF may be found in the financial statements and accompanying notes appended hereto.

	For the Nine Months Ended September 30,		For the Year Ended December 31,	
	2009	**2008**	**2008**	**2007**
	(Unaudited)		**Audited**	
Consolidated Statements of Income:				
Income:				
Interest:				
Investment income	$ 6,766,939	$ 7,647,726	$ 10,051,592	$ 11,692,619
Loan income	7,600,301	6,103,615	8,527,538	5,431,910
Gain/Loss on sales of available-for-sale investment securities	1,324,272	611,783	611,783	435,726
Fee income	9,681	17,308	25,182	42,004
Other	135,022	7,750	798,146	-
Total revenues	**$ 15,836,215**	**$ 14,388,182**	**$ 20,014,241**	**$ 17,602,259**
Total operating expenses	**$ 5,177,900**	**$ 4,893,212**	**$ 6,924,320**	**$ 7,662,854**
Income before program activities	**$ 10,658,315**	**$ 9,494,970**	**$ 13,089,921**	**$ 9,939,405**
Program activities:				
U.S. Environmental Protection Agency (EPA) grant income	1,251,685	1,249,758	1,763,730	2,503,776
EPA grant administration expense	(1,251,685)	(1,249,758)	(1,763,730)	(2,503,776)
Technical assistance and training program expense	(1,214,502)	(1,248,934)	(1,644,728)	(3,475,172)
Solid Waste Environmental Program expense	(1,684,188)	(439,032)	(585,278)	(1,106,588)
Water Conservation Investment Fund expense	(624,852)	(1,358,080)	(1,491,287)	(833,054)
Net program expenses	**$ (3,523,542)**	**$ (3,046,046)**	**$ (3,721,293)**	**$ (5,414,814)**
Income (loss) before minority interest	$ 7,134,773	$ 6,448,924	$ 9,368,628	$ 4,524,591
Minority interest	96	(13)	166	205
Net income (loss)	**$ 7,134,677**	**$ 6,448,937**	**$ 9,368,462**	**$ 4,524,386**
Consolidated Balance Sheets:				
Assets:				
Cash and cash equivalents:	$ 46,596,381	$ 55,802,312	$ 68,974,305	$ 55,318,448
Held-to-maturity investment securities, at amortized cost	1,518,876	3,473,936	3,129,660	3,396,022
Available-for-sale investment securities, at fair value	158,601,639	172,833,784	192,603,451	185,732,610
Loans outstanding, net of allowance for loan losses	251,218,078	186,388,905	153,031,533	149,118,103
Interest receivable	2,038,137	3,055,711	2,719,379	2,932,951
Grant receivable	276,675	140,912	352,928	331,486
Furniture, equipment and leasehold improvements, net	159,712	139,112	188,089	164,349
Other assets	47,828,928	15,897,871	56,509,353	1,543,793
Total assets	**$ 508,238,426**	**$ 437,732,543**	**$ 477,508,698**	**$ 398,537,762**

	For the Nine Months Ended September 30,		For the Year Ended December 31,	
	2009	2008	2008	2007
	(Unaudited)		Audited	
Liabilities:				
Accounts payable	264,985	155,855	$ 328,607	$ 704,906
Accrued liabilities	684,698	700,255	586,002	635,982
Undisbursed grant funds	338,194	737,360	677,253	861,613
Total liabilities	**$ 1,287,877**	**$ 1,593,470**	**$ 1,591,862**	**$ 2,202,501**
Minority interest:	6,092	5,817	5,996	5,830
Equity:				
Total paid-in capital	405,000,000	405,000,000	405,000,000	405,000,000
Scheduled	-	(46,876,786)	(27,996,786)	(73,967,500)
Net funded paid-in capital:	405,000,000	358,123,214	377,003,214	331,032,500
General Reserve:				
Allocated paid-in capital(1)	10,935,510	10,935,510	10,935,510	10,935,510
Retained earnings:(2)				
Designated	20,908,112	23,069,907	22,488,849	25,628,092
Undesignated	35,021,597	26,209,452	29,786,101	18,653,569
Special Reserve	9,458,279	6,054,427	5,978,361	4,603,188
Accumulated other comprehensive income/loss	25,620,959	11,740,746	29,718,805	5,476,572
Total equity	$ 506,944,457	$ 436,133,256	$ 475,910,840	$ 396,329,431
Total liabilities, minority interest, and equity	**$ 508,238,426**	**$ 437,732,543**	**$ 477,508,698**	**$ 398,537,762**
Consolidated Statements of Cash Flows:				
Cash and cash equivalents at beginning of period	$ 68,974,305	$ 55,318,448	$ 55,318,448	$ 39,410,877
Net cash provided by operating activities	6,894,	5,142,006	7,761,692	3,755,004
Net cash used in lending, investing, and development activities	(56,930,447)	(31,624,603)	(39,892,189)	(12,631,568)
Net cash provided by financing activities	27,657,727	26,966,461	45,786,354	24,784,135
Net increase (decrease) in cash and cash equivalents	(22,377,924)	483,864	13,655,857	15,907,571
Cash and cash equivalents at end of period	$ 46,596,381	$ 55,802,312	$ 68,974,305	$ 55,318,448
Performance Ratios:				
Return on average shareholders' equity(3)	2.46%	2.47%	3.35%	2.94%
Return on paid-in capital(4)	2.74	2.69	3.68	3.15
Return on average assets(5)	2.18	2.21	3.00	2.65
Administrative expenses divided by average assets(6)	1.06	1.14	1.59	2.04
Non-performing loan(s)(7)	$ 6,516,672	$ 6,516,672	$ 6,516,672	$ 6,516,672
Allowance for losses	4,104,161	4,104,161	4,104,161	4,104,161
Average net assets	489,377,982	430,340,198	436,068,612	375,389,954
Average net funded paid-in capital	389,113,607	352,345,436	355,363,214	315,117,708

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(1) Represents paid-in capital allocated to USCAIP. See "Business Operations—The Domestic Programs."

(2) Retained earnings designated as USCAIP retained earnings equaled $5,835 as of September 30, 2009, $196,904 as of September 30, 2008, $155,555 as of December 31, 2008 and $254,839 as of December 31, 2007.

(3) Calculated as income before program expenses, divided by the sum of average net funded paid-in capital plus undesignated retained earnings plus the special reserve.

(4) Calculated as income before program expenses divided by average net funded paid-in capital.

(5) Calculated as income before program expenses divided by average net assets.

(6) Calculated as total operating expenses divided by average net assets.

(7) The Bank has one non-performing loan. See "Business Operations—Lending Policies—Non-Performing Loans and Loss Allowances."

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Overview

The Bank's total revenues are derived from interest income from loans and interest income and gains (net of any loss) on investment securities, less any interest paid on borrowed funds. To date, the Bank has had no outstanding debt and therefore has had no interest paid on borrowed funds. Since its inception, the Bank has made loans by selling investments purchased with its funds from equity and disbursing the proceeds into loans. In the future, NADB intends to follow the same disbursement procedure by selling investments purchased with its funds from borrowed monies. Expenses to date have been principally related to expenditures for personnel and related administrative expenses. In the future, expenses will also include interest paid on borrowed funds. The Bank has experienced positive income before program expenses (grants) in each year since its inception.

For the nine-month period ended September 30, 2009, the Bank had total revenues of $15.8 million, total operating expenses of $5.2 million and income before program activities of $10.6 million. Net income after program expenses was $7.1 million.

Significant Accounting Policies

The Notes to the Bank's financial statements contain a summary of NADB's significant accounting policies, including a discussion of recently issued rules and regulations. The Bank's financial statements are prepared in accordance with accounting principles generally accepted in the United States (GAAP), and are consistent with that of an international organization.

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions that may affect reported results, including amounts of assets and liabilities, and revenues and expenses. Certain of these policies are considered to be critical to the portrayal of the Bank's financial condition, because they require NADB's management to make difficult, complex or subjective judgments, or relate to matters that are inherently uncertain. These policies include (i) the use of fair value accounting and (ii) the determination of the level of loss allowances and reserves in the Bank's loan portfolio. Additional information about these policies can be found in Notes 2, 4 and 11 to the consolidated financial statements for the nine months ended September 30, 2009.

Fair Value Accounting

The Bank uses fair value measurement to account for the value of its cross-currency interest rate swaps and available-for-sale debt securities. The Bank determines the fair market values of these instruments based on the fair value hierarchy established in FAS 157, *Fair Value Measurements*, which when measuring fair value requires an entity to maximize the use of observable inputs based on market data obtained from sources independent of the reporting entity and minimize the use of unobservable inputs based on the reporting entity's own assumptions about market participant assumptions developed on the best information available in the circumstances.

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

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

States (UMS) securities, and mortgaged-backed debt securities, all of which are classified as available-for-sale investments.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category includes cross-currency interest rate swaps where independent pricing information is not available for a significant portion of the underlying assets.

When possible, fair value is determined by reference to quoted market prices. If quoted market prices are unavailable, then fair value is based on pricing and discounted cash flows estimates models. Selection of data included in pricing and cash flow models involves a significant degree of judgment, and changes in the assumptions and measurements underlying this data could have a substantial impact on the amounts the Bank reports as its assets, liabilities, and the related unrealized gains and losses reported on its income statement. The Bank believes that its estimates of fair value are reasonable in light of its established processes for obtaining data for use in its models, periodic evaluation, review and validation of its models and consistent approach from period to period.

Loss Allowances

The Bank's loans are reported in its financial statements at the principal amount of the loan outstanding, net of allowance for loan losses associated with delinquent or non-performing loans and net effect of foreign currency exchange rate adjustments. The determination of the allowance for loan losses is based on management's current judgments about the credit quality of its loan portfolio, and the allowance is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. Determining the appropriate allowance for loan losses involves significant judgment about when a loss has been incurred and the amount of that loss. Actual losses may differ from expected losses due to unforeseen changes in a variety of factors that affect borrowers' creditworthiness and the accuracy of the Bank's allocated allowance.

Results of Operations

The following discussion of the Bank's results of operation are from the Bank's consolidated combined balance sheets, statements of income and statements of cash flows and, accordingly, include amounts for the U.S. domestic program, USCAIP, and for the EPA-funded BEIF grant program, each of which are administered by the Bank. USCAIP is funded entirely from its allocated paid-in capital and any net income earned by the program. Profits, losses, expenses and disbursements for the USCAIP program affect USCAIP's designated retained earnings, but do not affect the Bank's retained earnings or paid-in capital nor would any USCAIP net income be available to support the Bank's obligations, including those under any of the Bank's debt securities or other borrowings. As of September 30, 2009, $10.94 million in paid-in capital was allocated to USCAIP and held in the Bank's general reserves.

The BEIF grant program, fully funded by the EPA, is also reflected on the Bank's consolidated combined balance sheets, statements of income and statements of cash flows, but has no economic effect on the Bank's operations. Funds disbursed for grants under the BEIF program are received from the EPA prior to disbursement by the Bank to the grantees, and any BEIF-related operating expenses incurred by the Bank are reimbursed by the EPA.

More detailed information with respect to USCAIP and BEIF may be found in the financial statements appended hereto.

Interest Income

<u>September 30, 2009 as compared to September 30, 2008</u>

For the nine months ended September 30, 2009, total interest income, consisting of investment interest income and loan interest income, was $14.37 million as compared to $13.75 million for the nine months ended September 30, 2008, representing a $0.62 million or 4.47% increase for the nine-month period. This growth was driven largely by the increase in the loan portfolio and the interest earnings on the additional paid-in capital of $28 million received during the nine-month period ended September 30, 2009 and $27.09 million in paid-in capital received during the nine-month period ended September 30, 2008.

Of the Bank's total interest income, investment interest income for the nine-month period ended September 30, 2009 totaled $6.77 million, representing a decrease of $0.88 million or 11.5% over the nine-month period ended September 30, 2008. This decrease was primarily attributable to the sale of investments, the proceeds of which were used to support an increase in the Bank's loan portfolio. Such sales reduced investment interest income (but increased loan interest income). The increased interest income resulting from the additional paid-in capital received partially offset the decline in investment interest income caused by the sale of investments.

Loan interest income for the period ended September 30, 2009 totaled $7.6 million, an increase of $1.5 million or 24.5% over the nine-month period ended September 30, 2008. This significant increase in loan interest income was primarily attributable to an increase in the Bank's outstanding loan portfolio (including USCAIP, but before taking into account any allowance for loan losses or the effect of foreign currency exchange rate adjustments), which as of September 30, 2009 were $285.2 million as compared to total loans outstanding of $192.8 million as of September 30, 2008, representing an increase of $92.4 million or 48%.

<u>December 31, 2008 as compared to December 31, 2007</u>

Total interest income for the fiscal year ended December 31, 2008 was $18.58 million as compared to $17.12 million for the fiscal year ended December 31, 2007, representing a $1.45 million or 8.5% increase in 2008. This overall increase in interest income was attributable to the continued growth of the Bank's loan portfolio and the interest earnings from the additional paid-in capital of $45.97 million received in 2008 and $27.28 million of paid-in capital received in 2007.

Investment interest income for the fiscal year ended December 31, 2008 was $10.05 million as compared to $11.69 million for the fiscal year ended December 31, 2007, resulting in a decrease of $1.64 million or 14% for 2008. This decrease was primarily attributable to the net proceeds from the sale of investment securities used to support an increase in the Bank's loan portfolio.

Loan interest income for the fiscal year ended December 31, 2008 totaled $8.53 million, as compared to $5.43 million for the fiscal year ended December 31, 2007, representing an increase of $3.09 million or 56.9% for 2008. This increase in loan interest income was due to the increase generally in the Bank's outstanding loan portfolio (including USCAIP, but before taking into account any allowance for loan losses or the effect of foreign currency exchange rate adjustments) and, in particular, an increase in the number of market rate loans contracted and disbursed by the Bank during this period. As interest rates under the Bank's market rate loans are higher than rates under the Bank's subsidized interest rate program, market rate loans provide more loan interest income to NADB. As of December 31, 2008, the Bank's outstanding loan portfolio totaled $190.27 million, representing an increase of $38.47 million or 25.3% from its outstanding balance of $151.79 million as of December 31, 2007. During the fiscal year ended December 31, 2008, market rate loans disbursements represented 78% of NADB's total disbursements.

Gain (Loss) on Sales of Available-For-Sale Investment Securities

September 30, 2009 as compared to September 30, 2008

For the nine months ended September 30, 2009, total gain on sales of available-for-sale investment securities was $1.32 million, as compared to $0.61 million for the nine months ended September 30, 2008, representing an increase of $0.71 million or 116%.

Available-for-sale investment securities totaled $158.6 million as of September 30, 2009 and $172.83 million as of September 30, 2008, representing a decrease of $14.23 million or 8.2%. This decrease was primarily attributable to investment securities being sold, the proceeds of which were used to support an increase in the Bank's loan portfolio, and partially offset by an increase of $9.24 million in unrealized gains for available-for-sale investment securities at September 30, 2009, as compared to September 30, 2008.

December 31, 2008 as compared to December 31, 2007

For the year ended December 31, 2008 total gain on sales of available-for-sale investment securities was $0.61 million as compared to $0.44 million for the year ended December 31, 2007, and representing an increase of $0.18 million or 40.4%.

Available-for-sale investment securities totaled $192.6 million as of December 31, 2008 and $185.73 million as of December 31, 2007, representing an increase of $6.87 million or 3.7% for 2008. This increase was attributable to an increase of $4.6 million in unrealized gain for available-for-sale investment securities and the purchase of investment securities with the remainder of additional paid-in capital of $45.97 million received during 2008 not used to fund loans.

Fee Income

Fee income is comprised of loan application, loan commitment, and loan penalty fees and generally is not material to the Bank's results of operations. Loan commitment fees have been significantly reduced since 2007 due to changes in the commitment fee schedule. Prior to 2007, NADB charged its borrowers an annual commitment fee of 0.75% on the borrower's undisbursed loan balance, assessed quarterly. The Bank's current fee schedule assesses a 0.75% annual commitment fee only if actual disbursements are delayed from the agreed-upon disbursement schedule.

The Bank generally charges a loan application fee of $1,500 for loans less than $5 million and $2,500 for loans over $5 million. The period from the initial loan application to the loan disbursement varies significantly from loan to loan. Therefore, the trend in the fee income may vary from the trend in loan disbursements.

Other Income and Expenses

September 30, 2009 as compared to September 30, 2008

Other income and expenses are primarily comprised of the net increase (decrease) in the fair value of a U.S.-dollar denominated swap related to the Bank's one non-performing loan (peso-denominated). During the nine months ended September 30, 2009, other income totaled $135,022 as compared to $7,750 for the nine months ended September 30, 2008.

December 31, 2008 as compared to December 31, 2007

For the year ended December 31, 2008, other income totaled $798,146, and was primarily comprised of the net increase in the fair value of a swap related to the one non-performing loan of NADB for 2008. For the year ended December 31, 2007, other operating expense totaled $235,090, and was primarily comprised of the net decrease in the fair value of a swap related to the one non-performing loan of NADB in 2007 from the value at year end 2006.

Operating Expenses

The annual operating budget for the Bank's financing activities is developed by NADB management and reviewed and approved by the Board. Operating expenses include salaries and personnel costs, including contracts with consultants, operational travel costs, equipment, furniture and leasehold improvements for NADB's properties and other assets maintained by the Bank, and general and administrative costs. For the year ended December 31, 2008, actual operating expenditures for the Bank's activities (excluding USCAIP operating expenses and depreciation and amortization costs but including capitalized fixed assets) equaled $6.41 million, out of a total authorized operating budget of $6.43 million. For the year ended 2009, the Board authorized an operating budget of $6.85 million. As of September 30, 2009, actual operating expenditures for the Bank's activities (excluding USCAIP operating expenses and depreciation and amortization costs but including capitalized fixed assets) totaled $4.91 million.

USCAIP is consolidated into the Bank for financial reporting purposes and, accordingly, its operating expenses are reflected in the Bank's consolidated statements of income as a separate line item. Any operating expenses relating to USCAIP are offset by a corresponding decrease in USCAIP's designated retained earnings. See "Selected Financial Data." In addition, the USCAIP budget is developed and approved by USCAIP staff; the Bank is not involved in developing or approving the USCAIP budget.

<u>September 30, 2009 as compared to September 30, 2008</u>

For the nine months ended September 30, 2009, total operating expenses (excluding other expenses) were $5.18 million as compared to $4.89 million for the nine months ended September 30, 2008, representing a $0.28 million or 5.8% increase. This increase was primarily attributable to increased costs for personnel, consultants, and general and administrative expenses, resulting from increasing lending activities of the Bank. No loan loss provisions were taken in 2009. The Bank continues to have only one non-performing loan, which has been in default since 2005. NADB believes that its allowance for loan losses, $4.0 million as of September 30, 2009 (excluding the $0.1 million allowance allocated to USCAIP) is sufficient to cover known losses on its loan portfolio. See "Business Operations—Lending Policies—Non-Performing Loans and Loss Allowances."

<u>December 31, 2008 as compared to December 31, 2007</u>

For the year ended December 31, 2008, total operating expenses (excluding other expenses) were $6.92 million as compared to $7.43 million for the year ended December 31, 2007, and representing a $0.51 million or 6.9% decrease. The decrease was primarily attributable to an additional provision for loss on the Bank's one non-performing loan in the amount of $444,707 that was taken in 2007. No loan loss provisions were taken in 2008.

Program (Grant) Activities

NADB uses a portion of its retained earnings to finance its SWEP grant program (and any remaining funding needs under its WCIF grant program) and its technical assistance and training programs. These funds are designated by the Board as needed and subject to availability. As of December 31, 2008, retained earnings relating to the Bank's financing activities equaled $52.12 million (out of $52.28 million total retained earnings) and 42.8% of this amount, or $22.33 million, was designated to specific grant programs. Retained earnings grew in the first nine months of 2009 by 7.3%, providing a total of $55.9 million of retained earnings for the Bank's financing activities, of which $20.9 million was designated to specific grant programs.

Although reflected on the Bank's consolidated statements of income, funds disbursed for program expenses relating to disbursements under the BEIF grant program, funded by the EPA, have no economic effect on the Bank's operations and are reimbursed by the EPA.

<u>September 30, 2009 as compared to September 30, 2008</u>

For the nine months ended September 30, 2009, net program expenses (grants from NADB funds that have been previously designated from retained earnings) were $3.52 million as compared to $3.05 million for the nine months ended September 30, 2008, representing a $0.48 million or 15.7% increase for the nine-month period. This increase was primarily attributable to a $1.24 million increase in expenses for the Solid Waste Environmental Program (SWEP) during the nine-month period ended September 30, 2009, as compared to the nine-month period ended September 30, 2008. The increase was partially offset by a $0.73 million decrease in expenses for the Water Conservation Investment Fund (WCIF) during the same nine-month period of 2009.

<u>December 31, 2008 as compared to December 31, 2007</u>

Net program expenses for the year ended December 31, 2008 totaled $3.72 million, as compared to $5.41 million for the year ended December 31, 2007, representing a $1.69 million or 31.3% decrease in 2008. This decrease was attributable to decreased program expenses for SWEP and the Technical Assistance Program (totaling $2.35 million for 2008), partially offset by a $0.66 million increase in WCIF program expenses for 2008.

Tax

Pursuant to the Charter, the Bank, its property, other assets, income, and the operations it carries out are immune from taxation, including any obligation relating to the payment, withholding or collection of any tax or customs duty. No tax may be levied on or in respect of salaries and emoluments paid by the Bank to officers or staff who are not U.S. nationals.

Cash Flows

The following discussion of the Bank's cash flows is based on the Bank's consolidated statements of cash flows and, accordingly, includes amounts for the U.S. domestic program, USCAIP, and for the EPA-funded BEIF grant program, each of which are administered by the Bank. USCAIP is funded entirely from its allocated capital and any net income earned by the program. Profits, losses, expenses and disbursements for the USCAIP program affect USCAIP's designated retained earnings, but do not affect the Bank's retained earnings or paid-in capital nor would any USCAIP net income be available to support the Bank's obligations, including those under any of the Bank's debt securities or other borrowings. The BEIF grant program, fully funded by the EPA, is also reflected on the Bank's consolidated combined balance sheets, statements of income and statements of cash flows, but has no economic effect on the Bank's operations. Funds disbursed for grants under the BEIF program are received from the EPA prior to disbursement by the Bank to the grantees, and any BEIF-related operating expenses incurred by the Bank are reimbursed by the EPA.

Cash from Operating Activities

September 30, 2009 as compared to September 30, 2008

Cash flows provided by the Banks' operating activities totaled $6.895 million for the nine months ended September 30, 2009, which represented an increase of $1.75 million or 34.0% over the corresponding cash flows from operating activities for the nine months ended September 30, 2008. This increase in net cash provided by operating activities was primarily the result of an increase in NADB's net income, driven by the Bank's increased interest income and efficiencies in managing the Bank's total expenditures.

December 31, 2008 as compared to December 31, 2007

In 2008, cash provided by the Bank's operating activities increased substantially to a total of $7.762 million for the year ended December 31, 2008, as compared to $3.755 million in cash provided by operating activities for the year ended December 31, 2007. This increase in net cash provided by operating activities was largely the result of substantial growth in the Bank's net income, which increased $4.84 million during the 2008 fiscal year.

Cash from Financing Activities

Although reflected on the Bank's consolidated statement of cash flows, funds disbursed for the BEIF program, funded by the EPA, have no economic effect on the Bank's operations and are substantially offset by matching funds provided by the EPA.

September 30, 2009 as compared to September 30, 2008

Net cash provided by the Bank's financing activities increased by $0.692 million or 2.6% for the nine months ended September 30, 2009, from $26.966 million as of September 30, 2008 to $27.658 million as of September 30, 2009. Net cash provided by the Bank's financing activities was primarily the result of additional paid-in capital contributions from the U.S and Mexico received during this period, totaling $27.996 million and representing an increase of $0.9 million from the nine months ended September 30, 2008.

December 31, 2008 as compared to December 31, 2007

Net cash provided by financing activities was $45.786 million for the year ended December 31, 2008, resulting in a $21.0 million (85.0%) increase as compared to the year ended December 31, 2007. Net cash provided by the Bank's financing activities was primarily the result of additional paid-in capital contributions from the U.S and Mexico received during 2008, totaling $45.97 million and representing an increase of $18.69 million (68.5%) over the prior year.

Cash Used in Lending, Investing and Development Activities

September 30, 2009 as compared to September 30, 2008

Net cash used in lending, investing and development activities totaled $56.930 million for the nine months ended September 30, 2009, representing an 80.0% ($25.3 million) increase over the amount of net cash used in the Bank's development activities for the nine months ended September 30, 2008, which totaled $31.625 million. This increase in net cash used in lending, investing and development activities during the nine months ended September 30, 2009 was primarily the result of increased loan disbursement, which more than doubled over the same period in 2008.

December 31, 2008 as compared to December 31, 2007

Net cash used in lending, investing and development activities for the fiscal year 2008 was $39.892 million, triple the net cash used for such activities in 2007. This increase is partially attributable to reduced proceeds from the sales and maturity of the Bank's investments, which provided only $54 million in cash proceeds in 2008, as compared to nearly $145 million in cash from investments realized in 2007. Proceeds from NADB's investments (together with loan repayments) represent the Bank's positive financing and development cash flows, necessary to offset its capital expenditures, loan disbursements, and the purchase of new investments and financial instruments. As a result, the Bank's overall cash outflows from lending, investing and development activities in 2008 represented a significant increase over its historical cash flows.

Off-Balance Sheet Arrangements

The Bank does not currently have any guarantees or other off-balance sheet financing arrangements. In addition, the Bank does not engage in any related-party transactions that would materially affect the results of its operations, cash flow or financial condition.

Contractual Obligations

The Bank is obligated to make future payments (other than loan disbursements) under various contracts, such as lease agreements and unconditional purchase agreements. Aside from ordinary course receivables, the Bank does not have any outstanding debt obligations. The following table represents the contractual obligations of the Bank as of December 31, 2008.

Contractual Obligation Payments Due, by Period

(in U.S. $ Million)

	Less than 1 year	1-3 years	3-5 years	More than 5 years	Total
Operating lease obligations..................	$36,000	$72,000	$54,000	-	162,000
Total(1)	**$36,000**	**$72,000**	**$54,000**	**-**	**162,000**

(1) The Bank has no long-term debt, capital lease or purchase obligations.

The Bank is also obligated to make payments in pesos under its cross currency swaps and concurrently receives dollar payments in exchange. Such swaps are made on the date of disbursement for the life of each loan. During the year ended December 31, 2008 and the nine months ended September 30, 2009, the Bank received $17 million and $14.8 million, respectively, pursuant to such swap obligations in exchange for payments made by the Bank of MXP 237 million and MXP 208.9 million, respectively. The notional amount of the Bank's outstanding cross-currency swaps on December 31, 2008 and September 30, 2009, were $158.7 million (with an estimated fair value of $55.5 million) and $201.6 million (with an estimated fair value of $46.9 million), respectively.

FINANCIAL RISK AND LIQUIDITY MANAGEMENT

As a part of its development financing services, the Bank is exposed to credit risk (loan portfolio or credit and commercial credit); market risk (interest rate, spread and exchange rate); liquidity risk (funding and liquidation); and operational risk. The Bank manages its risks in accordance with its Charter and other policies approved by its Board of Directors.

Overall Risk Management

In general, the Bank manages the risks inherent in its lending activities by ensuring that the projects it finances meet certain economic and feasibility criteria and by requiring some form of credit support, in many cases, in the form of governmental revenues. NADB's commercial risk is limited by its liquidity and investment policies, and although the Bank engages in cross-currency swaps for hedging purposes, it only engages in swaps with two counterparties, each of which is each backed by the federal government of Mexico.

Credit Risk

The Bank is subject to certain credit risk. Credit risk is the potential loss that could result from the default of borrowers (loan portfolio credit risk) or from the default or downgrade of the Bank's investment, trading or swap counterparties (commercial credit or counterparty risk).

Loan Portfolio Credit Risk

The Bank is exposed to loan portfolio credit risk as a result of its core business of providing infrastructure development loans. Loan portfolio credit risk is the risk that the Bank may not receive payment of principal and/or interest on one or more of its loans in accordance with the agreed-upon terms. This risk is the largest financial risk faced by the Bank. This credit default risk is mitigated by the Bank by applying thorough credit risk analyses, stringent due diligence, and tailor-made loan structuring. The Bank's callable capital of $2.55 billion is available as a backstop, to be contributed by the member countries if necessary to meet the Bank's outstanding debt or guarantee obligations and upon request, subject to certain procedural requirements.

The Bank's loan portfolio credit risk is determined by the credit quality of, and exposure to, each borrower. NADB's attitude towards credit risk is and will remain conservative. All of the loans in the Bank's outstanding portfolio are secured by some form of credit support, including federal tax revenues pledged to an irrevocable trust or pursuant to a mandate contract, system revenues, borrower cash flows or, in very limited instances, project cash flows. Since risk aversion and a commitment to strong payment structures are core principles of the Bank, NADB expects that a significant percentage of future lending will consist of secured loans.

The Bank also employs multiple operational and procedural mechanisms to further minimize its loan portfolio credit risk. These mechanisms include extensive NADB evaluation of potential projects and borrowers, lending limits under the Charter and the Bank's loan policies, collateral and debt service requirements and policies with respect to non-performing loans and maintenance of a loan loss allowance. Proposed financing projects are first presented to the Bank's funding committee and, if approved, sent to the Board for final consideration. NADB's Managing Director, Deputy Managing Director, Chief Financial Officer, Director of Project Development, Director of Technical Services and General Counsel serve on the Bank's funding committee. See "Business Operations—Lending Policies."

Commercial Credit and Counterparty Risks

Financial institutions such as NADB face commercial credit risk as a result of exposure to losses that occur as a result of the default or downgrade by a credit rating agency of one of the Bank's investment, trading or swap counterparties. The main sources of the Bank's commercial credit risk are the financial instruments in which the Bank invests its liquidity. The Bank maintains cash and cash equivalents, investments, and certain other financial instruments with various major financial institutions, performs periodic evaluations of the relative credit standing of these financial institutions and limits the amount of credit exposure with any one institution. See "—Liquidity Policies and Liquidity Risk Management."

To hedge its peso-denominated loan portfolio, the Bank engages in cross-currency interest rate swaps with two entities that are backed by the federal government of Mexico. In general, the Bank's counterparty is FOAEM, a fund owned by the government of Mexico and administered by Banobras. The Bank also engages in cross-currency swaps directly with Banobras. The obligations of Banobras are backed by the full faith and credit of the Mexican federal government. See "—Market Risk—Use of Derivatives."

Liquidity Policies and Liquidity Risk Management

Liquidity risk arises from the Bank's general funding needs and the management of its financial position. It includes the risk of being unable to fund its portfolio of assets in a timely manner at appropriate maturities and rates, the risk of being unable to liquidate a position at a reasonable price when necessary, and the intensification of these two risks by having significant portions of a portfolio of assets or liabilities allocated to a specific type of instrument. NADB maintains liquidity in order to: (i) be prepared to meet its financial obligations at all times, including under conditions leading to a lack of or limited market access or market access at unusually high rates; (ii) provide confidence for credit ratings agencies, the Bank's creditors, and the Bank's shareholders that the Bank has the capacity to meet its obligations during periods of constrained market access; and (iii) ensure sufficient cash flows to cover the Bank's operational requirements in the normal course of business.

The Bank has adopted the following liquidity policy: the minimum amount of aggregate liquid asset holdings shall equal the highest consecutive 12-months of expected debt service obligations during the following 18 months, plus committed net loan disbursements (if positive), plus projected operating expenses for the relevant fiscal year. Such minimum amount of aggregate liquid asset holdings is determined prior to the beginning of each fiscal year and may be revised during the year in the event of major changes in outlook. The minimum liquidity balance for the 2010 fiscal year is $115.7 million.

The Bank may decide to hold liquidity above its minimum level to take advantage of favorable borrowing opportunities and to try to maintain a regular presence in the capital markets. Although this discretionary liquidity policy increases the level of liquidity beyond the minimum set forth in the previous paragraph, it is intended to minimize the aggregate cost of borrowing by providing a cushion of low-cost funding, which in turn would allow the Bank to pass on lower borrowing costs to its clients and generate growth in retained earnings. The Bank has established a cap on liquidity: its liquidity ordinarily shall not exceed 2.5 times the minimum liquidity balance established pursuant to its stated policy.

The Bank's investments can be classified into three categories, held-to-maturity, available-for-sale and trading securities. Currently, the Bank has no investments in trading securities. The Bank's liquid asset holdings are in the form of cash, cash equivalents (mainly, money market accounts and marketable securities with original maturities of up to 90 days) and investments in longer term marketable securities (fixed-income securities). While all liquid asset holdings may be designated as either trading or available-for-sale, as of the date hereof, all investments held in the Bank's liquidity portfolio as designated as available-for-sale. Securities designated as held-to-maturity are not considered liquid asset holdings for purposes of determining minimum liquidity.

As of December 31, 2008, the Bank's liquid assets equaled $261.58 million, $254.39 million of which related to the Bank's financing activities with the remainder relating to USCAIP. As of September 30, 2009, NADB's liquid assets totaled $205.20 million, $198.68 of which relates to the Bank's financing activities. This $55.71 million decrease in the Bank's liquid asset portfolio was the result of sales of investments, the proceeds of which were used to fund new loans.

Liquid Assets

(in U.S. $ Million)

Type of Security:	**As of September 30, 2009**	**As of December 31, 2008**
Cash and cash equivalents	$ 46.60	$ 68.97
U.S. government and agency securities	59.01	91.53
United Mexican State securities	14.86	15.41
Corporate debt securities	49.54	48.45
Mortgaged-backed securities	21.94	22.51
Other fixed-income securities	13.25	14.71
Total liquid assets	**$ 205.20**	**$ 261.58**
USCAIP	6.51	7.19
NADB's total liquid asset portfolio:	**$ 198.68**	**$ 254.39**

As of September 30, 2009 and December 31, 2008, 51.5% and 61.5%, respectively of the Bank's liquid asset portfolio was comprised of highly liquid assets (cash and cash equivalents and U.S. Treasuries). The remaining 48.5% and 38.6% were comprised of fairly liquid assets (all other types of liquid investment securities held by the Bank) as of September 30, 2009 and December 31, 2008, respectively.

Investment Policy

The Bank's primary investment objective is the maintenance of sufficient liquidity to (i) meet all operating expenses of the Bank; (ii) fund loan demands of the Bank; (iii) meet payments of debt service on all outstanding obligations of the Bank; and (iv) ensure proper liquidity ratios required to maintain the Bank's credit rating, as published by recognized statistical rating organizations (SRO).

The Bank only invests in securities which have readily identifiable prices. Permissible securities that otherwise meet the Bank's investment policy comprise a wide range of high quality fixed-income instruments, including U.S. Treasury and governmental agency securities, Mexican government securities, bank deposits, repurchase agreements (pursuant to master purchase agreements and fully collateralized by U.S. Treasury securities), certificates of deposit, commercial paper and money market funds. The Bank's investment portfolio must contain a minimum of 25% U.S. government securities. All other securities, with the exception of Mexican government securities, must be rated AA (or its equivalent) or higher by an SRO. Repurchase agreements, certificates of deposit and commercial paper counterparties must have a short-term debt rating of A-1 (or its equivalent) or higher by an SRO.

The Bank may invest in corporate bonds and notes, so long as such securities are (i) rated AA (or its equivalent) or higher by an SRO, and (ii) do not represent more than ten percent (10%) of the issuing entity's total debt obligations. The Bank may invest in asset-backed securities, so long as such securities are (i) issued by domestic corporations rated AAA (or its equivalent) by an SRO, and (ii) do not represent more than ten percent (10%) of the issuing entity's total debt obligations. The Bank's policy provides that investment in the following derivative securities should be avoided at all times: inverse floaters, leveraged floaters, range floaters, dual index floaters, index amortization bonds, step-up callable bonds, and other structured notes with complex coupon formulas and/or coupons that are tied to long-term or lagging interest rate indexes.

The Bank is restricted from investing more than five percent (5%) of its investment portfolio in the securities of any one issuer, excluding obligations of the U.S. Government, the Mexican Government and U.S. Government Agencies.

Market Risk

The Bank is exposed to market risks as a result of general market movements, primarily through changes in interest and exchange rates. These risks are mitigated through the Bank's asset and liability management program, and its hedging activities.

Interest Rate Risk

Historically, NADB has not financed its operations using borrowed funds from external sources. As a result, the Bank has minimized its exposure to a principal source of interest rate risk—the risk associated with the spread between the rate a development bank earns on its assets and the costs of its external borrowings. In the future, however, the Bank will be exposed to this risk to a certain extent, as a function of the level of any future outstanding borrowings and the terms of those borrowings in relation to the terms of the assets funded by those borrowings.

The Bank is also subject to interest rate risk as a result of its principal financing activities. The Bank is also subject to risk from interest rate movements that affect the rate it earns on its investment portfolio, which is another key component of NADB's interest income.

The principal means of controlling the interest rate risk of the Bank's total investment portfolio is to control the average duration of the portfolio. To ensure the maintenance of adequate liquidity and to protect the Bank's portfolio from significant losses caused by interest rate movements, the average maturity of the Bank's total investment portfolio may not exceed four years. The Bank structures its investment portfolio so that its investment securities mature concurrent with anticipated cash needs and anticipated demands, with further consideration for unanticipated cash demands.

Exchange Rate Risk

The Bank is exposed to exchange rate risk as a result of its dual-currency lending operations. To minimize exchange rate risk, NADB matches its lending operations to the local currency of the borrower. For U.S. borrowers, loans are available in U.S. dollars. For Mexican borrowers, loans may be available in Mexican pesos or in U.S. dollars if the project generates a U.S. dollar cash flow. If financing is extended in pesos, the Bank's policies require it to establish a currency hedge unless the source of funding for the loan is also in pesos. For U.S. dollar loans to Mexican borrowers, the Bank must obtain assurance that the borrower will be able to generate the dollars to make payment when due before making the loan.

COFIDAN is virtually wholly-owned by the Bank and it is consolidated into the Bank for financial reporting purposes. Accordingly, the Bank is exposed to some exchange rate risk in the translation of COFIDAN's assets and liabilities into U.S. dollars using the exchange rate in effect at the end of the relevant financial reporting period (revenues and costs are translated using average exchange rates for the period). The resulting cumulative translation adjustment is included in NADB's accumulated other comprehensive income, typically as a loss. Because of the small asset size, such adjustments have not been material and are not expected to be in the future.

Use of Derivatives

The Bank uses derivatives for the sole purpose of hedging and does not engage in any use of derivatives for speculative purposes. The Bank's lending activities include making loans that are denominated in Mexican pesos. The Bank's policies require it to establish a currency hedge for peso-denominated loans unless the source of funding for the loan is also in pesos. For such loans, the Bank enters into cross-currency interest rate swaps which virtually eliminate its economic exposure to fluctuations in foreign currency exchange rates and interest rates. The Bank's principal swap counterparty is FOAEM, a fund owned by the government of Mexico and administered by the federally run development bank, Banobras. The Bank may also engage in swaps directly with Banobras.

The foreign currency translation adjustment on loans denominated in Mexican pesos for the year ended December 31, 2008, was a decrease of $33.13 million, mitigated by the Bank's cross-currency interest rate swaps, which equaled $55.54 million at fiscal year end. In connection with its borrowings, the Bank is authorized to use all necessary currency and/or interest rate swaps as a liability management tool.

Operational Risk

Operational risk is the potential loss arising from internal activities or external events, caused by breakdown in information, communication, physical safeguards, business continuity, supervision, transactions processing, pricing and cash and securities movements and settlement systems. In addition, operational risk includes fraud and failures in the execution of legal, fiduciary and agency responsibilities. These risks stem from the manner in which the Bank is operated, as opposed to the way it is financed.

NADB has an internal audit staff that reviews the Bank's operations and finances based on a continual risk assessment, with direction from the Bank's senior management. The internal audit staff is also vested with the responsibility of tracking loan and grant covenant compliance and for reviewing monthly and quarterly statistical reports. Internal audit reports directly to the Bank's Managing Director and Deputy Managing Director and provides a semiannual report to the Board. The Board does not have a separate audit committee.

The Bank's internal audit staff makes a key internal audit finding if it discovers anything that significantly impairs the achievement of the Bank's mission, the Bank's internal control system, the effective and efficient utilization of the Bank's assets or the safeguarding of the Bank's assets. The semiannual report to the Board includes an assessment of the effectiveness of NADB's internal control framework and any key internal audit findings.

The Bank also maintains insurance to protect against operational risk, including commercial insurance, business automobile insurance, travelers' insurance and occupational accident insurance policies.

ADMINISTRATION AND GOVERNANCE

Board of Directors

The Bank and the BECC are governed by a common, ten-member board of directors comprised of three cabinet-level representatives from each federal government, a representative of a border state from each country, and a representative of the general public who resides in the border region from each country. The federal representatives on the Board are: in the U.S., the Secretary of the Treasury, the Secretary of State and the Administrator of the EPA and, in Mexico, the Secretary of Finance and Public Credit (SHCP), the Secretary of Foreign Relations and the Secretary of the Environment and Natural Resources (SEMARNAT). The representatives of the border states and the border region are appointed by the relevant member country, in its discretion. Chairmanship of the Board alternates between the U.S. and Mexican treasury representatives each year. Timothy F. Geithner (U.S. Treasury) is the present Board chair and serves until the end of 2010.

Under its Charter, all Board decisions require the approval of a majority of the directors appointed by each member country. With respect to project certifications, the Board may vote for certification only after the public has had an opportunity to comment, during a public comment period of no less than 30 days. In addition, decisions relating to or affecting project certification or financing require the affirmative vote of the Secretary of the Treasury, the SHCP, the Administrator of the EPA and the SEMARNAT.

Officers

Under the direction of the Board, the business of the Bank is conducted by the Managing Director and Deputy Managing Director, who oversee development of NADB's current and long-range objectives, policies and procedures. The Managing Director and Deputy Managing Director generally serve nonrenewable terms of 5 years. The offices of Managing Director and Deputy Managing Director alternate between nationals of the two member countries and must be occupied by nationals of different member countries at all times.

Mr. Jorge C. Garcés, a representative of the United States, is currently serving as the Bank's Managing Director and Chief Executive Officer, and Mr. Héctor Camacho (Mexico) is the Deputy Managing Director and Chief Operating Officer. They are assisted by a compact staff of 50 employees who carry out the day-to-day operations of the Bank. Mr. Garcés is scheduled to retire in October 2010, and it is expected that Mr. Camacho, the current Deputy Managing Director, will assume the role of Managing Director for a five-year term, as has been the case in the past.

The Bank's management team also includes its Chief Financial Officer, Conrad Sterrett, its Director of Administration, Henry Sauvignet, its Director of Project Development, Jose Júan Ruiz, its Director of Technical Services, Oscar Cabra and its General Counsel, Lisa Roberts.

Auditors

The Bank's external auditors are appointed by the Board following a competitive bidding process. In 2007, Ernst & Young LLP ("E&Y") was appointed as NADB's external auditor. E&Y's audit engagement is renewed annually for up to five years, with a possibility of extension for up to ten years. Fees paid by the Bank to E&Y for contracted audit services in 2008, in connection with the preparation of the Bank's consolidated audited financial statements, totaled $101,500. No non-audit services have been provided by E&Y to the Bank. Prior to 2007, PricewaterhouseCoopers served as NADB's external auditor.

The Charter

The Bank's Charter sets forth its purpose and functions as a development financing bank and its capital structure and organization. The Charter outlines NADB's permissible financing activities and prescribes limitations on these activities and the Bank's operations. The Charter also establishes the status, immunities and privileges of NADB as a multilateral institution and provides for the suspension and termination of the Bank's operations. The Charter may be amended by agreement of the member countries. The Charter entered into force on January 1, 1994, and was amended by the U.S. and Mexico on August 6, 2004.

Copies of the Charter are available for inspection and distribution at the Bank's offices in San Antonio, Texas. The full text of the Charter is also available on the Bank's website at http://www.nadb.org/pdfs/Charter_2004_Eng.pdf.

Legal Status, Immunities and Privileges

The following is a summary of the principal provisions of the Charter relating to the legal status, immunities and privileges of the Bank in the territories of its member countries:

The Bank possesses juridical personality with full capacity to contract, acquire and dispose of immovable and movable property and to institute legal proceedings. Judicial proceedings may be brought against the Bank only in a court of competent jurisdiction in the territories where NADB has an office, has appointed an agent for service of process or has issued or guaranteed securities.

Assets and property of the Bank are immune from legal process and cannot be subject to any seizure, attachment, or other expropriation or foreclosure prior to delivery of final judgment against the Bank. In addition, the Bank's Directors, Managing Director and Deputy Managing Director, officers and staff employees have immunity from legal process with respect to acts performed by them in their official capacity (except when the Bank has expressly waived this immunity). These individuals are also afforded the same privileges in respect of traveling facilities as are accorded by each member country to representatives, officials, and employees of comparable rank of the other member country and, when not local nationals, the same immunities from immigration restrictions, alien registration requirements and national service obligations and the same facilities as are accorded by each member country to the representatives, officials, and employees of comparable rank of the other member country.

The Bank, its property, other assets, income, and the operations it carries out pursuant to the Charter are also immune from all taxation and from all customs duties, including any obligation relating to the payment, withholding or collection of any tax or customs duty. No tax may be levied on or in respect of salaries and emoluments paid by the Bank to officers or staff who are not U.S. nationals.

INDEX TO FINANCIAL STATEMENTS

NORTH AMERICAN DEVELOPMENT BANK

Consolidated Financial Statements and Supplemental Information

North American Development Bank
Years Ended December 31, 2008 and 2007
With Report of Independent Auditors

Report of Independent Auditors

The Board of Directors
North American Development Bank

We have audited the accompanying consolidated balance sheets of North American Development Bank (the Bank) as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in equity, and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Bank's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of North American Development Bank at December 31, 2008 and 2007, and the consolidated results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as whole.

/s/ Ernst & Young LLP

San Antonio, Texas
March 31, 2009

North American Development Bank

Consolidated Balance Sheets

	December 31, 2008	December 31, 2007
Assets		
Cash and cash equivalents:		
Held at other financial institutions in demand deposit accounts	**$ 60,057**	$ 87,546
Held at other financial institutions in interest bearing accounts	**55,614,248**	50,230,902
Repurchase agreements	**13,300,000**	5,000,000
	68,974,305	55,318,448
Held-to-maturity investment securities, at amortized cost	**3,129,660**	3,396,022
Available-for-sale investment securities, at fair value	**192,603,451**	185,732,610
Loans outstanding, net of allowance for loan losses of $4,104,161 at December 31, 2008 and 2007, and net of effect of foreign currency exchange rate adjustments of $33,132,496 and ($1,427,737) at December 31, 2008 and 2007	**153,031,533**	149,118,103
Interest receivable	**2,719,379**	2,932,951
Grant receivable	**352,928**	331,486
Furniture, equipment, and leasehold improvements, net	**188,089**	164,349
Other assets	**56,509,353**	1,543,793
Total assets	**$ 477,508,698**	$ 398,537,762
Liabilities, minority interest, and equity		
Liabilities:		
Accounts payable	**$ 328,607**	$ 704,906
Accrued liabilities	**586,002**	635,982
Undisbursed grant funds	**677,253**	861,613
Total liabilities	**1,591,862**	2,202,501
Minority interest	**5,996**	5,830
Equity:		
Total paid-in capital	**405,000,000**	405,000,000
Scheduled	**(27,996,786)**	(73,967,500)
Net funded paid-in capital	**377,003,214**	331,032,500
General reserve:		
Allocated paid-in capital	**10,935,510**	10,935,510
Retained earnings:		
Designated	**22,488,849**	25,628,092
Undesignated	**29,786,101**	18,653,569
Special reserve	**5,978,361**	4,603,188
Accumulated other comprehensive income	**29,718,805**	5,476,572
Total equity	**475,910,840**	396,329,431
Total liabilities, minority interest, and equity	**$ 477,508,698**	$ 398,537,762

See accompanying notes.

North American Development Bank

Consolidated Statements of Income

	Years Ended December 31, 2008	2007
Income:		
Interest:		
Investment income	**$ 10,051,592**	$ 11,692,619
Loan income	**8,527,538**	5,431,910
Gain on sales of available-for-sale investment securities	**611,783**	435,726
Fee income	**25,182**	42,004
Other	**798,146**	–
Total revenues	**20,014,241**	17,602,259
Operating expenses:		
Personnel	**4,218,188**	4,305,563
Consultants	**997,837**	964,139
General and administrative	**883,862**	860,004
Operational travel	**240,264**	202,126
Depreciation and amortization	**50,796**	83,131
Provision for loan losses	**–**	444,707
Relocation	**23,802**	72,623
Other	**–**	235,090
U.S. Domestic Program	**509,571**	495,471
Total operating expenses	**6,924,320**	7,662,854
Income before program activities	**13,089,921**	9,939,405
Program activities:		
U.S. Environmental Protection Agency (EPA) grant income	**1,763,730**	2,503,776
EPA grant administration expense	**(1,763,730)**	(2,503,776)
Technical assistance and training program expense	**(1,644,728)**	(3,475,172)
Solid Waste Environmental Program expense	**(585,278)**	(1,106,588)
Water Conservation Investment Fund expense	**(1,491,287)**	(833,054)
Net program expenses	**(3,721,293)**	(5,414,814)
Income before minority interest	**9,368,628**	4,524,591
Minority interest	**166**	205
Net income	**$ 9,368,462**	$ 4,524,386

See accompanying notes.

North American Development Bank

Consolidated Statements of Changes in Equity

	Paid-In Capital	General Reserve: Allocated Paid-In Capital	General Reserve: Retained Earnings	Special Reserve	Accumulated Other Comprehensive Income (Loss)	Total Equity
Beginning balance, January 1, 2007	$ 303,750,000	$13,436,945	$ 41,544,707	$ 2,815,756	$ (2,472,000)	$ 359,075,408
Capital contributions	27,282,500					27,282,500
Transfer from retained earnings to special reserve	–	–	(1,787,432)	1,787,432	–	–
Transfer to U.S. Treasury for U.S. Domestic Program	–	(2,501,435)	–	–	–	(2,501,435)
Comprehensive income:						
Net income	–	–	4,524,386	–	–	4,524,386
Unrealized gain on available-for-sale investment securities	–	–	–	–	5,993,256	5,993,256
Foreign currency translation adjustment	–	–	–	–	2,524	2,524
Unrealized gain on hedging activities	–	–	–	–	1,952,792	1,952,792
Total comprehensive income						12,472,958
Ending balance, December 31, 2007	331,032,500	10,935,510	44,281,661	4,603,188	5,476,572	396,329,431
Capital contributions	**45,970,714**	**–**	**–**	**–**	**–**	**45,970,714**
Transfer from retained earnings to special reserve	**–**	**–**	**(1,375,173)**	**1,375,173**	**–**	**–**
Comprehensive income:						
Net income	**–**	**–**	**9,368,462**	**–**	**–**	**9,368,462**
Unrealized gain on available-for-sale investment securities	**–**	**–**	**–**	**–**	**4,604,434**	**4,604,434**
Foreign currency translation adjustment	**–**	**–**	**–**	**–**	**(21,365)**	**(21,365)**
Unrealized gain on hedging activities:						
Foreign currency translation adjustment	**–**	**–**	**–**	**–**	**(34,560,231)**	**(34,560,231)**
Fair value of cross currency interest rate swaps	**–**	**–**	**–**	**–**	**54,219,395**	**54,219,395**
Total comprehensive income						**33,610,695**
Ending balance, December 31, 2008	**$ 377,003,214**	**$10,935,510**	**$ 52,274,950**	**$ 5,978,361**	**$ 29,718,805**	**$ 475,910,840**

See accompanying notes.

North American Development Bank

Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2008	**2007**
Cash flows from operating activities		
Net income	**$ 9,368,462**	$ 4,524,386
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**50,796**	83,131
Amortization of net premium (discount) on investments	**(44,273)**	(91,071)
Other noncash items	**(875,258)**	1,556,408
Minority interest	**166**	205
Gain on sales of available-for-sale investment securities	**(611,783)**	(435,726)
Provision for loan losses	**–**	444,707
Change in other assets and liabilities:		
(Increase) decrease in interest receivable	**213,573**	(92,691)
(Increase) decrease in receivable and other assets	**86,288**	(2,486,683)
Increase (decrease) in accounts payable	**(376,299)**	158,635
Increase (decrease) in accrued liabilities	**(49,980)**	93,703
Net cash provided by operating activities	**7,761,692**	3,755,004
Cash flows from lending, investing, and development activities		
Capital expenditures	**(74,536)**	(45,757)
Loan principal repayments	**10,781,961**	8,154,422
Loan disbursements	**(49,255,624)**	(75,031,697)
Purchase of investments	**(54,971,662)**	(90,536,834)
Proceeds from sales and maturities of investments	**53,627,672**	144,828,298
Net cash used in lending, investing, and development activities	**(39,892,189)**	(12,631,568)
Cash flows from financing activities		
Capital contributions	**45,970,714**	27,282,500
Transfer to U.S. Treasury – U.S. Domestic Program	**–**	(2,501,435)
Grant funds from the Environmental Protection Agency (EPA)	**91,044,686**	75,109,803
Grant disbursements – EPA	**(91,045,368)**	(75,108,705)
Grant activity – U.S. Domestic Program	**(183,678)**	1,972
Net cash provided by financing activities	**45,786,354**	24,784,135
Net increase in cash and cash equivalents	**13,655,857**	15,907,571
Cash and cash equivalents at January 1, 2008 and 2007	**55,318,448**	39,410,877
Cash and cash equivalents at December 31, 2008 and 2007	**$ 68,974,305**	$ 55,318,448

See accompanying notes.

1. Organization and Purpose

The North American Development Bank (the Bank) was established 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 community adjustment and investment projects throughout the U.S. and Mexico in support of the purposes of the North American Free Trade Agreement (NAFTA) (the Domestic Programs). On March 16, 1994, the President of the United States issued an Executive Order designating the Bank an International Organization under the International Organization Immunities Act.

The Bank began its operations on November 10, 1994, with the initial capital subscriptions by the United States and Mexico. The Bank is governed by a Board of Directors appointed by the two countries. The Bank's operations are subject to certain limitations outlined in the Charter, as amended on August 6, 2004. The amended charter includes expanding the geographic jurisdiction of the International Program from 100 to 300 kilometers in Mexico, as well as allowing the Bank to provide a limited amount of grants from its paid-in capital.

Under its International Program, the Bank provides loan and grant financing and technical assistance for environmental infrastructure projects certified by the Border Environment Cooperation Commission (BECC), as appropriate, and administers grant funding provided by other entities. Under the Domestic Programs, the Bank contributed funds from its equity to establish the program of each country and continues to administer the funds of the U.S. Domestic Program (see Note 7).

On June 2, 1998, the Bank's Board of Directors adopted a resolution authorizing the Bank to establish a *Sociedad Financiera de Objeto Limitado* (SOFOL) for the purpose of facilitating Bank lending to the Mexican public sector. In January 1999, the *Corporación Financiera de América del Norte, S.A. de C.V.* SOFOL (COFIDAN) began operations in Mexico City, and in October 2006, COFIDAN was converted from a SOFOL to a non-regulated, multipurpose financial institution (SOFOM, E.N.R.), and its name was modified to *Corporación Financiera de América del Norte, S.A. de C.V. SOFOM E.N.R.* As of December 31, 2008, COFIDAN is 99.88% owned by the Bank and .12% owned by the Mexican government. The accounts of COFIDAN are consolidated with the Bank. All material intercompany accounts and transactions are eliminated in the consolidation. The minority interest reflected in the balance sheet and income statement represents the ownership of the Mexican government through the Ministry of Finance and Public Credit (SHCP).

1. Organization and Purpose (continued)

The Bank is located in San Antonio, Texas. An additional office has been established in Los Angeles, California, to assist the United States in administering the U.S. Domestic Program.

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 accounting principles generally accepted in the United States of America (GAAP). The financial statements are presented in a manner consistent with that of an international organization. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates include investments, allowance for loan loss and other assets. 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 have been eliminated.

Cash and Cash Equivalents

For purposes of the statement of cash flows, all highly liquid investments with an original maturity of three months or less are considered to be cash equivalents.

Repurchase Agreements

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

2. Summary of Significant Accounting Policies (continued)

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 and equity 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 income statement.
>
> *Available-for-sale* – This category is composed of debt and equity 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 in order 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 loss would be included in current earnings.

Taxation

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

Furniture, Equipment, and Leasehold Improvements

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

2. Summary of Significant Accounting Policies (continued)

General Reserve

The Board of Directors of the Bank defines the general reserve as retained earnings plus allocated paid-in capital for the Domestic Programs as described in Note 7.

Special Reserve

The Board of Directors defines the special reserve in the equity section to be 3% of the balance of disbursed loans, 1% of the undisbursed loan commitments, and 3% of the balance of guaranties, if any. The special reserve is established by transfers-in from retained earnings. 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.

Loans and Allowance for Loan Losses

Loans are reported at the principal amount net of allowance for loan losses. Interest income on loans and commitment fees are recognized in the period earned.

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

Loans are generally placed in nonaccrual status when principal or interest is delinquent for 180 days (unless adequately secured and in the process of collection) or circumstances indicate that full collection of principal and interest is in doubt. When a loan is placed in nonaccrual status, accrued interest deemed uncollectable is either reversed (if current year interest) or charged against the allowance for loan losses (if prior year interest).

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

2. Summary of Significant Accounting Policies (continued)

"doubtful" or "loss." If previously unrecognized interest income exists upon reinstatement of a nonaccrual loan to accrual status, interest income will only be recognized upon receipt of cash payments applied to the loan.

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

The allowance for loan losses is a valuation account used to reasonably estimate loan losses incurred as of the financial statement date. Determining the appropriate allowance for loan losses involves significant judgment about when a loss has been incurred and the amount of that loss. The determination of the allowance for loan losses is based on management's current judgments about the credit quality of its loan portfolio. A specific allowance may be established for impaired loans under Statement of Financial Accounting Standard (FAS) No. 114, *Accounting by Creditors for Impairment of a Loan*, an amendment of FAS Nos. 5 and 15. 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 fair value of the collateral if the loan is collateral dependent.

The allowance for loan losses is maintained at a level considered adequate 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 reversals of provision for loan losses and loan charge-offs.

Program Activities

Program income represents reimbursed administrative expenses associated with the disbursement of grant funds. Such amounts are earned and recognized as program income in the accompanying statement of income as the associated expenses are incurred.

Program expenses include grants made by the Bank and administrative costs associated with grant activities. Grants are recognized at the date the Bank becomes obligated under the terms of the grant agreements and associated costs are recognized as incurred. The U.S. Environmental Protection Agency (EPA) and U.S. Domestic Program grant receipts and disbursements reflected in the statement of cash flows are not reflected in the accompanying statement of income, as these grants are approved and funded by the respective entities noted above. The Bank's role is to administer these funds.

2. Summary of Significant Accounting Policies (continued)

Foreign Currency

COFIDAN is located in Mexico and operates primarily using the local functional currency. Accordingly, all assets and liabilities of COFIDAN are translated using the exchange rate in effect at the end of the period, and revenues 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 Bank's lending activities include making loans that are denominated in Mexican pesos. For such loans, the Bank enters into cross-currency interest rate swaps (swaps) which mitigate its exposure to fluctuations in foreign currency exchange rates and interest rates. The swap counterparty is *Fondo de Apoyo a Estados y Municipios* (FOAEM), a fund owned by the government of Mexico and administered by the federally run development bank, *Banco Nacional de Obras y Servicios Publicos, S.N.C* (Banobras). The foreign currency translation adjustment on loans denominated in Mexican pesos for the years ended December 31, 2008 and 2007, was a decrease of $33,132,496 and an increase of $1,427,737, respectively, which economically was offset by cross-currency interest rate swaps.

In accordance with FAS 133, *Accounting for Derivative Instruments and Hedging Activities*, all swaps are recognized in the accompanying balance sheet at their fair value and have been designated as cash flow hedges of the Bank's lending activities. Changes in the fair value of the swaps are reported in other comprehensive income, and are reclassified to earnings at the time of the hedged loan repayment. At December 31, 2008 and 2007, the fair value of the swaps was reported as other assets of $55,539,274 and $465,511, respectively, in the accompanying balance sheet.

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. 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.

2. Summary of Significant Accounting Policies (continued)

Fair Value

Effective January 1, 2008, the Bank adopted FAS 157, *Fair Value Measurements*, and FAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement No. 115*. Under FAS 157, 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. FAS 159 allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. The adoption of FAS 157 and FAS 159 did not have a material impact to the 2008 Bank consolidated financial statements.

The Bank carries cross-currency interest rate swaps and available-for-sale debt securities at fair value. Effective January 1, 2008, the Bank determines the fair market values of its financial instruments based on the fair value hierarchy established in FAS 157, which when measuring fair value requires an entity to maximize the use of observable inputs based on market data obtained from sources independent of the reporting entity and minimize the use of unobservable inputs based on the reporting entity's own assumptions about market participant assumptions developed on the best information available in the circumstances. The standard describes three levels of inputs that may be used to measure fair value as follows:

Level 1 – 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.

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

2. Summary of Significant Accounting Policies (continued)

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category includes cross-currency interest rate swaps where independent pricing information is not available for a significant portion of the underlying assets.

More information on the fair value of the Bank's financials instruments is provided in Note 11.

Other Comprehensive Income

The components of comprehensive income have been reported in the accompanying statement of changes in equity for all periods presented and in Note 6.

Reclassifications

Certain amounts in the prior year's consolidated financial statements have been reclassified to conform to the current year consolidated financial statement presentation.

3. Investments

All investments held by the Bank are classified as either held-to-maturity or available-for-sale securities. The following schedule summarizes investments as of December 31, 2008 and 2007.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2008				
Held-to-maturity:				
U.S. government and agency securities ...	$ 3,129,660	$ 82,612	$ –	$ 3,212,272
Total held-to-maturity investment securities	3,129,660	82,612	–	3,212,272
Available-for-sale:				
U.S. government and agency securities ...	84,710,196	6,818,542	–	91,528,738
Corporate debt securities..........................	48,756,253	681,374	(991,576)	48,446,051
Other fixed income securities..................	14,782,575	72,714	(147,440)	14,707,849
UMS securities..	14,037,369	1,370,131	–	15,407,500
Mortgage-backed securities	21,943,671	576,557	(6,915)	22,513,313
Total available-for-sale investment securities	184,230,064	9,519,318	(1,145,931)	192,603,451
Total investment securities..........................	$ 187,359,724	$ 9,601,930	$ (1,145,931)	$ 195,815,723

3. Investments (continued)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2007				
Held-to-maturity:				
U.S. government and agency securities	$ 3,396,022	$ 47,629	$ –	$ 3,443,651
Total held-to-maturity investment securities	3,396,022	47,629	–	3,443,651
Available-for-sale:				
U.S. government and agency securities	104,643,417	3,147,635	(12,180)	107,778,872
Corporate debt securities	40,291,824	501,075	(120,263)	40,672,636
Other fixed income securities	16,521,870	167,358	(5,270)	16,683,958
Mortgage-backed securities	20,506,545	203,353	(112,754)	20,597,144
Total available-for-sale investment securities	181,963,656	4,019,421	(250,467)	185,732,610
Total investment securities	$ 185,359,678	$ 4,067,050	$ (250,467)	$ 189,176,261

The following schedule summarizes unrealized losses and fair value of investments aggregated by category and length of individual securities that have been in a continuous unrealized loss position, as of December 31, 2008.

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government and agency securities	$ –	$ –	$ –	$ –	$ –	$ –
Corporate debt securities	25,114,688	973,830	675,227	17,746	25,789,915	991,576
Other fixed income securities	5,657,878	147,440	–	–	5,657,878	147,440
UMS securities	–	–	–	–	–	–
Mortgaged-backed securities	1,372,522	6,915	–	–	1,372,522	6,915
Total temporarily impaired securities	$ 32,145,088	$ 1,128,185	$ 675,227	$ 17,746	$ 32,820,315	$ 1,145,931

None of the declines identified above are considered to be other-than-temporary since the Bank has the ability and general intent to hold these investments until a recovery of fair value or maturity.

3. Investments (continued)

Contractual maturities of U.S. government and agency securities, corporate debt securities, and other fixed income debt securities as of December 31, 2008, are as follows:

	Held-To-Maturity Securities		Available-For-Sale Securities	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
Less than 1 year	$ 447,546	$ 436,036	$ 29,552,010	$ 29,380,601
1–5 years	2,764,726	2,693,624	98,722,886	93,277,211
5–10 years	–	–	41,815,242	39,628,580
Over 10 Years	–	–	–	–
Mortgage-backed securities	–	–	22,513,313	21,943,672
	$ 3,212,272	$ 3,129,660	$ 192,603,451	$ 184,230,064

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 summarizes sale, call, and maturity activity of investment securities for the years ended December 31, 2008 and 2007.

	Years Ended December 31	
	2008	2007
Held-to-maturity investment securities:		
Proceeds from maturities	**$ 1,427,000**	$ 2,920,731
Available-for-sale investment securities:		
Proceeds from sales	**52,200,672**	141,907,567
Gross realized gains	**611,783**	848,812
Gross realized losses	**–**	413,086

3. Investments (continued)

The following table sets forth the unrealized gains (losses) on securities available-for-sale and the reclassification adjustments required for the years ended December 31, 2008 and 2007.

	Years Ended December 31 2008		Years Ended December 31 2007	
Unrealized holding gains (losses) on investment securities available-for-sale, beginning of year	**$**	**3,768,954**	$	(2,224,302)
Unrealized holding gains on investment securities available-for-sale, arising during the year		**5,216,217**		6,428,982
Reclassification adjustments for gains on investment securities available-for-sale included in net income		**(611,783)**		(435,726)
Unrealized holding gains on investment securities available-for-sale, end of year	**$**	**8,373,388**	$	3,768,954

4. Loans

The following schedule summarizes loans outstanding as of December 31, 2008 and 2007:

		Loan Balance		Allowances for Loan Loss		Net Loan Balance
December 31, 2008						
International Program	**$**	**153,280,891**	**$**	**(4,016,671)**	**$**	**149,264,220**
U.S. Domestic Program		**3,854,803**		**(87,490)**		**3,767,313**
	$	**157,135,694**	**$**	**(4,104,161)**	**$**	**153,031,533**
December 31, 2007						
International Program	$	148,693,298	$	(4,016,671)	$	144,676,627
U.S. Domestic Program		4,528,966		(87,490)		4,441,476
	$	153,222,264	$	(4,104,161)	$	149,118,103

At December 31, 2008, the Bank has outstanding loan commitments on signed loan agreements totaling $27,031,491 and $-0-, for the International Program and U.S. Domestic Program, respectively. The Board has also approved an additional $89,996,447 in loans for the International Program for which loan agreements are in development.

4. Loans (continued)

Consistent with its development nature, the Bank under certain circumstances, offers below-market-rate loans. As of December 31, 2008 and 2007, the Bank had below-market-rate loans outstanding for the International Program of $70,738,483 and $63,158,684, respectively, and for the U.S. Domestic Program of $2,175,908 and $2,195,567, respectively.

At December 31, 2008 and 2007, the International Program had one nonaccrual loan with an outstanding balance of $6,516,672. The average impaired loan balance for the years ended December 31, 2008 and 2007, totaled $6,516,672. No Interest income was recognized on this impaired loan for the years ended December 31, 2008 and 2007. During November 2007, the U.S. Domestic Program foreclosed on the collateral of one loan in the amount of $836,870. At December 31, 2008, the foreclosed property was reported as other assets of $836,870 in the accompanying balance sheet.

The following schedule summarizes the allowance for loan losses as of December 31, 2008 and 2007.

	December 31 2008	December 31 2007
Beginning balance	**$ 4,104,161**	$ 3,659,454
Provision for loan losses	**–**	444,707
Loan charge-offs (recoveries)	**–**	–
Ending balance	**$ 4,104,161**	$ 4,104,161

5. Furniture, Equipment, and Leasehold Improvements

Furniture, equipment, and leasehold improvement balances consist of:

	December 31 2008	December 31 2007
Furniture and equipment	**$ 571,195**	$ 571,041
Computers	**823,739**	749,357
Leasehold improvements	**413,022**	413,022
	1,807,956	1,733,420
Less – accumulated depreciation and amortization	**(1,619,867)**	(1,569,071)
	$ 188,089	$ 164,349

6. Equity

Subscribed Capital

At December 31, 2008 and 2007, the Bank had authorized and subscribed 300,000 shares of capital stock with a par value of $10,000 per share. As defined in the Charter, capital includes unqualified and qualified subscribed shares. Unqualified subscribed shares have either been funded or authorized for purchase by the subscribing country. Capital is further classified as callable or paid-in as follows:

	Mexico		United States		Total	
	Shares	Dollars	Shares	Dollars	Shares	Dollars
December 31, 2008						
Subscribed capital	**150,000**	**$ 1,500,000,000**	**150,000**	**$ 1,500,000,000**	**300,000**	**$ 3,000,000,00**
Less – callable subscribed capital	**(127,500)**	**(1,275,000,000)**	**(127,500)**	**(1,275,000,000)**	**(255,000)**	**(2,550,000,000)**
Paid-in capital	**22,500**	**225,000,000**	**22,500**	**225,000,000**	**45,000**	**450,000,000**
Less – transfer to general reserve for Domestic Programs	**–**	**(22,500,000)**	**–**	**(22,500,000)**	**–**	**(45,000,000)**
Paid-in capital (net of transfers)	**22,500**	**202,500,000**	**22,500**	**202,500,000**	**45,000**	**405,000,000**
Less scheduled	**(1,399.8393)**	**(13,998,393)**	**(1,399.8393)**	**(13,998,393)**	**(2,799.6786)**	**(27,996,786)**
Total funded paid-in capital	**21,100.1607**	**$ 188,501,607**	**21,100.1607**	**$ 188,501,607**	**42,200.3214**	**$ 377,003,21**
December 31, 2007						
Subscribed capital	150,000	$ 1,500,000,000	150,000	$ 1,500,000,000	300,000	$ 3,000,000,00
Less – callable subscribed capital	(127,500)	(1,275,000,000)	(127,500)	(1,275,000,000)	(255,000)	(2,550,000,000)
Paid-in capital	22,500	225,000,000	22,500	225,000,000	45,000	450,000,000
Less – transfer to general reserve for Domestic Programs	–	(22,500,000)	–	(22,500,000)	–	(45,000,000)
Paid-in capital (net of transfers)	22,500	202,500,000	22,500	202,500,000	45,000	405,000,000
Less scheduled	(3,698.375)	(36,983,750)	(3,698.375)	(36,983,750)	(7,396.75)	(73,967,500)
Total funded paid-in capital	18,801.625	$ 165,516,250	18,801.625	$ 165,516,250	37,603.25	$ 331,032,50

The callable portion of the subscription for capital shares of the Bank will be subject to call only when required to meet obligations as outlined in Article II, Section 3(d) of Chapter II of the Charter.

6. Equity (continued)

On May 24, 2001, the Board of Directors of the Bank concluded that the timing and amounts of the capital contributions in the amount of $101,250,000 would be conditional upon the future capital needs of the Bank. For the year ended December 31, 2008, Mexico and the United States, each made contributions of unqualified paid-in capital totaling $22,985,357, or 2,298.5357 shares. For the year ended December 31, 2007, Mexico and the United States, each made a contribution of unqualified paid-in capital of $13,641,250, or 1,364.125 shares. As of December 31, 2008 and 2007, the remaining scheduled contributions totaled $27,996,786 and $73,967,500, respectively.

On June 21, 2006, the Board of Directors authorized the development of a program to use up to $50 million of the Bank's paid-in capital for stand-alone grants and for grants that subsidize the interest rates on loans. The Board will approve all proposals for use of the Bank's paid-in capital for individual projects under this program. The guidelines for the program are currently under development. Therefore, net funded paid-in capital is further classified as:

	December 31	
	2008	**2007**
Designated for grant program	**$ 50,000,000**	$ 50,000,000
Undesignated	**327,003,214**	281,032,500
Total net funded paid-in capital	**$ 377,003,214**	$ 331,032,500

6. Equity (continued)

Retained Earnings

Retained earnings are further classified as designated by program and undesignated as follows:

	December 31	
	2008	**2007**
Designated retained earnings		
International Program:		
Water Conservation Investment Fund (WCIF):		
United States	**$ 7,519,540**	$ 9,010,827
Mexico	**9,593**	9,593
Total WCIF	**7,529,133**	9,020,420
Water Conservation Technical Assistance (WCTA)	**2,321**	422,321
Technical Assistance Programs:		
Institutional Development Cooperation Program (IDP)	**1,513,696**	1,708,987
Project Development Program (PDP)	**4,427,965**	4,776,068
Total Technical Assistance Programs	**5,941,661**	6,485,055
Solid Waste Environmental Program (SWEP)	**8,860,179**	9,445,457
Total International Program	**22,333,294**	25,373,253
U.S. Domestic Program	**155,555**	254,839
Total designated retained earnings	**22,488,849**	25,628,092
Undesignated retained earnings		
International Program	**29,786,101**	18,653,569
Total undesignated retained earnings	**29,786,101**	18,653,569
Total retained earnings	**$ 52,274,950**	$ 44,281,661

Additional information regarding each program listed above is provided in Note 8.

6. Equity (continued)

Accumulated Other Comprehensive Income

Accumulated other comprehensive income as of December 31, 2008 and 2007, is comprised of:

	December 31			
	2008		2007	
Unrealized gain on available-for-sale investments securities	**$**	**8,373,387**	$	3,768,954
Foreign currency translation adjustment		**86,247**		107,612
Unrealized gain on hedging activities		**21,259,171**		1,600,006
Total comprehensive income	**$**	**29,718,805**	$	5,476,572

7. Domestic Programs

As specified in the Charter, 10% of each country's paid-in capital is to be set aside to finance community adjustment and investment programs in support of the purposes of NAFTA. In accordance with the Charter, the Board of Directors approved transfers in the prior years of $45,000,000, equal to 10% of paid-in capital of $450,000,000, to the general reserve to support these programs. To further clarify operations related to these programs, the Bank entered into a Memorandum of Understanding (MOU) with each country. In accordance with the MOU's, the U.S. and Mexican programs are administered independently.

Mexico

The MOU with Mexico indicates that 10% of paid-in capital from Mexico and the related earnings be set aside for the community adjustment and investment program endorsed by Mexico. The Mexican federal government instituted its domestic program, entitled Programa Complementario de Apoyo a Comunidades y Empresas (Mexican Domestic Program), through the offices of the SHCP. In June 1996, the SHCP entered into a mandate agreement with the federally run development bank, Banobras, to receive and administer the Bank's funds allocated for this program. The Mexican Domestic Program funds were fully transferred to Mexico as of June 1999. Accordingly, the activities of the Mexican Domestic Program are not reflected as operations of the Bank since they are administered and accounted for by Banobras.

7. Domestic Programs (continued)

United States

The MOU with the U.S. government specifies that 10% of the paid-in capital from the United States and the related earnings be set aside for the U.S. Community Adjustment and Investment Program (U.S. Domestic Program). Additionally, the MOU specified that the Los Angeles office of the Bank be formed to administer the U.S. Domestic Program. The Bank provides financing endorsed by the Finance Committee appointed by the U.S. government for that purpose. Upon written endorsement from the U.S. government, U.S. Domestic Program funds can be transferred to the U.S. government. During the years ended December 31, 2008 and 2007, $-0- and $2,501,435, respectively, were transferred to the U.S. Treasury for U.S. Domestic Program activities. As a return of capital to the U.S. government, such payments are reported as a deduction from allocated paid-in capital.

In accordance with the Charter and MOU with the U.S., assets of the Bank in the amount of $10,935,510 were designated for the U.S. Domestic Program at December 31, 2008 and 2007. The revenues related to these amounts for the years ended December 31, 2008 and 2007, were $390,195 and $484,280, respectively. Additionally, expenses directly related to the U.S. Domestic Program operation incurred by the Los Angeles and San Antonio offices of the Bank of $509,704 and $495,471 are included in the Bank's operations for the years ended December 31, 2008 and 2007, respectively. All expenses and disbursements are paid out of the U.S. Domestic Program funds. Earnings accumulated on the U.S. Domestic Program capital funds as of December 31, 2008, were $155,555. Under the U.S. Domestic Program, $4,122,219 was set aside awaiting disbursement as of December 31, 2008. These funds are included in cash and cash equivalents on the balance sheet.

8. Program Activities

Program activities are comprised of:

	Years Ended December 31 2008	2007
Program income		
EPA grant	**$ 1,763,730**	$ 2,503,776
Total program income	**1,763,730**	2,503,776
Program expenses		
EPA grant administration	**(1,763,730)**	(2,503,776)
Technical assistance and training programs	**(1,644,728)**	(3,475,172)
Solid Waste Environmental Program	**(585,278)**	(1,106,588)
Water Conservation Investment Fund	**(1,491,287)**	(833,054)
Total program expenses	**(5,485,023)**	(7,918,590)
Net program expenses	**$ (3,721,293)**	$ (5,414,814)

EPA Grants

The Bank administers grant funds from EPA through the Border Environment Infrastructure Fund (BEIF). Total EPA grant awards as of December 31, 2008, were as follows:

Grants awarded	
April 1997	$ 170,000,000
July 1999	41,000,000
August 2000	41,000,000
September 2001	84,000,000
May 2003	102,629,000
March 2004	21,624,623
October 2004	39,815,869
July 2005	41,914,100
February 2006	1,000,000
August 2006	26,357,846
March 2007	13,576,998
January 2008	23,400,000
February 2008	19,214,000
October 2008	9,920,866
Total	$ 635,453,302

8. Program Activities (continued)

Under the terms of the grants, the Bank finds and submits prospective projects to EPA, which approves the projects. EPA then disburses funds to the Bank, who directs the grant monies to the specified project. The Bank also oversees progress and compliance requirements for EPA and receives an allocation of the EPA grant funds for administrative expenses incurred.

Since April 1997, EPA has approved project funding proposed by the Bank totaling $543,894,429, of which $452,981,819 has been disbursed through the Bank. The Bank recognized $1,763,730 and $2,491,353 as reimbursement of expenses incurred for the years ended December 31, 2008 and 2007, respectively, which have been recorded as program revenues and expenses in the statement of income.

U.S. Domestic Program – Grant Program

During June 1999, the U.S. government authorized the U.S. Department of the Treasury to transfer all or part of a $10,000,000 appropriation to the Bank and also authorized the U.S. Treasury department to transfer to the Bank other monies from time to time to fund the U.S. Domestic Program's grant activities. As of December 31, 2008, the Bank has received a total of $13,430,402 from the U.S. Department of the Treasury. Accumulated undisbursed interest earnings on the grant funds were $22,115 and grant disbursements totaled $12,776,775 yielding undisbursed grant funds of $675,742 at that date. Direct grant receipts and disbursements are not reflected in the statement of income because the Bank serves in a fiduciary capacity and acts at the direction of the U.S. Treasury. The U.S. Domestic Program's grant program is operated out of the San Antonio office.

Technical Assistance and Training Programs

The Bank uses a portion of its retained earnings to offer technical assistance and training to project sponsors through three separate programs aimed at strengthening the financial performance of utilities and ensuring the long-term sustainability of their infrastructure.

> The *Institutional Development Cooperation Program (IDP)* was established in 1997 to provide assistance to border communities for studies aimed at enhancing the financial performance and managerial efficiency of public utilities, to better enable the communities to develop infrastructure projects.

8. Program Activities (continued)

The *Utility Management Institute (UMI)* was created in March 1998 as an extension of the IDP to provide water utility managers and their staff with an opportunity for on-going professional development aimed at enhancing their managerial and financial skills.

The *Project Development Program (PDP)* was established in August 2002 to fund designs and studies needed to plan and develop projects for construction.

In August 2002, the Bank's Board of Directors designated $5 million of the Bank's undesignated retained earnings to be used as grants to finance water conservation technical assistance (WCTA) projects in Mexico through its IDP or PDP program. These technical assistance funds do not require BECC certification. As of December 31, 2008, $4,997,679 and $-0- of the WCTA designated retained earnings have been transferred for use through IDP and PDP, respectively.

Disbursements related to technical assistance and training operations have been previously designated from retained earnings and have been reported as a program expense. Disbursements for the years ended December 31, 2008 and 2007, were as follows:

	Years Ended December 31	
	2008	**2007**
IDP	**$ 848,267**	$ 1,793,482
PDP	**348,103**	1,291,733
UMI	**448,358**	389,957
	$ 1,644,728	$ 3,475,172

Solid Waste Environmental Program (SWEP)

In October 1999, the Bank's Board of Directors approved a $5 million pilot program for municipal solid waste financing funded by a portion of the Bank's net earnings. Under this pilot program, projects eligible to receive SWEP assistance must involve a public entity and have been certified by the BECC. In June 2006, the Board agreed to keep SWEP as a permanent program. Since the initial funding, the Bank's Board of Directors has designated an additional $8.5 million to the SWEP program. For the years ended December 31, 2008 and 2007, $585,278 and $1,106,588, respectively, were disbursed under this program. As of December 31, 2008, cumulative SWEP disbursements total $4,639,821. These disbursements have been previously designated from retained earnings and have been reported as a program expense.

8. Program Activities (continued)

Water Conservation Investment Fund (WCIF)

In August 2002, the Bank's Board of Directors established the WCIF program to finance water conservation projects in the U.S.-Mexico border region. The Bank's Board of Directors designated $80 million of the Bank's undesignated retained earnings to the WCIF, of which $40 million is reserved exclusively for water conservation projects in each country. Under this fund, projects eligible to receive WCIF assistance must be certified by the BECC. For the years ended December 31, 2008 and 2007, $1,491,287 and $833,054, respectively, have been disbursed under this fund. As of December 31, 2008, cumulative disbursements total $32,480,460 for the U.S. and $39,990,407 for Mexico. These disbursements have been previously designated from retained earnings and have been reported as a program expense.

9. 401(a) Retirement Plan

The Bank has a 401(a) Retirement Plan (the Plan) for its employees. The Plan provides for employee and non-discretionary employer contributions. For the years ended December 31, 2008 and 2007, the Bank expended $536,018 and $528,611, respectively, relating to the Plan.

10. Commitments

In the normal course of business, the Bank has various outstanding commitments including loan commitments, which are disclosed in Note 4. Under agreements with consultants and contractors in effect at December 31, 2008, the Bank has obligations to pay amounts equal to $1,286,340 over the next year. These payments are contingent upon the future performance of the consultants and contractors under the terms of their respective contracts and, therefore, are not recorded in the financial statements.

11. Fair Value of Financial Instruments

FAS 157 defines fair value 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. Additional information on how the Bank measures fair value is provided in Note 2.

Cash and Cash Equivalents

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

11. Fair Value of Financial Instruments (continued)

Securities Available-for-sale

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

Loans Receivable and Accrued Interest Receivable

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

Cross-Currency Interest Rate Swaps

The fair value of cross-currency interest rate swaps is estimated based on discounted cash flow analyses, using loan amortization tables, stated and projected interest rates, and projected exchange rates.

The carrying amounts and fair value of the Bank's financial instruments are as follows:

	December 31, 2008		December 31, 2007	
	Carrying Amount	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Assets:				
Cash and cash equivalents	**$ 68,974,305**	**$ 68,974,305**	$ 55,318,448	$ 55,318,448
Held-to-maturity securities	**3,129,660**	**3,212,272**	3,396,022	3,443,651
Available-for-sale securities	**192,603,451**	**192,603,451**	185,732,610	185,732,610
Loans, net of allowance	**153,031,533**	**167,886,817**	149,118,103	149,651,654
Accrued interest receivable	**2,719,379**	**2,719,379**	2,932,951	2,932,951
Cross-currency interest rate swaps	**55,539,274**	**55,539,274**	465,511	465,511

11. Fair Value of Financial Instruments (continued)

The Bank's financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2008, are summarized in the following table by the valuation level of the inputs used in measuring fair value.

	December 31, 2008			
	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Assets/Liabilities at Fair Value
Available-for-sale (AFS) securities:				
U.S. government and agency securities	$ 50,521,649	$ 41,007,089	$ –	$ 91,528,738
Corporate debt securities	–	48,446,051	–	48,446,051
Other fixed income securities	–	14,707,849	–	14,707,849
UMS securities	–	15,407,500	–	15,407,500
Mortgage-backed securities	–	22,513,313	–	22,513,313
Total AFS securities	50,521,649	142,081,802	–	192,603,451
Cross-currency interest rate swaps	–	–	55,539,274	55,539,274
Total assets at fair value	$ 50,521,649	$ 142,081,802	$ 55,539,274	$ 248,142,725

The following table summarizes the changes to the financial assets measured at fair value on a recurring basis using unobservable inputs (Level 3) during 2008.

	Cross-Currency Interest Rate Swaps
Fair value of Level 3 instruments	
Beginning balance, January 1, 2008	$ 465,511
Total gains (realized/unrealized):	
Included in earnings	854,368
Included in other comprehensive income	54,219,395
Purchases and settlements	–
Transfers in/out of Level 3	–
Ending balance, December 31, 2008	$ 55,539,274

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

13. New Accounting Standards

SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133*. SFAS 161 amends SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, to amend and expand the disclosure requirements of SFAS 133 to provide greater transparency about (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedge items are accounted for under SFAS 133 and its related interpretations, and (iii) how derivative instruments and related hedged items affect an entity's financial position, results of operations and cash flows. To meet those objectives, SFAS 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. SFAS 161 is effective for the Bank on January 1, 2009, and is not expected to have a significant impact on the Bank's financial statements.

SFAS No. 160, *Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB Statement No. 51*. SFAS 160 amends Accounting Research Bulletin (ARB) No. 51, *Consolidated Financial Statements*, to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 clarifies that a noncontrolling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as a component of equity in the consolidated financial statements. Among other requirements, SFAS 160 requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. SFAS 160 is effective for the Bank on January 1, 2009, and is not expected to have a significant impact on the Bank's financial statements.

Supplemental Information

North American Development Bank

Combining Balance Sheet by Program

December 31, 2008

	International Program	U.S. Domestic Program (A)	Eliminations	Total
Assets				
Cash and cash equivalents:				
Held at other financial institutions in demand deposit accounts	$ 47,484	$ 12,573	$ –	$ 60,057
Held at other financial institutions in interest bearing accounts	51,528,859	4,085,389	–	55,614,248
Repurchase agreements	12,600,000	700,000	–	13,300,000
	64,176,343	4,797,962	–	68,974,305
Held-to-maturity investment securities, at amortized cost	3,129,660	–	–	3,129,660
Available-for-sale investment securities, at fair value	190,213,183	2,390,268	–	192,603,451
Loans outstanding, net of allowance for loan losses	149,264,220	3,767,313	–	153,031,533
Interest receivable	2,612,500	106,879	–	2,719,379
Grant receivable	352,928	–	–	352,928
Due from International Program	61,254	–	(61,254)	–
Furniture, equipment, and leasehold improvements, net	183,422	4,667	–	188,089
Other assets	55,672,483	836,870	–	56,509,353
Total assets	$ 465,665,993	$ 11,903,959	$ (61,254)	$ 477,508,698
Liabilities, minority interest, and equity				
Liabilities:				
Accounts payable	$ 328,607	$ –	$ –	$ 328,607
Accrued liabilities	569,779	16,223	–	586,002
Due to U.S. Domestic Program	–	61,254	(61,254)	–
Undisbursed grant funds	1,510	675,743	–	677,253
Total liabilities	899,896	753,220	(61,254)	1,591,862
Minority interest	5,996	–	–	5,996
Equity:				
Total paid-in capital	405,000,000	–	–	405,000,000
Scheduled	(27,996,786)	–	–	(27,996,786)
Net funded paid-in capital:	377,003,214	–	–	377,003,214
General Reserve:				
Allocated paid-in capital	–	10,935,510	–	10,935,510
Retained earnings:				
Designated	22,333,294	155,555	–	22,488,849
Undesignated	29,786,101	–	–	29,786,101
Special Reserve	5,862,717	115,644	–	5,978,361
Accumulated other comprehensive income (loss)	29,774,775	(55,970)	–	29,718,805
Total equity	464,760,101	11,150,739	–	475,910,840
Total liabilities, minority interest, and equity	$ 465,665,993	$ 11,903,959	$ (61,254)	$ 477,508,698

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

North American Development Bank

Combining Statement of Income by Program

Year Ended December 31, 2008

	International Program	U.S. Domestic Program (A)	Total
Income:			
Interest:			
Investment income	$ 9,836,195	$ 215,397	$ 10,051,592
Loan income	8,360,857	166,681	8,527,538
Gain on sales of available-for-sale investment securities	611,783	–	611,783
Fee income	24,815	367	25,182
Other	790,396	7,750	798,146
Total revenues	19,624,046	390,195	20,014,241
Operating expenses:			
Personnel	4,218,188	–	4,218,188
Consultants	997,837	–	997,837
General and administrative	883,862	–	883,862
Operational travel	240,264	–	240,264
Depreciation and amortization	50,663	133	50,796
Relocation	23,802	–	23,802
U.S. Domestic Program	–	509,571	509,571
Total operating expenses	6,414,616	509,704	6,924,320
Income before program activities	13,209,430	(119,509)	13,089,921
Program activities:			
U.S. Environmental Protection Agency grant income	1,763,730	–	1,763,730
U.S. Environmental Protection Agency grant administration	(1,763,730)	–	(1,763,730)
Technical assistance and training program	(1,644,728)	–	(1,644,728)
SWEP	(585,278)	–	(585,278)
WCIF	(1,491,287)	–	(1,491,287)
Net program expenses	(3,721,293)	–	(3,721,293)
Income (loss) before minority interest	9,488,137	(119,509)	9,368,628
Minority interest	166	–	166
Net income (loss)	$ 9,487,971	$ (119,509)	$ 9,368,462
General Reserve, January 1, 2008			
Allocated paid-in capital	$ –	$ 10,935,510	$ 10,935,510
Retained earnings	44,026,822	254,839	44,281,661
Current period activity:			
Net income (loss)	9,487,971	(119,509)	9,368,462
Transfer from retained earnings to special reserve	(1,395,398)	20,225	(1,375,173)
General Reserve, December 31, 2008			
Allocated paid-in capital	–	10,935,510	10,935,510
Retained earnings	52,119,395	155,555	52,274,950
	$ 52,119,395	$ 11,091,065	$ 63,210,460

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

North American Development Bank

Combining Statement of Cash Flows by Program

Year Ended December 31, 2008

	International Program	U.S. Domestic Program (A)	Total
Cash flows from operating activities			
Net income (loss)	$ 9,487,971	$ (119,509)	$ 9,368,462
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	50,663	133	50,796
Amortization of net premium (discount) on investments	(56,319)	12,046	(44,273)
Other noncash items	(875,258)	–	(875,258)
Minority interest	166	–	166
Gain on sales of available-for-sale investment securities	(611,783)	–	(611,783)
Change in other assets and liabilities:			
Decrease in interest receivable	75,560	138,013	213,573
Decrease in receivable and other assets	86,288	–	86,288
Increase in due from U.S. Domestic Program due to International Program	(22,019)	22,019	–
Decrease in accounts payable	(376,299)	–	(376,299)
Decrease in accrued liabilities	(48,445)	(1,535)	(49,980)
Net cash provided by operating activities	7,710,525	51,167	7,761,692
Cash flows from lending, investing, and development activities			
Capital expenditures	(69,736)	(4,800)	(74,536)
Loan principal repayments	9,977,732	804,229	10,781,961
Loan disbursements	(49,125,558)	(130,066)	(49,255,624)
Purchase of investments	(54,971,662)	–	(54,971,662)
Proceeds from sales and maturities of investments	51,607,672	2,020,000	53,627,672
Net cash provided by (used in) lending, investing, and development activities	(42,581,552)	2,689,363	(39,892,189)
Cash flows from financing activities			
Capital contributions	45,970,714	–	45,970,714
Grant funds – EPA	91,044,686	–	91,044,686
Grant disbursements – EPA	(91,045,368)	–	(91,045,368)
Grant activity – U.S. Domestic Program	–	(183,678)	(183,678)
Net cash provided by (used in) financing activities	45,970,032	(183,678)	45,786,354
Net increase in cash and cash equivalents	11,099,005	2,556,852	13,655,857
Cash and cash equivalents at January 1, 2008	53,077,338	2,241,110	55,318,448
Cash and cash equivalents at December 31, 2008	$ 64,176,343	$ 4,797,962	$ 68,974,305

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

North American Development Bank

Loan Commitments and Loans Outstanding

As of December 31, 2008

						Loan		
Borrower	Community/Project (A)	Date	Commitments	Commitment Outstanding	Loan Balance January 1, 2008	Disbursements	Payments	Loan Balance December 31, 2008
NADB								
CAR*	Cd. Juarez, CHIH (WW)	Sep-98	$ 4,613,163	$ –	$1,425,962	$ –	$1,425,962	$ –
Grupo Solar	Region Cinco, COAH (WW)	May-02	6,516,672	–	6,516,672	–	–	6,516,672
SCSD*	Desert Shores, CA (WW)	Sep-03	500,000	–	425,000	–	20,000	405,000
San Benito, TX (A)	San Benito, TX (W/WW)	Sep-04	3,800,000	–	3,370,000	–	145,000	3,225,000
La Feria, TX	La Feria, TX (W/WW)	Dec-04	6,125,000	–	5,435,000	–	235,000	5,200,000
San Benito, TX (B)	San Benito, TX (W/WW)	Apr-05	4,200,000	–	3,905,000	–	155,000	3,750,000
Pharr, TX	Pharr, TX (WW)	Dec-07	10,000,000	–	10,000,000	–	435,000	9,565,000
Tornillo, TX	Tornillo, TX (WW)	Mar-08	1,920,000	–	–	1,920,000	60,000	1,860,000
Global Alternative Fuel	El Paso, TX (ENE)	Jun-08	19,986,647	16,296,791	–	3,689,856	–	3,689,856
			57,661,482	16,296,791	31,077,634	5,609,856	2,475,962	34,211,528
COFIDAN								
OOMAPAS-Naco*	Naco, SON (W/WW)	Feb-99	149,667	–	125,169	–	6,040	119,129
CESPT #1*	Tijuana, BC (WW)	May-99	2,649,290	–	968,068	–	479,715	488,353
CESPT #2*	Tijuana, BC (WW)	Jun-02	3,303,902	–	1,007,677	–	490,501	517,176
San Luis Rio Colorado, SON	San Luis Rio Colorado, SON (SW)	Jun-03	1,084,771	–	770,140	–	160,937	609,203
Agua Prieta, SON	Agua Prieta, SON (AQ)	Jul-03	3,632,199	–	3,545,971	–	133,593	3,412,378
State of Baja California	Baja California (AQ)	Aug-03	25,067,958	–	20,126,716	–	2,783,482	17,343,234
OOMAPAS-SLRC #1*	San Luis Rio Colorado, SON (WW)	Jun-04	7,417,428	–	6,913,414	–	405,289	6,508,125
CESPT #3*	Tijuana, BC (WW)	Jun-04	5,102,026	–	3,200,337	–	1,144,057	2,056,280
SIMAS-Acuña*	Ciudad Acuña, COAH (WW)	Oct-04	1,879,235	–	1,808,759	–	93,970	1,714,789
SIMAS-Piedras Negras*	Piedras Negras, COAH (WW)	Nov-04	2,448,715	–	2,448,715	–	45,350	2,403,365
CESPTE # 1*	Tecate, BC (W/WW)	Aug-05	610,457	–	571,723	–	90,469	481,254
OOMAPASN-Nogales*	Nogales, SON (W)	Aug-06	8,976,661	–	8,976,661	–	–	8,976,661
JAD-Matamoros*	Matamoros, TAM (W/WW)	Sep-06	10,057,603	–	10,057,603	–	32,326	10,025,277
COMAPA-Reynosa*	Reynosa, TAM (WW)	Sep-06	8,000,000	–	8,000,000	–	245,616	7,754,384
COMAPA-Nuevo Laredo*	Nuevo Laredo, TAM (W/WW)	Oct-06	5,431,339	–	5,431,339	–	238,219	5,193,120
Puerto Peñasco, SON #2A	Puerto Peñasco, SON (AQ)	Nov-06	2,267,779	–	2,267,779	–	56,692	2,211,087
Nogales, SON #1	Nogales, SON (AQ)	Jan-07	8,828,618	–	8,828,618	–	956,395	7,872,223
SADM*	Monterrey, NL (WW)	Feb-07	27,306,604	–	27,306,604	–	–	27,306,604
JMAS-Ojinaga*	Ojinaga, CHIH (WW)	May-07	1,037,906	–	1,037,906	–	16,216	1,021,690
JMAS-Juarez*	Anapra, CHIH (WW)	May-07	433,213	–	433,213	–	81,214	351,999
JMAS-Guadalupe*	Guadalupe, CHIH (WW)	Nov-07	276,091	–	–	276,091	–	276,091
JRAS-Porfirio*	Porfirio Parra, CHIH (WW)	Nov-07	138,045	–	–	138,045	–	138,045
JMAS-Praxedis*	Praxedis, CHIH (WW)	Nov-07	276,091	–	–	276,091	–	276,091
JRAS-El Porvenir*	El Porvenir, CHIH (WW)	Nov-07	138,045	–	–	138,045	–	138,045
Puerto Peñasco, SON #2B	Puerto Peñasco, SON (AQ)	Dec-07	1,667,620	–	–	1,667,620	41,689	1,625,931
Nogales, SON #2	Nogales, SON (SW)	Dec-07	2,361,515	–	2,361,515	–	–	2,361,515
OOMAPAS-SLRC #2*	San Luis Rio Colorado, SON (WW)	Dec-07	1,577,328	–	–	1,577,328	–	1,577,328
CESPT #4*	Playas de Rosarito, BC (W/WW)	Feb-08	1,520,000	1,520,000	–	–	–	–
Nuevo Laredo, TAM	Nuevo Laredo, TAM (SD)	Mar-08	22,157,773	2,632,446	–	19,525,327	–	19,525,327
CESPM*	Mexicali, BC (WW)	Apr-08	18,951,059	–	–	18,951,059	–	18,951,059
CESPTE #2*	Tecate, BC (W/WW)	Jun-08	966,096	–	–	966,096	–	966,096
COMAPA-Rio Bravo*	Rio Bravo, TAM (W/WW)	Jul-08	3,801,378	3,801,378	–	–	–	–
Tijuana, BC	Tijuana, BC (SW)	Jul-08	2,272,727	2,272,727	–	–	–	–
Naco, SON	Naco, SON (AQ)	Jul-08	508,149	508,149	–	–	–	–
Effect of foreign currency exchange rates					1,427,737			(33,132,496)
			182,297,288	10,734,700	117,615,664	43,515,702	7,501,770	119,069,363
Total International Program			239,958,770	27,031,491	148,693,298	49,125,558	9,977,732	153,280,891

North American Development Bank

Loan Commitments and Loans Outstanding (continued)

Borrower	Community / Project	Date	Commitments	Commitment Outstanding	Loan Balance January 1, 2008	Loan Disbursements	Loan Payments	Loan Balance December 31, 2008
U.S. Domestic Program								
California Coastal RDC................................	Salinas, CA	Oct-97	$ 969	$ –	$ 369,949	$ –	$ 52,194	$ 317,755
El Paso Workforce Collaborative..................	El Paso, TX	Jul-99	936,906	–	556,098	–	24,747	531,351
Martin County EDC #1....................................	Martin County, NC	Oct-02	550,000	–	332,142	9,193	4,105	337,230
Beaufort County #1.............	Beaufort County, NC	May-03	784,000	–	600,353	–	600,353	–
Martin County EDC #2........	Martin County, NC	Jun-04	1,307,327	–	1,307,327	–	–	1,307,327
Beaufort County #2.............	Beaufort County, NC	Sep-04	688,450	–	613,848	–	25,375	588,473
Northern Initiative................	Marquette, MI	Jun-05	147,000	–	87,921	–	87,921	–
Martin County EDC #3........	Martin County, NC	Sep-07	395,000	–	382,201	–	9,534	372,667
Centro del Obrero Fronterizo #2....................................	El Paso, TX	Mar-07	400,000	–	279,127	120,873	–	400,000
Total U.S. Domestic Program			6,177,883	–	4,528,966	130,066	804,229	3,854,803
Total			$ 246,136	$ 27,031,491	$ 153,222,264	$ 49,255,624	$ 10,781,961	$ 157,135,694

Note A – AQ = Air quality; ENE = Cleaner energy; SD = Storm drainage; SW = Solid waste; W = Water; WW = Wastewater
* Utility

North American Development Bank

Border Environmental Infrastructure Fund (BEIF)

As of and for the Year Ended December 31, 2008

BALANCE SHEET

	Region 6	Region 9	Total
Assets			
Cash	$ 758	$ 751	$ 1,509
Total assets	$ 758	$ 751	$ 1,509
Liabilities			
Undisbursed grant funds	$ 758	$ 751	$ 1,509
Total liabilities	$ 758	$ 751	$ 1,509

STATEMENT OF INCOME

	Region 6	Region 9	Total
Income:			
U.S. Environmental Protection Agency grant income	$ 1,064,494	$ 699,236	$ 1,763,730
Total income	1,064,494	699,236	1,763,730
BEIF operating expenses:			
Personnel	521,251	381,423	902,674
Consultants	424,834	213,081	637,915
General and administrative	78,373	52,249	130,622
Operational travel	40,036	52,483	92,519
Total BEIF operating expenses	1,064,494	699,236	1,763,730
Net income	$ –	$ –	$ –

STATEMENT OF CASH FLOWS

	Region 6	Region 9	Total
Cash flows from operating activities			
Net income	$ –	$ –	$ –
Net cash provided by operating activities	–	–	–
Cash flows from financing activities			
Grant funds – EPA	44,890,105	46,154,581	91,044,686
Grant disbursements – EPA	(44,891,538)	(46,153,830)	(91,045,368)
Net cash provided by (used in) financing activities	(1,433)	751	(682)
Net increase (decrease) in cash and cash equivalents	(1,433)	751	(682)
Cash and cash equivalents at January 1, 2008	2,191	–	2,191
Cash and cash equivalents at December 31, 2008	$ 758	$ 751	$ 1,509

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

Consolidated Unaudited Financial Statements and Supplemental Information

North American Development Bank
Nine Months Ended September 30, 2009 and 2008

North American Development Bank

Consolidated Balance Sheets (Unaudited)

	As of September 30,	
	2009	**2008**
Assets		
Cash and cash equivalents:		
Held at other financial institutions in demand deposit accounts	$ 46,631	$ 109,032
Held at other financial institutions in interest bearing accounts	43,249,750	51,893,280
Repurchase agreements	3,300,000	3,800,000
	46,596,381	55,802,312
Held-to-maturity investment securities, at amortized cost	1,518,876	3,473,936
Available-for-sale investment securities, at fair value	158,601,639	172,833,784
Loans outstanding, net of allowance for loan losses of $4,104,161 at September 30, 2009 and 2008 and net of effect of foreign currency exchange rate adjustments of decrease of $29,927,137 and $2,310,665 at September 30, 2009 and 2008, respectively	251,218,078	186,388,905
Interest receivable	2,038,137	3,055,711
Grant receivable	276,675	140,912
Furniture, equipment and leasehold improvements, net	159,712	139,112
Other assets	47,828,928	15,897,871
Total assets	$ 508,238,426	$ 437,732,543
Liabilities and Equity		
Liabilities:		
Accounts payable	$ 264,985	$ 155,855
Accrued liabilities	684,698	700,255
Undisbursed grant funds	338,194	737,360
Total liabilities	1,287,877	1,593,470
Equity:		
Total paid-in capital	405,000,000	405,000,000
Scheduled	-	(46,876,786
Net funded paid-in capital:	405,000,000	358,123,214
General Reserve:		
Allocated paid-in capital	10,935,510	10,935,510
Retained earnings:		
Designated	20,908,112	23,069,907
Undesignated	35,021,597	26,209,452
Special Reserve	9,458,279	6,054,427
Accumulated other comprehensive income	25,620,959	11,740,746
Minority interest	6,092	5,817
Total equity	506,950,549	436,139,073
Total liabilities and equity	$ 508,238,426	$ 437,732,543

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

North American Development Bank

Consolidated Statements of Income (Unaudited)

	For the Nine Months Ended September 30, 2009	2008
Income:		
Interest:		
Investment income	$ 6,766,939	$ 7,647,726
Loan income	7,600,301	6,103,615
Gain on sales of available-for-sale investment securities	1,324,272	611,783
Fee income	9,681	17,308
Other	135,022	7,750
Total revenues	15,836,215	14,388,182
Operating expenses:		
Personnel	3,239,681	3,162,767
Consultants	857,918	671,381
General and administrative	557,012	445,092
Operational travel	163,863	179,063
Depreciation and amortization	40,496	39,598
Relocation	15,206	20,627
Other	-	10,918
U.S. Domestic Program	303,724	363,766
Total operating expenses	5,177,900	4,893,212
Income before program activities	10,658,315	9,494,970
Program activities:		
U.S. Environmental Protection Agency (EPA) grant income	1,251,685	1,249,758
EPA grant administration expense	(1,251,685)	(1,249,758)
Technical Assistance Program expense	(1,214,502)	(1,248,934)
Solid Waste Environmental Program expense	(1,684,188)	(439,032)
Water Conservation Investment Fund expense	(624,852)	(1,358,080)
Net program expenses	(3,523,542)	(3,046,046)
Income before minority interest	7,134,773	6,448,924
Minority interest	96	(13)
Net income	$ 7,134,677	$ 6,448,937

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

North American Development Bank

Consolidated Statements of Changes in Equity (Unaudited)

		General Reserve					
	Paid-In Capital	Allocated Paid-In Capital	Retained Earnings	Special Reserve	Accumulated Other Comprehensive Income (Loss)	Minority Interest	Total Equity
Beginning balance, January 1, 2008	$331,032,500	$ 10,935,510	$44,281,661	$4,603,188	$ 5,476,572	$ 5,830	$396,335,261
Capital Contributions	45,970,714	-	-	-	-	-	45,970,714
Transfer from retained earnings to special reserve	-	-	(1,375,173)	1,375,173	-	-	-
Comprehensive income:							
Net income	-	-	9,368,462	-	-	-	9,368,462
Unrealized gain on available-for-sale investment securities	-	-	-	-	4,604,434	-	4,604,434
Foreign currency translation adjustment	-	-	-	-	(21,365)	-	(21,365)
Unrealized gain (loss) on hedging activities:							
Foreign currency translation adjustment	-	-	-	-	(34,560,231)	-	(34,560,231)
Fair value of cross-currency interest rate swaps	-	-	-	-	54,219,395	-	54,219,395
Total comprehensive income							33,610,695
Minority interest	-	-	-	-	-	166	166
Ending balance, December 31, 2008	377,003,214	10,935,510	52,274,950	5,978,361	29,718,805	5,996	475,916,836
Capital Contributions	27,996,786	-	-	-	-	-	27,996,786
Transfer from retained earnings to special reserve	-	-	(3,479,918)	3,479,918	-	-	-
Comprehensive income:							
Net income	-	-	7,134,677	-	-	-	7,134,677
Unrealized gain on available-for-sale investment securities	-	-	-	-	1,072,670	-	1,072,670
Foreign currency translation adjustment	-	-	-	-	(31,249)	-	(31,249)
Unrealized gain (loss) on hedging activities:							
Foreign currency translation adjustment	-	-	-	-	3,205,359	-	3,205,359
Fair value of cross-currency interest rate swaps	-	-	-	-	(8,344,626)	-	(8,344,626)
Total comprehensive income							3,036,831
Minority interest	-	-	-	-	-	96	96
Ending balance, September 30, 2009	$405,000,000	$ 10,935,510	$55,929,709	$9,458,279	$ 25,620,959	$ 6,092	$506,950,549

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

North American Development Bank

Consolidated Statements of Cash Flows (Unaudited)

	For the Nine Months Ended September 30, 2009	For the Nine Months Ended September 30, 2008
Cash flows from operating activities:		
Net income	$ 7,134,677	$ 6,448,937
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	40,496	39,598
Amortization of net premium (discount) on investments	(53,320)	(22,832)
Other non-cash items	285,168	(80,394)
Minority interest	96	(13)
Gain on sales of available-for-sale investment securities	(1,324,272)	(611,783)
Change in other assets and liabilities:		
(Increase) decrease in interest receivable	681,242	(122,760)
(Increase) decrease in receivable and other assets	95,635	(23,969)
Decrease in accounts payable	(63,622)	(549,051)
Increase (decrease) in accrued liabilities	98,696	64,273
Net cash provided by operating activities	6,894,796	5,142,006
Cash flows from lending, investing, and development activities:		
Capital expenditures	(12,119)	(14,361)
Loan principal repayments	8,575,823	8,246,420
Loan disbursements	(103,557,009)	(49,255,624)
Purchase of investments	(22,628,147)	(40,946,412)
Proceeds from sales and maturities of investments	60,691,005	50,345,374
Net cash used in lending, investing, and development activities	(56,930,447)	(31,624,603)
Cash flows from financing activities:		
Capital contributions	27,996,786	27,090,714
Grant funds from the Environmental Protection Agency (EPA)	42,535,992	70,119,341
Grant disbursements - EPA	(42,536,034)	(70,120,212)
Grant activity - U.S. Domestic Program	(339,017)	(123,382)
Net cash provided by financing activities	27,657,727	26,966,461
Net increase (decrease) in cash and cash equivalents	(22,377,924)	483,864
Cash and cash equivalents at January 1, 2009 and 2008	68,974,305	55,318,448
Cash and cash equivalents at September 30, 2009 and 2008	$ 46,596,381	$ 55,802,312

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

Notes to Consolidated Financial Statements

1. Organization and Purpose

The North American Development Bank (the Bank) was established 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 community adjustment and investment projects throughout the U.S. and Mexico in support of the purposes of the North American Free Trade Agreement (NAFTA) (the Domestic Programs). On March 16, 1994, the President of the United States issued an Executive Order designating the Bank an International Organization under the International Organization Immunities Act.

The Bank began its operations on November 10, 1994, with the initial capital subscriptions by the United States and Mexico. The Bank is governed by a Board of Directors appointed by the two countries. The Bank's operations are subject to certain limitations outlined in the Charter, as amended on August 6, 2004. The amended charter includes expanding the geographic jurisdiction of the International Program from 100 to 300 kilometers in Mexico, as well as allowing the Bank to provide a limited amount of grants from its paid-in capital.

Under its International Program, the Bank provides loan and grant financing and technical assistance for environmental infrastructure projects certified by the Border Environment Cooperation Commission (BECC), as appropriate, and administers grant funding provided by other entities. Under the Domestic Programs, the Bank contributed funds from its equity to establish the program of each country and continues to administer the funds of the U.S. Domestic Program (see Note 7).

On June 2, 1998, the Bank's Board of Directors adopted a resolution authorizing the Bank to establish a *Sociedad Financiera de Objeto Limitado* (SOFOL) for the purpose of facilitating Bank lending to the Mexican public sector. In January 1999, the *Corporación Financiera de América del Norte, S.A. de C.V.* SOFOL (COFIDAN) began operations in Mexico City, and in October 2006, COFIDAN was converted from a SOFOL to a non-regulated, multipurpose financial institution (SOFOM, E.N.R.), and its name was modified to *Corporación Financiera de América del Norte, S.A. de C.V. SOFOM E.N.R.* As of September 30, 2009, COFIDAN is 99.88% owned by the Bank and .12% owned by the Mexican government. The accounts of COFIDAN are consolidated with the Bank. All material intercompany accounts and transactions are eliminated in the consolidation. The minority interest reflected in the balance sheet and income statement represents the ownership of the Mexican government through the Ministry of Finance and Public Credit (SHCP).

The Bank is located in San Antonio, Texas. An additional office has been established in Los Angeles, California, to assist the United States in administering the U.S. Domestic Program.

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 accounting principles generally accepted in the United States of America (GAAP). The financial statements are presented in a manner consistent with that of an international organization. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates include investments, allowance for loan loss and other assets. 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 have been eliminated.

Cash and Cash Equivalents

For purposes of the statement of cash flows, all highly liquid investments with an original maturity of three months or less are considered to be cash equivalents.

Repurchase Agreements

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

Investment Securities

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

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

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 income statement.

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.

2. Summary of Significant Accounting Policies (continued)

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 in order 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 loss would be included in current earnings.

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

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

General Reserve
The Board of Directors of the Bank defines the general reserve as retained earnings plus allocated paid-in capital for the Domestic Programs as described in Note 7.

Special Reserve
The Board of Directors defines the special reserve in the equity section to be 3% of the balance of disbursed loans, 1% of the undisbursed loan commitments, and 3% of the balance of guaranties, if any. The special reserve is established by transfers-in from retained earnings. 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.

Loans and Allowance for Loan Losses
Loans are reported at the principal amount net of allowance for loan losses. Interest income on loans and commitment fees are recognized in the period earned.

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

2. Summary of Significant Accounting Policies (continued)

Loans are generally placed in nonaccrual status when principal or interest is delinquent for 180 days (unless adequately secured and in the process of collection) or circumstances indicate that full collection of principal and interest is in doubt. When a loan is placed in nonaccrual status, accrued interest deemed uncollectable is either reversed (if current year interest) or charged against the allowance for loan losses (if prior year interest).

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

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

The allowance for loan losses is a valuation account used to reasonably estimate loan losses incurred as of the financial statement date. Determining the appropriate allowance for loan losses involves significant judgment about when a loss has been incurred and the amount of that loss. The determination of the allowance for loan losses is based on management’s current judgments about the credit quality of its loan portfolio. A specific allowance may be established for impaired loans. 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 fair value of the collateral if the loan is collateral dependent.

The allowance for loan losses is maintained at a level considered adequate 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 reversals of provision for loan losses and loan charge-offs.

Program Activities

Program income represents reimbursed administrative expenses associated with the disbursement of grant funds. Such amounts are earned and recognized as program income in the accompanying statement of income as the associated expenses are incurred.

2. Summary of Significant Accounting Policies (continued)

Program expenses include grants made by the Bank and administrative costs associated with grant activities. Grants are recognized at the date the Bank becomes obligated under the terms of the grant agreements and associated costs are recognized as incurred. The U.S. Environmental Protection Agency (EPA) and U.S. Domestic Program grant receipts and disbursements reflected in the statement of cash flows are not reflected in the accompanying statement of income, as these grants are approved and funded by the respective entities noted above. The Bank's role is to administer these funds.

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 revenues 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 Bank's lending activities include making loans that are denominated in Mexican pesos. For such loans, the Bank enters into cross-currency interest rate swaps (swaps) which mitigate its exposure to fluctuations in foreign currency exchange rates and interest rates. Since October 1996, the swap counterparty has been *Fondo de Apoyo a Estados y Municipios* (FOAEM), a fund owned by the government of Mexico and administered by the federally run development bank, *Banco Nacional de Obras y Servicios Publicos, S.N.C* (Banobras). In July 2009, the Bank entered into a direct relationship with Banobras to serve as the swap counterparty, outside the FOAEM arrangement. The foreign currency translation adjustment on loans denominated in Mexican pesos as of September 30, 2009 and 2008, was a decrease of $29,927,137 and $2,310,665, respectively, which economically were offset by the swaps.

All swaps are recognized in the accompanying balance sheet at their fair value and have been designated as cash flow hedges of the Bank's lending activities. Changes in the fair value of the swaps are reported in other comprehensive income, and are reclassified to earnings at the time of the hedged loan repayment. At September 30, 2009 and 2008, the fair value of the swaps was reported as other assets of $46,878,231 and $14,605,519, respectively, in the accompanying balance sheet.

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. 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.

2. Summary of Significant Accounting Policies (continued)

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 and available-for-sale debt securities at fair value. The Bank determines the fair market values of its financial instruments based on the fair value hierarchy, which when measuring fair value requires an entity to maximize the use of observable inputs based on market data obtained from sources independent of the reporting entity and minimize the use of unobservable inputs based on the reporting entity's own assumptions about market participant assumptions developed on the best information available in the circumstances. The standard describes three levels of inputs that may be used to measure fair value as follows:

> *Level 1* – Quoted prices in active markets for identical assets or liabilities, which the reporting entity has the ability to access at the measurement date. This category generally includes U.S. government securities.
>
> *Level 2* – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. This category generally includes agency securities, corporate debt securities, other fixed income securities, United Mexican States (UMS) securities, and mortgaged-backed debt securities, all of which are classified as available-for-sale investments.
>
> *Level 3* – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category includes cross-currency interest rate swaps where independent pricing information is not available for a significant portion of the underlying assets.

Additional information on the fair value of the Bank's financials instruments is provided in Note 10.

Other Comprehensive Income
The components of comprehensive income have been reported in the accompanying statement of changes in equity for all periods presented and in Note 6.

Reclassifications
Certain amounts in the prior year's consolidated financial statements have been reclassified to conform to the current year consolidated financial statement presentation.

3. Investments

All investments held by the Bank are classified as either held-to-maturity or available-for-sale securities. The following schedule summarizes investments as of September 30, 2009 and 2008.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2009				
Held-to-maturity:				
U.S. government and agency securities	**$ 1,518,876**	**$ 35,244**	**$ –**	**$ 1,554,120**
Total held-to-maturity investment securities	**1,518,876**	**35,244**	**–**	**1,554,120**
Available-for-sale:				
U.S. government and agency securities	**55,067,782**	**3,945,377**	**–**	**59,013,159**
Corporate debt securities	**47,382,507**	**2,372,340**	**(216,877)**	**49,537,970**
Other fixed income securities	**12,575,836**	**673,109**	**–**	**13,248,945**
Mexican government securities (UMS)	**13,195,836**	**1,664,164**	**–**	**14,860,000**
Mortgage-backed securities	**20,933,620**	**1,007,945**	**–**	**21,941,565**
Total available-for-sale investment securities	**149,155,581**	**9,662,935**	**(216,877)**	**158,601,639**
Total investment securities	**$150,674,457**	**$ 9,698,179**	**$ (216,877)**	**$160,155,759**
September 30, 2008				
Held-to-maturity:				
U.S. government and agency securities	$ 3,473,936	$ 42,888	$ –	$ 3,516,824
Total held-to-maturity investment securities	3,473,936	42,888	–	3,516,824
Available-for-sale:				
U.S. government and agency securities	90,288,438	3,350,745	(96,120)	93,543,063
Corporate debt securities	49,445,692	202,189	(3,960,074)	45,687,807
Other fixed income securities	12,427,630	109,543	(32,125)	12,505,048
Mortgage-backed securities	20,959,635	186,583	(48,352)	21,097,866
Total available-for-sale investment securities	173,121,395	3,849,060	(4,136,671)	172,833,784
Total investment securities	$176,595,331	$ 3,891,948	$ (4,136,671)	$176,350,608

3. Investments (continued)

The following schedule summarizes unrealized losses and fair value of investments aggregated by category and length of individual securities that have been in a continuous unrealized loss position, as of September 30, 2009.

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government and agency securities	$ –	$ –	$ –	$ –	$ –	$ –
Corporate debt securities	–	–	1,715,696	216,877	1,715,696	216,877
Other fixed income securities	–	–	–	–	–	–
Mexican government securities (UMS)	–	–	–	–	–	–
Mortgaged-backed securities	–	–	–	–	–	–
Total temporarily impaired securities	$ –	$ –	$ 1,715,696	$ 216,877	$ 1,715,696	$ 216,877

None of the declines identified above are considered to be other-than-temporary since the Bank has the ability and general intent to hold these investments until a recovery of fair value or maturity.

Contractual maturities of U.S. government and agency securities, corporate debt securities, and other fixed income debt securities as of September 30, 2009, are as follows:

	Held-To-Maturity Securities		**Available-For-Sale Securities**	
	Fair Value	**Amortized Cost**	**Fair Value**	**Amortized Cost**
Less than 1 year	$1,189,429	$1,162,455	$ 5,885,822	$ 5,808,086
1–5 years	364,691	356,421	96,177,084	90,440,141
5–10 years	–	–	34,597,168	31,973,734
Over 10 Years	–	–	–	–
Mortgage-backed securities	–	–	21,941,565	20,933,620
	$1,554,120	$1,518,876	$ 158,601,639	$ 149,155,581

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.

3. Investments (continued)

The following summarizes sale, call, and maturity activity of investment securities for the nine months ended September 30, 2009 and 2008.

	Nine Months Ended September 30	
	2009	**2008**
Held-to-maturity investment securities:		
Proceeds from maturities	**$ 1,603,000**	$ 1,081,000
Available-for-sale investment securities:		
Proceeds from sales and maturities	**59,088,005**	49,264,374
Gross realized gains	**1,632,715**	611,783
Gross realized losses	**308,443**	–

The following table sets forth the unrealized gains (losses) on securities available-for-sale and the reclassification adjustments required for the nine months ended September 30, 2009 and 2008.

	Nine Months Ended September 30	
	2009	**2008**
Unrealized holding gains on investment securities available-for-sale, beginning of year	**$ 8,373,388**	$ 3,768,954
Unrealized holding losses on investment securities available-for-sale, arising during the year	**(251,602)**	(4,668,348)
Reclassification adjustments for gains on investment securities available-for-sale included in net income	**1,324,272**	611,783
Unrealized holding gains (losses) on investment securities available-for-sale, end of year	**$ 9,446,058**	$ (287,611)

4. Loans

The following schedule summarizes loans outstanding as of September 30, 2009 and 2008:

	Loan Balance	Allowances for Loan Loss	Foreign Currency Exchange Rate Adjustment	Net Loan Balance
September 30, 2009				
International Program	$ 281,094,944	$ (4,016,671)	$ (29,927,137)	$ 247,151,136
U.S. Domestic Program	4,154,432	(87,490)	–	4,066,942
	$ 285,249,376	$ (4,104,161)	$ (29,927,137)	$ 251,218,078
September 30, 2008				
International Program	$ 188,933,900	$ (4,016,671)	$ (2,310,665)	$ 182,606,564
U.S. Domestic Program	3,869,831	(87,490)	–	3,782,341
	$ 192,803,731	$ (4,104,161)	$ (2,310,665)	$ 186,388,905

At September 30, 2009, the Bank has outstanding loan commitments on signed loan agreements totaling $90,079,747 and $-0-, for the International Program and U.S. Domestic Program, respectively. The Board has also approved an additional $71,540,850 in loans for the International Program for which loan agreements are in development.

Consistent with its development nature, the Bank under certain circumstances, offers below-market-rate loans. As of September 30, 2009 and 2008, the Bank had below-market-rate loans outstanding for the International Program of $68,448,144 and $71,238,069, respectively, and for the U.S. Domestic Program of $2,134,600 and $2,179,218, respectively.

At September 30, 2009 and 2008, the International Program had one nonaccrual loan with an outstanding balance of $6,516,672. The average impaired loan balance for the nine months ended September 30, 2009 and 2008, totaled $6,516,672. No Interest income was recognized on this impaired loan for the nine months ended September 30, 2009 and 2008. During November 2007, the U.S. Domestic Program foreclosed on the collateral of one loan in the amount of $836,870. At September 30, 2009, the foreclosed property was reported as other assets of $836,870 in the accompanying balance sheet.

4. Loans (continued)

The following schedule summarizes the allowance for loan losses as of September 30, 2009 and 2008.

	September 30	
	2009	**2008**
Beginning balance	**$ 4,104,161**	$ 4,104,161
Provision for loan losses	**–**	–
Loan charge-offs (recoveries)	**–**	–
Ending balance	**$ 4,104,161**	$ 4,104,161

Subsequent to September 30, 2009, an additional provision for loan loss of $800,000 was charged to the International Program.

5. Furniture, Equipment, and Leasehold Improvements

Furniture, equipment, and leasehold improvement balances consist of:

	September 30	
	2009	**2008**
Furniture and equipment	**$ 574,700**	$ 570,563
Computers	**832,353**	764,196
Leasehold improvements	**413,022**	413,022
	1,820,075	1,747,781
Less – accumulated depreciation and amortization	**(1,660,363)**	(1,608,669)
	$ 159,712	$ 139,112

6. Equity

Subscribed Capital

At September 30, 2009 and 2008, the Bank had authorized and subscribed 300,000 shares of capital stock with a par value of $10,000 per share. As defined in the Charter, capital includes unqualified and qualified subscribed shares. Unqualified subscribed shares have either been funded or authorized for purchase by the subscribing country. Capital is further classified as callable or paid-in as follows:

	Mexico		United States		Total	
	Shares	Dollars	Shares	Dollars	Shares	Dollars
September 30, 2009						
Subscribed capital	150,000	$ 1,500,000,000	150,000	$ 1,500,000,000	300,000	$ 3,000,000,000
Less – callable subscribed capital	(127,500)	(1,275,000,000)	(127,500)	(1,275,000,000)	(255,000)	(2,550,000,000)
Paid-in capital	22,500	225,000,000	22,500	225,000,000	45,000	450,000,000
Less – transfer to general reserve for Domestic Programs	–	(22,500,000)	–	(22,500,000)	–	(45,000,000)
Paid-in capital (net of transfers)	22,500	202,500,000	22,500	202,500,000	45,000	405,000,000
Less scheduled	–	–	–	–	–	–
Total funded paid-in capital	22,500	$ 202,500,000	22,500	$ 202,500,000	45,000	$ 405,000,000
September 30, 2008						
Subscribed capital	150,000	$ 1,500,000,000	150,000	$ 1,500,000,000	300,000	$ 3,000,000,000
Less – callable subscribed capital	(127,500)	(1,275,000,000)	(127,500)	(1,275,000,000)	(255,000)	(2,550,000,000)
Paid-in capital	22,500	225,000,000	22,500	225,000,000	45,000	450,000,000
Less – transfer to general reserve for Domestic Programs	–	(22,500,000)	–	(22,500,000)	–	(45,000,000)
Paid-in capital (net of transfers)	22,500	202,500,000	22,500	202,500,000	45,000	405,000,000
Less scheduled	(2,343.8393)	(23,438,393)	(2,343.8393)	(23,438,393)	(4,687.6786)	(46,876,786)
Total funded paid-in capital	20,156.1607	$ 179,061,607	20,156.1607	$ 179,061,607	40,312.3214	$ 358,123,214

The callable portion of the subscription for capital shares of the Bank will be subject to call only when required to meet obligations as outlined in Article II, Section 3(d) of Chapter II of the Charter.

On May 24, 2001, the Board of Directors of the Bank concluded that the timing and amounts of the capital contributions in the amount of $101,250,000 would be conditional upon the future capital needs of the Bank. During the nine months ended September 30, 2009, Mexico and the United States, each made a final contribution of unqualified

6. Equity (continued)

paid-in capital of $13,998,393, or 1,399.8393 shares to complete their initial subscription of $450,000,000. For the nine months ended September 30, 2008, Mexico and the United States, each made contributions of unqualified paid-in capital of $13,545,357, or 1,354.5357 shares. As of September 30, 2008, the remaining scheduled contributions totaled $46,876,786.

On June 21, 2006, the Board of Directors authorized the development of a program to use up to $50 million of the Bank's paid-in capital for stand-alone grants and for grants that subsidize interest rates on loans. Therefore, net funded paid-in capital is further classified as:

	September 30	
	2009	**2008**
Designated for grant program	**$ 50,000,000**	$ 50,000,000
Undesignated	**355,000,000**	308,123,214
Total net funded paid-in capital	**$ 405,000,000**	$ 358,123,214

There are currently no grants under consideration that would be funded from paid-in capital.

Retained Earnings

Retained earnings are classified as designated by program and undesignated as follows:

	September 30	
	2009	**2008**
Designated retained earnings		
International Program:		
Water Conservation Investment Fund (WCIF):		
United States	**$ 6,894,688**	$ 7,652,747
Mexico	**9,593**	9,593
Total WCIF	**6,904,281**	7,662,340
Water Conservation Technical Assistance (WCTA)	**13,821**	2,321
Technical Assistance Program (TAP)	**6,808,184**	6,201,917
Solid Waste Environmental Program (SWEP)	**7,175,991**	9,006,425
Total International Program	**20,902,277**	22,873,003
U.S. Domestic Program	**5,835**	196,904
Total designated retained earnings	**20,908,112**	23,069,907
Undesignated retained earnings		
International Program	**35,021,597**	26,209,452
Total undesignated retained earnings	**35,021,597**	26,209,452
Total retained earnings	**$ 55,929,709**	$ 49,279,359

* Additional information regarding each program listed above is provided in Note 8.

6. Equity (continued)

Accumulated Other Comprehensive Income

As of September 30, 2009 and 2008, accumulated other comprehensive income, is comprised of:

	September 30	
	2009	**2008**
Unrealized gain (loss) on available-for-sale investments securities	**$ 9,446,058**	$ (287,611)
Foreign currency translation adjustment	**54,998**	58,051
Unrealized gain (loss) on hedging activities:		
Foreign currency translation adjustment	**(29,927,137)**	(2,310,665)
Fair value of cross-currency interest rate swaps	**46,047,040**	14,280,971
Net unrealized gain on hedging activities	**16,119,903**	11,970,306
Total comprehensive income	**$ 25,620,959**	$ 11,740,746

7. Domestic Programs

As specified in the Charter, 10% of each country's paid-in capital is to be set aside to finance community adjustment and investment programs in support of the purposes of NAFTA. In accordance with the Charter, the Board of Directors approved transfers in the prior years of $45,000,000, equal to 10% of paid-in capital of $450,000,000, to the general reserve to support these programs. To further clarify operations related to these programs, the Bank entered into a Memorandum of Understanding (MOU) with each country. In accordance with the MOU's, the U.S. and Mexican programs are administered independently.

Mexico

The MOU with Mexico indicates that 10% of paid-in capital from Mexico and the related earnings be set aside for the community adjustment and investment program endorsed by Mexico. The Mexican federal government instituted its domestic program, entitled *Programa Complementario de Apoyo a Comunidades y Empresas* (Mexican Domestic Program), through the offices of the SHCP. In June 1996, the SHCP entered into a mandate agreement with the federally run development bank, Banobras, to receive and administer the Bank's funds allocated for this program. The Mexican Domestic Program funds were fully transferred to Mexico as of June 1999. Accordingly, the activities of the Mexican Domestic Program are not reflected as operations of the Bank since they are administered and accounted for by Banobras.

United States

The MOU with the U.S. government specifies that 10% of the paid-in capital from the United States and the related earnings be set aside for the U.S. Community Adjustment and Investment Program (U.S. Domestic Program). Additionally, the MOU specified that the Los Angeles office of the Bank be formed to administer the U.S. Domestic Program. The Bank provides financing endorsed by the Finance Committee appointed by the U.S.

7. Domestic Programs (continued)

government for that purpose. Upon written endorsement from the U.S. government, U.S. Domestic Program funds can be transferred to the U.S. government. During the nine months ended September 30, 2009 and 2008, no funds, were transferred to the U.S. Treasury for U.S. Domestic Program activities. Returns of capital to the U.S. government are reported as a deduction from allocated paid-in capital.

In accordance with the Charter and MOU with the U.S., assets of the Bank in the amount of $11,099,871 and $11,199,225 were designated for the U.S. Domestic Program at September 30, 2009 and 2008, respectively. The revenues related to these amounts for the nine months ended September 30, 2009 and 2008, were $164,193 and $286,057, respectively. Additionally, expenses directly related to the U.S. Domestic Program operation incurred by the Los Angeles and San Antonio offices of the Bank of $303,724 and $363,766 are included in the Bank's operations for the nine months ended September 30, 2009 and 2008, respectively. All expenses and disbursements are paid out of the U.S. Domestic Program funds. Earnings accumulated on the U.S. Domestic Program capital funds as of September 30, 2009, were $5,835. Under the U.S. Domestic Program, $6,177,952 was set aside awaiting disbursement as of September 30, 2009. These funds are included in cash and cash equivalents on the balance sheet.

8. Program Activities

Program activities are comprised of:

	Nine Months Ended September 30	
	2009	**2008**
Program income		
EPA grant	**$ 1,251,685**	$ 1,249,758
Total program income	**1,251,685**	1,249,758
Program expenses		
EPA grant administration	**(1,251,685)**	(1,249,758)
Technical Assistance Program	**(1,214,502)**	(1,248,934)
Solid Waste Environmental Program	**(1,684,188)**	(439,032)
Water Conservation Investment Fund	**(624,852)**	(1,358,080)
Total program expenses	**(4,775,227)**	(4,295,804)
Net program expenses	**$ (3,523,542)**	$ (3,046,046)

8. Program Activities (continued)

EPA Grants

The Bank administers grant funds from EPA through the Border Environment Infrastructure Fund (BEIF). EPA grant awards since the initial grant made in April 1997 to September 30, 2009 total $635,453,302. Under the terms of the grants, the Bank finds and submits prospective projects to EPA, which approves the projects. EPA then disburses funds to the Bank, who directs the grant monies to the specified project. The Bank also oversees progress and compliance requirements for EPA and receives an allocation of the EPA grant funds for administrative expenses incurred.

As of September 30, 2009, EPA has approved project funding proposed by the Bank totaling $535,684,771, of which $494,189,915 has been disbursed through the Bank. The Bank recognized $1,251,685 and $1,249,758 as reimbursement of expenses incurred for the nine months ended September 30, 2009 and 2008, respectively, which have been recorded as program revenues and expenses in the statement of income.

U.S. Domestic Program – Grant Program

During June 1999, the U.S. government authorized the U.S. Department of the Treasury to transfer all or part of a $10,000,000 appropriation to the Bank and also authorized the U.S. Treasury department to transfer to the Bank other monies from time to time to fund the U.S. Domestic Program's grant activities. As of September 30, 2009, the Bank has received a total of $13,430,402 from the U.S. Department of the Treasury. Accumulated undisbursed interest earnings on the grant funds were $1,395; and grant disbursements totaled $13,095,071 yielding undisbursed grant funds of $336,726 at that date. Direct grant receipts and disbursements are not reflected in the statement of income because the Bank serves in a fiduciary capacity and acts at the direction of the U.S. Treasury. The U.S. Domestic Program's grant program is operated out of the San Antonio office.

Technical Assistance Program (TAP)

The Bank uses a portion of its retained earnings 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. In 1997, the Bank established the Institutional Development Cooperation Program (IDP), which was specifically designed to provide assistance for institutional strengthening studies aimed at improving the financial performance and managerial efficiency of public utilities. In 2002, the Bank created a separate program, the Project Development Program (PDP), in order to assist sponsors in the planning and design of infrastructure projects that would be submitted for BECC certification and NADB financing. In April 2009, these two programs were merged into a single program, *the Technical Assistance Program (TAP).* Under the merged program, assistance is provided for studies related to the design and implementation of environmental infrastructure projects, as well as for capacity-building measures aimed at achieving the effective and efficient operation of public services.

8. Program Activities (continued)

In March 1998, the *Utility Management Institute (UMI)* was created as an extension of the IDP to provide water utility managers and their staff with an opportunity for on-going professional development aimed at enhancing their managerial and financial skills. The program continues to operate as part of TAP.

In August 2002, the Bank's Board of Directors designated $5 million of the Bank's undesignated retained earnings to be used as grants to finance water conservation technical assistance (WCTA) projects in Mexico through its TAP program (formerly known as the IDP and PDP programs). These technical assistance funds do not require BECC certification. As of September 30, 2009, $4,986,179 of the WCTA designated retained earnings have been transferred for use through TAP.

Disbursements related to technical assistance and training operations have been previously designated from retained earnings and have been reported as a program expense. Disbursements for the nine months ended September 30, 2009 and 2008, were as follows:

	Nine Months Ended September 30	
	2009	**2008**
TAP	**$ 921,977**	$ 950,240
UMI	**292,525**	298,694
	$ 1,214,502	$ 1,248,934

Solid Waste Environmental Program (SWEP)

In October 1999, the Bank's Board of Directors approved a $5 million pilot program for municipal solid waste financing funded by a portion of the Bank's net earnings. Under this pilot program, projects eligible to receive SWEP assistance must involve a public entity and have been certified by the BECC. In June 2006, the Board agreed to keep SWEP as a permanent program. Since the initial funding, the Bank's Board of Directors has designated an additional $8.5 million to the SWEP program. For the nine months ended September 30, 2009 and 2008, $1,684,188 and $439,032, respectively, were disbursed under this program. As of September 30, 2009, cumulative SWEP disbursements total $6,324,009. These disbursements have been previously designated from retained earnings and have been reported as a program expense.

Water Conservation Investment Fund (WCIF)

In August 2002, the Bank's Board of Directors established the WCIF program to finance water conservation projects in the U.S.-Mexico border region. The Bank's Board of Directors designated $80 million of the Bank's undesignated retained earnings to the WCIF, of which $40 million is reserved exclusively for water conservation projects in each country. Under this fund, projects eligible to receive WCIF assistance must be certified by the BECC. For the nine months ended September 30, 2009 and 2008,

8. Program Activities (continued)

$624,852 and $1,358,080, respectively, have been disbursed under this fund. As of September 30, 2009, cumulative disbursements total $33,105,312 for the U.S. and $39,990,407 for Mexico. These disbursements have been previously designated from retained earnings and have been reported as a program expense.

9. 401(a) Retirement Plan

The Bank has a 401(a) Retirement Plan (the Plan) for its employees. The Plan provides for employee and non-discretionary employer contributions. For the nine months ended September 30, 2009 and 2008, the Bank expended $395,120 and $391,781, respectively, relating to the Plan.

10. Fair Value of Financial Instruments

Fair value is 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. Additional information on how the Bank measures fair value is provided in Note 2.

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

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

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

Cross-Currency Interest Rate Swaps
The fair value of cross-currency interest rate swaps is estimated based on discounted cash flow analyses, using loan amortization tables, stated and projected interest rates, and projected exchange rates.

10. Fair Value of Financial Instruments (continued)

The carrying amounts and fair value of the Bank's financial instruments are as follows:

	September 30, 2009		September 30, 2008	
	Carrying Amount	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Assets:				
Cash and cash equivalents	**$ 46,596,381**	**$ 46,596,381**	$ 55,802,312	$ 55,802,312
Held-to-maturity securities	**1,518,876**	**1,554,120**	3,473,936	3,516,824
Available-for-sale securities	**158,601,639**	**158,601,639**	172,833,784	172,833,784
Loans, net	**251,218,078**	**255,919,969**	186,388,905	188,651,416
Accrued interest receivable	**2,038,137**	**2,038,137**	3,055,711	3,055,711
Cross-currency interest rate swaps	**46,878,231**	**46,878,231**	14,605,519	14,605,519

The Bank's financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2009, are summarized in the following table by the valuation level of the inputs used in measuring fair value.

	September 30, 2009			
	Fair Value Measurements Using			
	Level 1	**Level 2**	**Level 3**	**Assets/Liabilities at Fair Value**
Available-for-sale (AFS) securities:				
U.S. government and agency securities	$ 24,514,165	$ 34,498,994	$ –	$ 59,013,159
Corporate debt securities	–	49,537,970	–	49,537,970
Other fixed income securities	–	13,248,945	–	13,248,945
Mexican government securities (UMS)	–	14,860,000	–	14,860,000
Mortgage-backed securities	–	21,941,565	–	21,941,565
Total AFS securities	24,514,165	134,087,474	–	158,601,639
Cross-currency interest rate swaps	–	–	46,878,231	46,878,231
Total assets at fair value	$ 24,514,165	$ 134,087,474	$ 46,878,231	$ 205,479,870

10. Fair Value of Financial Instruments (continued)

The following table summarizes the changes to the financial assets measured at fair value on a recurring basis using unobservable inputs (Level 3) during the nine months ended September 30, 2009.

	Cross-Currency Interest Rate Swaps
Fair Value of Level 3 Instruments	
Beginning balance, January 1, 2009	$ 55,539,274
Total gains (losses):	
Included in earnings (expenses)	(316,417)
Included in other comprehensive income (loss)	(8,344,626)
Purchases and settlements	–
Transfers in/out of Level 3	–
Ending balance, September 30, 2009	$ 46,878,231

The Bank entered into seven (7) cross-currency interest rate swaps during the nine months ended September 30, 2009. Upon issuance, the fair value of the swaps is $0, thus not portrayed in the Purchases and settlements line item above. The change in fair value of these instruments is included within the Total gains/(losses) line item above.

Impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. The impaired loans are reported at fair value through a specific valuation allowance allocation of the allowance for loan losses. Collateral values are estimated using Level 3 inputs based on customized valuation procedures. During 2009, an impaired loan with a carrying value of $6.5 million was reduced by specific valuation allowance allocations totaling $4.0 million to a total reported fair value of $2.5 million based on collateral valuations utilizing Level 3 valuation inputs

The Bank has no non-financial assets or non-financial liabilities measured at fair value on a recurring basis. Certain non-financial assets and non-financial liabilities measured at fair value on a non-recurring basis include foreclosed assets (upon initial recognition or subsequent impairment) and other non-financial long-lived assets measured at fair value for impairment assessment.

During 2009, the Bank did not foreclose on any loans or re-measure any existing real estate owned and did not record any impairments on long-lived assets.

11. Derivative Financial Instruments

The Bank utilizes cross-currency interest rate swaps to mitigate exposure to fluctuations in foreign currency exchange 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 or not the Bank is in a favorable or unfavorable position as of the reporting period date.

The Bank enters into swaps that are matched to specific fixed, variable or adjustable rate loans denominated in Mexican pesos that the Bank has entered into with COFIDAN. COFIDAN, in turn, enters into loans denominated in Mexican pesos under the exact same terms with borrowers. The swaps have been designated as hedging instruments to 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 decrease over time to match the expected amortization of the underlying loan. Neither the Bank nor the counterparty is required to post collateral to support the outstanding fair value of the swaps under its arrangement with FOAEM. Beginning in July 2009, under the direct counterparty relationship with Banobras, collateral may be required to be posted by either the Bank or Banobras. No collateral was exchanged by the Bank or Banobras at September 30, 2009.

The notional amounts and estimated fair values of the swaps outstanding at September 30, 2009 and December 31, 2008 are presented in the following table. The fair value of these swaps is estimated utilizing internal valuation models with observable market data inputs.

	September 30, 2009		**December 31, 2008**	
	Notional Amount	**Estimated Fair Value**	**Notional Amount**	**Estimated Fair Value**
Loan cross-currency swaps	**$195,925,376**	**$46,878,231**	$152,201,860	$55,539,274

The weighted average exchange rates received for the swaps outstanding at September 30, 2009 was 7.42%

One swap that is no longer deemed effective because of borrower default on the hedged loan is not included in the table above. The fair value of the swap was $831,191 as of September 30, 2009 and $1,147,608 as of December 31, 2008. The change in the fair value of the swap for the nine months ended September 30, 2009 and 2008 was a decrease of $316,417 and an increase of $30,833, respectively, which is recognized in the consolidated statements of income.

Gains, Losses and Derivative Cash Flows

The effective portion of the gain or loss due to changes in the fair value of the swaps is included in other comprehensive income, while the ineffective portion is included in other income or expenses. The accumulated gain related to the swaps included in accumulated other comprehensive income totaled $16,119,904 at September 30, 2009 and $21,259,171 at December 31, 2008. The accumulated gain is reclassified into earnings as the hedged cash flows are received to offset the foreign currency gains (losses) that would have been recognized in earnings had the Bank not been a party to the swaps. The portion of the accumulated gain (loss) that was reclassified into earnings for the nine months ended September 30, 2009 and 2008 was $3,205,359 and ($3,738,402), respectively.

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

13. New Accounting Principles

On July 1, 2009, the Accounting Standards Codification became FASB's officially recognized source of authoritative U.S. generally accepted accounting principles applicable to all public and non-public non-governmental entities, superseding existing FASB, AICPA, EITF and related literature. The switch to the ASC affects the way companies refer to U.S. GAAP in financial statements and accounting policies. Citing particular content in the ASC involves specifying the unique numeric path to the content through the Topic, Subtopic, Section and Paragraph structure.

FASB ASC Topic 320, "Investments - Debt and Equity Securities." New authoritative accounting guidance under ASC Topic 320, "Investments - Debt and Equity Securities," (i) changes existing guidance for determining whether an impairment is other than temporary to debt securities and (ii) replaces the existing requirement that the entity's management assert it has both the intent and ability to hold an impaired security until recovery with a requirement that management assert: (a) it does not have the intent to sell the security; and (b) it is more likely than not it will not have to sell the security before recovery of its cost basis. Under ASC Topic 320, declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses to the extent the impairment is related to credit losses. The amount of the impairment related to other factors is recognized in other comprehensive income. The Bank adopted the provisions of the new authoritative accounting guidance under ASC Topic 320 during 2009. Adoption of the new guidance did not significantly impact the Bank's financial statements.

FASB ASC Topic 810, "Consolidation." New authoritative accounting guidance under ASC Topic 810, "Consolidation," amended prior guidance to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. Under ASC Topic 810, a non-controlling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as a component of equity in the consolidated financial statements. Among other requirements, ASC Topic 810 requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to the parent and to the non-controlling interest. The new authoritative accounting guidance under ASC Topic 810 became effective for the Bank on January 1, 2009 and did not have a significant impact on the Bank's financial statements.

13. New Accounting Principles (continued)

FASB ASC Topic 815, "Derivatives and Hedging." New authoritative accounting guidance under ASC Topic 815, "Derivatives and Hedging," amends prior guidance to amend and expand the disclosure requirements for derivatives and hedging activities to provide greater transparency about (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedge items are accounted for under ASC Topic 815, and (iii) how derivative instruments and related hedged items affect an entity's financial position, results of operations and cash flows. To meet those objectives, the new authoritative accounting guidance requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments and disclosures about credit-risk-related contingent features in derivative agreements. The new authoritative accounting guidance under ASC Topic 815 became effective for the Bank on January 1, 2009 and the required disclosures are reported within.

FASB ASC Topic 820, "*Fair Value Measurements and Disclosures*." ASC Topic 820,"Fair Value Measurements and Disclosures," defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of ASC Topic 820 became effective for the Bank on January 1, 2008 for financial assets and financial liabilities and on January 1, 2009 for non-financial assets and non-financial liabilities.

Additional new authoritative accounting guidance under ASC Topic 820 affirms that the objective of fair value when the market for an asset is not active is the price that would be received to sell the asset in an orderly transaction, and clarifies and includes additional factors for determining whether there has been a significant decrease in market activity for an asset when the market for that asset is not active. ASC Topic 820 requires an entity to base its conclusion about whether a transaction was not orderly on the weight of the evidence. The new accounting guidance amended prior guidance to expand certain disclosure requirements. The Bank adopted the new authoritative accounting guidance under ASC Topic 820 during 2009. Adoption of the new guidance did not significantly impact the Bank's financial statements.

FASB ASC Topic 855, "*Subsequent Events*." New authoritative accounting guidance under ASC Topic 855, "Subsequent Events," establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. ASC Topic 855 defines (i) the period after the balance sheet date during which a reporting entity’s management should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and (iii) the disclosures an entity should make about events or transactions that occurred after the balance sheet date. The new authoritative accounting guidance under ASC Topic 855 became effective for the Bank's financial statements for periods ending after June 15, 2009 and did not have a significant impact on the Bank's financial statements.

14. Subsequent Events

Upcoming Debt Issuance
The Bank anticipates an offering of no less than $200 million 10 year fixed rate non-amortizing bonds in February 2010.

The Bank has evaluated subsequent events for potential recognition and/or disclosure through January 29, 2010, the date these consolidated financial statements were issued.

Supplemental Information

North American Development Bank

Combining Balance Sheet by Program (Unaudited)

September 30, 2009

	International Program	U.S. Domestic Program (A)	Eliminations	Total
Assets				
Cash and cash equivalents:				
Held at other financial institutions in demand deposit accounts	$ 27,749	$ 18,882	$ —	$ 46,631
Held at other financial institutions in interest bearing accounts	36,953,954	6,295,796	—	43,249,750
Repurchase agreements	3,100,000	200,000	—	3,300,000
	40,081,703	6,514,678	—	46,596,381
Held-to-maturity investment securities, at amortized cost	1,518,876	—	—	1,518,876
Available-for-sale investment securities, at fair value	158,601,639	—	—	158,601,639
Loans outstanding, net	247,151,136	4,066,942	—	251,218,078
Interest receivable	2,023,497	14,640	—	2,038,137
Grant receivable	276,675	—	—	276,675
Due from International Program	31,172	—	(31,172)	—
Furniture, equipment and leasehold improvements, net	156,245	3,467	—	159,712
Other assets	46,992,058	836,870	—	47,828,928
Total assets	$496,833,001	$ 11,436,597	$ (31,172)	$508,238,426
Liabilities and Equity				
Liabilities:				
Accounts payable	$ 264,985	$ —	$ —	$ 264,985
Accrued liabilities	681,977	2,721	—	684,698
Due to U.S. Domestic Program	—	31,172	(31,172)	—
Undisbursed grant funds	1,468	336,726	—	338,194
Total liabilities	948,430	370,619	(31,172)	1,287,877
Equity:				
Paid—in capital	405,000,000	—	—	405,000,000
General Reserve:				
Allocated paid—in capital	—	10,935,510	—	10,935,510
Retained earnings:	—			
Designated	20,902,277	5,835	—	20,908,112
Undesignated	35,021,597	—	—	35,021,597
Special Reserve	9,333,646	124,633	—	9,458,279
Accumulated other comprehensive income (loss)	25,620,959	—	—	25,620,959
Minority interest	6,092	—	—	6,092
Total equity	495,884,571	11,065,978	—	506,950,549
Total liabilities and equity	$496,833,001	$ 11,436,597	$ (31,172)	$508,238,426

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

North American Development Bank

Combining Statement of Income by Program (Unaudited)

For The Nine Months Ended September 30, 2009

	International Program	U.S. Domestic Program (A)	Total
Income:			
Interest:			
Investment income	$ 6,731,345	$ 35,594	$ 6,766,939
Loan income	7,471,733	128,568	7,600,301
Gain on sales of available-for-sale investment securities	1,324,272	—	1,324,272
Fee income	9,650	31	9,681
Other	135,022	—	135,022
Total revenues	15,672,022	164,193	15,836,215
Operating expenses:			
Personnel	3,239,681	—	3,239,681
Consultants	857,918	—	857,918
General and administrative	557,012	—	557,012
Operational travel	163,863	—	163,863
Depreciation and amortization	39,296	1,200	40,496
Relocation	15,206	—	15,206
U.S. Domestic Program	—	303,724	303,724
Total operating expenses	4,872,976	304,924	5,177,900
Income (loss) before program activities	10,799,046	(140,731)	10,658,315
Program activities:			
U.S. Environmental Protection Agency grant income	1,251,685	—	1,251,685
U.S. Environmental Protection Agency grant administration	(1,251,685)	—	(1,251,685)
TAP	(1,214,502)	—	(1,214,502)
SWEP	(1,684,188)	—	(1,684,188)
WCIF	(624,852)	—	(624,852)
Net program expenses	(3,523,542)	—	(3,523,542)
Income (loss) before minority interest	7,275,504	(140,731)	7,134,773
Minority interest	96	—	96
Net income (loss)	$ 7,275,408	$ (140,731)	$ 7,134,677
General Reserve, January 1, 2009			
Allocated paid—in capital	$ —	$ 10,935,510	$ 10,935,510
Retained earnings	52,119,395	155,555	52,274,950
Current Period Activity:			
Net income (loss)	7,275,408	(140,731)	7,134,677
Transfer from retained earnings to special reserve	(3,470,929)	(8,989)	(3,479,918)
General Reserve, September 30, 2009			
Allocated paid—in capital	—	10,935,510	10,935,510
Retained earnings	55,923,874	5,835	55,929,709
	$ 55,923,874	$ 10,941,345	$ 66,865,219

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

North American Development Bank

Combining Statement of Cash Flows by Program (Unaudited)

For The Nine Months Ended September 30, 2009

	International Program	U.S. Domestic Program (A)	Total
Cash flows from operating activities:			
Net income (loss)	$ 7,275,408	$ (140,731)	$ 7,134,677
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	39,296	1,200	40,496
Amortization of net premium (discount) on investments	(59,558)	6,238	(53,320)
Other non-cash items	285,168	-	285,168
Minority interest	96	-	96
Gain on sales of available-for-sale investment securities	(1,324,272)	-	(1,324,272)
Change in other assets and liabilities:			
Decrease in interest receivable	589,003	92,239	681,242
Decrease in receivable and other assets	95,635	-	95,635
Decrease in due from U.S. Domestic Program due to International Program	30,082	(30,082)	-
Decrease in accounts payable	(63,622)	-	(63,622)
Increase (decrease) in accrued liabilities	112,198	(13,502)	98,696
Net cash provided by (used in) operating activities	6,979,434	(84,638)	6,894,796
Cash flows from lending, investing, and development activities:			
Capital expenditures	(12,119)	-	(12,119)
Loan principal repayments	8,172,027	403,796	8,575,823
Loan disbursements	(102,853,584)	(703,425)	(103,557,009)
Purchase of investments	(22,628,147)	-	(22,628,147)
Proceeds from sales and maturities of investments	58,251,005	2,440,000	60,691,005
Net cash provided by (used in) lending, investing, and development activities	(59,070,818)	2,140,371	(56,930,447)
Cash flows from financing activities:			
Capital contributions	27,996,786	-	27,996,786
Grant funds - EPA	42,535,992	-	42,535,992
Grant disbursements - EPA	(42,536,034)	-	(42,536,034)
Grant activity - U.S. Domestic Program	-	(339,017)	(339,017)
Net cash provided by (used in) financing activities	27,996,744	(339,017)	27,657,727
Net increase (decrease) in cash and cash equivalents	(24,094,640)	1,716,716	(22,377,924)
Cash and cash equivalents at January 1, 2009	64,176,343	4,797,962	68,974,305
Cash and cash equivalents at September 30, 2009	$ 40,081,703	$6,514,678	$46,596,381

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

North American Development Bank

Loan Commitments and Loans Outstanding (Unaudited)

As of September 30, 2009

Borrower	Community/Project	Date	Commitments	Commitment Outstanding	Loan Balance January 1, 2009	Loan Disbursements	Loan Payments	Loan Balance September 30, 2009
NADB								
Grupo Solar	Region Cinco, COAH (WW)	May-02	$ 6,516,672	$ -	$ 6,516,672	$ -	$ -	$ 6,516,672
SCSD *.....................................	Desert Shores, CA (WW)	Sep-03	500,000	-	405,000	-	20,000	385,000
San Benito, TX (A)	San Benito, TX (W/WW)	Sep-04	3,800,000	-	3,225,000	-	150,000	3,075,000
La Feria, TX.............................	La Feria, TX (W/WW)	Dec-04	6,125,000	-	5,200,000	-	240,000	4,960,000
San Benito, TX (B)	San Benito, TX (W/WW)	Apr-05	4,200,000	-	3,750,000	-	160,000	3,590,000
Pharr, TX..................................	Pharr, TX (WW)	Dec-07	10,000,000	-	9,565,000	-	355,000	9,210,000
Tornillo, TX	Tornillo, TX (WW)	Mar-08	1,920,000	-	1,860,000	-	70,000	1,790,000
Global Alternative Fuel............	ElPaso, TX (ENE)	Jun-08	19,986,647	16,296,791	3,689,856	-	238,482	3,451,374
Cucapá S.A. de C.V.	San Luis Rio Colorado, SON (AQ)	Feb-09	10,128,749	-	-	10,128,749	-	10,128,749
El Paso, TX	ElPaso, Texas (SD)	Sep-09	53,000,000	-	-	53,000,000	-	53,000,000
			116,177,068	16,296,791	34,211,528	63,128,749	1,233,482	96,106,795
COFIDAN								
OOMAPAS-Naco*	Naco, SON (W/WW)	Feb-99	149,667	-	119,129	-	5,600	113,529
CESPT #1 *..............................	Tijuana, BC (WW)	May-99	2,649,290	-	488,353	-	395,877	92,476
CESPT #2 *..............................	Tijuana, BC (WW)	Jun-02	3,303,902	-	517,176	-	270,246	246,930
San Luis Rio Colorado, SON....	San Luis Rio Colorado, SON (SW)	Jun-03	1,084,771	-	609,203	-	116,977	492,226
Agua Prieta, SON.....................	Agua Prieta, SON (AQ)	Jul-03	3,632,199	-	3,412,378	-	76,748	3,335,630
State of Baja California............	Baja California (AQ)	Aug-03	25,067,958	-	17,343,234	-	1,927,025	15,416,209
OOMAPAS-SLRC #1 *...........	San Luis Rio Colorado, SON (WW)	Jun-04	7,417,428	-	6,508,125	-	320,284	6,187,841
CESPT #3 *..............................	Tijuana, BC (WW)	Jun-04	5,102,026	-	2,056,280	-	630,330	1,425,950
SIMAS-Acuña *........................	Ciudad Acuña, COAH (WW)	Oct-04	1,879,235	-	1,714,789	-	70,477	1,644,312
SIMAS-Piedras Negras *..........	Piedras Negras, COAH (WW)	Nov-04	2,448,715	-	2,403,365	-	102,038	2,301,327
CESPTE #1 *	Tecate, BC (W/WW)	Aug-05	610,457	-	481,254	-	68,268	412,986
OOMAPASN-Nogales *...........	Nogales, SON (W)	Aug-06	8,976,661	-	8,976,661	-	138,258	8,838,403
JAD-Matamoros *....................	Matamoros, TAM (W/WW)	Sep-06	10,057,603	-	10,025,277	-	292,460	9,732,817
COMAPA-Reynosa *	Reynosa, TAM (WW)	Sep-06	8,000,000	-	7,754,384	-	315,792	7,438,592
COMAPA-Nuevo Laredo *......	Nuevo Laredo, TAM (W/WW)	Oct-06	5,431,339	-	5,193,120	-	214,396	4,978,724
PuertoPeñasco,SON#2A	Puerto Peñasco, SON (AQ)	Nov-06	2,267,779	-	2,211,087	-	82,565	2,128,522
Nogales, SON #1......................	Nogales, SON (AQ)	Jan-07	8,828,618	-	7,872,223	-	662,120	7,210,103
SADM *	Monterrey, NL (WW)	Feb-07	27,306,604	-	27,306,604	-	758,578	26,548,026
JMAS-Ojinaga *	Ojinaga, CHIH (WW)	May-07	1,037,906	-	1,021,690	-	48,649	973,041
JMAS-Juarez *	Anapra, CHIH (WW)	May-07	433,213	-	351,999	-	81,215	270,784
JMAS-Guadalupe *..................	Guadalupe, CHIH (WW)	Nov-07	276,091	-	276,091	-	12,272	263,819
JRAS-Porfirio *........................	Porfirio Parra, CHIH (WW)	Nov-07	138,045	-	138,045	-	6,136	131,909
JMAS-Praxedis *	Praxedis, CHIH (WW)	Nov-07	276,091	-	276,091	-	12,272	263,819
JRAS-ElPorvenir *....................	El Porvenir, CHIH (WW)	Nov-07	138,045	-	138,045	-	6,136	131,909
PuertoPeñasco, SON#2B	Puerto Peñasco, SON (AQ)	Dec-07	1,667,620	-	1,625,931	-	60,715	1,565,216
Nogales, SON#2.......................	Nogales, SON (SW)	Dec-07	2,361,515	-	2,361,515	-	62,649	2,298,866
OOMAPAS - SLRC #2 *..........	San Luis Rio Colorado, SON (WW)	Dec-07	1,577,328	-	1,577,328	-	-	1,577,328
CESPT #4 *..............................	Playas de Rosarito, BC (W/WW)	Feb-08	1,151,119	-	- -	1,151,119	-	1,151,119
Nuevo Laredo, TAM................	Nuevo Laredo, TAM (SD)	Mar-08	22,157,773	2,632,446	19,525,327	-	-	19,525,327
CESPM *..................................	Mexicali, BC (WW)	Apr-08	18,951,059	-	18,951,059	-	-	18,951,059
CESPTE #2 *	Tecate, BC (W/WW)	Jun-08	966,096	-	966,096	-	-	966,096
COMAPA-RioBravo *.............	Rio Bravo, TAM (W/WW)	Jul-08	3,098,373	-	-	3,098,373	-	3,098,373
Tijuana, BC	Tijuana, BC (SW)	Jul-08	1,718,213	-	-	1,718,213	200,462	1,517,751
Naco, SON	Naco, SON (AQ)	Jul-08	417,299	-	-	417,299	-	417,299
Nuevo Laredo, TAM................	Nuevo Laredo, TAM (AQ)	Jan-09	37,065,637	13,378,316	-	23,687,321	-	23,687,321
Playas de Rosarito, BC	Playas de Rosarito, BC (AQ)	May-09	16,601,268	16,601,268	-	-	-	-
CESPT #5 *..............................	Tijuana, BC (WW)	Jul-09	2,412,790	2,412,790	-	-	-	-
Nuevo Laredo,T AM................	Nuevo Laredo, TAM (AQ)	Jul-09	26,335,591	16,683,081	-	9,652,510	-	9,652,510
CESPT #6 *..............................	Tijuana, BC (W/WW)	Sep-09	22,075,055	22,075,055	-	-	-	-
Effect of foreign currency exchange rates					(33,132,496)			(29,927,137)
			285,070,379	73,782,956	119,069,363	39,724,835	6,938,545	155,061,012
Total International Program			401,247,447	90,079,747	153,280,891	102,853,584	8,172,027	251,167,807

Borrower	Community / Project	Date	Commitments	Commitment Outstanding	Loan Balance January 1, 2008	Loan Disbursements	Loan Payments	Loan Balance December 31, 2008
U.S. Domestic Program								
California Coastal RDC	Salinas, CA	Oct-97	1,672,625	-	317,755	703,425	332,768	688,412
El Paso Workforce Collaborative	El Paso, TX	Jul-99	936,906	-	531,351	-	-	531,351
Martin County EDC #1	Martin County, NC	Oct-02	550,000	-	337,230	-	7,722	329,508
Martin County EDC #2	Martin County, NC	Jun-04	1,307,327	-	1,307,327	-	33,586	1,273,741
Beaufort County #2	Beaufort County, NC	Sep-04	688,450	-	588,473	-	22,802	565,671
Martin County EDC #3	Martin County, NC	Sep-07	395,000	-	372,667	-	6,918	365,749
Centro del Obrero Fronterizo #2........................	El Paso, TX	Mar-07	400,000	-	400,000	-	-	400,000
Total U.S. Domestic Program ..			5,950,308	-	3,854,803	703,425	403,796	4,154,432
Total			$ 407,197,755	$90,079,747	$157,135,694	$103,557,009	$8,575,823	$ 255,322,239

Note A – AQ = Airquality; ENE = Cleaner Energy; SD = Storm drainage; SW = Solid waste; W = Water; WW = Wastewater
* Utility

North American Development Bank

Border Environment Infrastructure Fund (BEIF) (Unaudited)

As of and for the Nine Months Ended September 30, 2009

BALANCE SHEET

	Region 6	Region 9	Total
Assets			
Cash	$ 640	$ 828	$ 1,468
Total Assets	$ 640	$ 828	$ 1,468
Liabilities			
Undisbursed grant funds	$ 640	$ 828	$ 1,468
Total Liabilities	$ 640	$ 828	$ 1,468

STATEMENT OF INCOME

	Region 6	Region 9	Total
Income:			
U.S. Environmental Protection Agency grant income	$ 717,380	$ 534,305	$ 1,251,685
Total income	717,380	534,305	1,251,685
BEIF Operating Expenses:			
Personnel	382,277	309,030	691,307
Consultants	261,305	161,132	422,437
General and administrative	55,109	36,739	91,848
Operational Travel	18,689	27,404	46,093
Total BEIF operating expenses	717,380	534,305	1,251,685
Net income	$ -	$ -	$ -

STATEMENT OF CASHFLOWS

	Region 6	Region 9	Total
Cash flows from operating activities:			
Net income	$ -	$ -	$ -
Net cash provided by operating activities	-	-	-
Cash flows from financing activities:			
Grant funds – EPA	28,027,503	14,508,489	42,535,992
Grant disbursements – EPA	(28,027,622)	(14,508,412)	(42,536,034)
Net cash provided by (used in) financing activities	(119)	77	(42)
Net increase in cash and cash equivalents	(119)	77	(42)
Cash and cash equivalents at January 1, 2009	759	751	1,510
Cash and cash equivalents at September 30, 2009	$ $640	$ $828	$ 1,468

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