NORTHAMERICANDEVELOPMENTBANK

2023 ANNUAL REPORT







North American Development Bank
Banco de Desarrollo de América del Norte

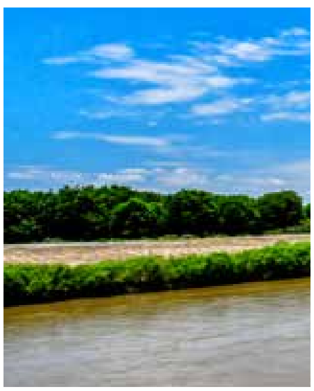




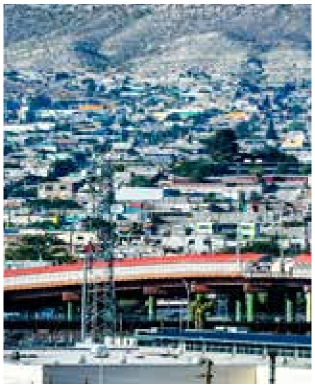


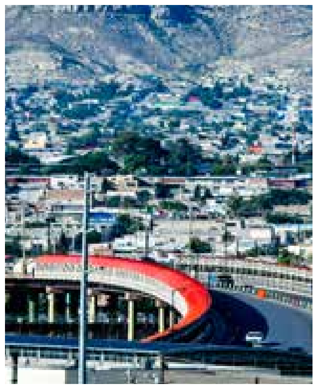
CONTENTS

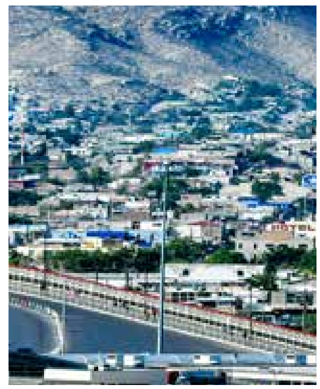
OUR MISSION

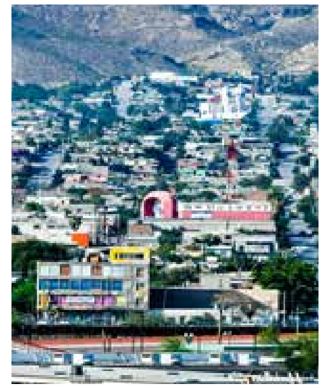



To provide financing, as well as technical and other assistance, to support the development and implementation of infrastructure projects that preserve, protect or enhance the environment of the border region in order to advance the well-being of the people of the United States and Mexico.









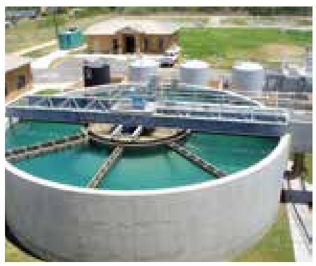

NADBank Summit 2023
SUSTAINABLE REGIONAL
ECONOMIC INTEGRATION
U.S. - MEXICO

MESSAGE FROM MANAGEMENT

2023 was a year of progress and growth for the North American Development Bank (NADBank), as the institution continued to advance its mission of developing and financing environmental infrastructure along the U.S.-Mexico border.

At the end of the year, the Board of Directors approved the 2024-2028 Strategic Plan, which reaffirms the Bank's continued focus on water infrastructure, as well as reflects the growing binational priority of accelerating investment in greener mobility and the commitment of Mexico and the United States to move towards sustainable development through investments that promote a better quality of life for border residents.

Continued Focus on Water Investments

Water continues to be the highest priority of the Bank, and in particular projects designed to prevent or eliminate transboundary wastewater flows. Nearly half of the eleven projects approved during the year were in the water sector, including the rehabilitation of wastewater conveyance infrastructure serving an estimated 1.4 million people in Mexicali and Tijuana, Baja California. These two projects will reduce the risk of system failures and prevent the potential discharge of up to 76.7 million gallons per day (mgd) of sewage that could impact the Tijuana and New Rivers, both of which flow northward into the United States. NADBank also continued to address basic service needs in underserved areas of the border region with three projects that will provide safe and reliable drinking water and/or wastewater services for small communities with populations of 8,750 or less in Texas, New Mexico and Chihuahua, while also preventing excessive water losses or contamination of local water sources from sewage spills due to deteriorated infrastructure. NADBank is providing close to US$43.0 million in loans and grants to finance up to 64% of the total investment in those five projects.

Likewise, five of the six projects that completed implementation and began operations in 2023 were in the water sector. The rehabilitation and expansion of wastewater infrastructure in four communities in Arizona, Chihuahua and Tamaulipas is ensuring the safe conveyance and treatment of up to 25.4 mgd of wastewater, as well as providing first-time service to approximately 400 people, while the installation of a new water distribution system funded in partnership with the U.S. Department of Agriculture has increased service coverage and reliability, as well as improved fire protection, for a small community of about 1,500 people outside El Paso, Texas.

In addition to addressing infrastructure needs in the water sector, NADBank continues to provide support to strengthen the institutional capacities of the utilities that manage and operate these systems through its technical assistance programs and training initiatives. In 2023, NADBank was pleased to see the first 57 graduates of the Skills for Sustainability (S4S) program developed in collaboration with The Trust for the Americas and other local partners to help fill the gap for skilled workers in the water industry by providing technical training and job placement for unemployed and at-risk youth. Forty of those graduates have already been hired by the local water utilities in El Paso, Texas, and Ciudad Juárez, Chihuahua. Based on the success of this pilot program, NADBank is now looking to replicate it in other areas of the border region.

Going forward, the Bank plans to expand its efforts in this sector to help address the pressing issues of water conservation and resource diversification in the arid and drought-prone region, including initiatives to increase water efficiency in the agriculture sector and the reuse of treated wastewater. To meet the challenges and demand in this vital sector, the Bank will also continue to explore innovative mechanisms and programmatic approaches for delivering environmental infrastructure financing.

Deepening Our Commitment to Sustainable Development

NADBank also continued to grow and diversify its development asset portfolio in 2023 with the approval of US$56.4 million in loans to support projects aimed at increasing energy efficiency and water conservation through the construction of sustainable buildings, sustainable food value chains and green manufacturing. In California, NADBank is financing the construction of an outpatient medical complex that includes the first Program of All-Inclusive Care for the Elderly (PACE) facility in Imperial Valley, and in Mexico a US$20-million line of credit was approved to support the development of efficient and sustainable housing projects for middle-income residents in eligible cities in the Mexican border states. Similarly, in the area of sustainable food value chains, NADBank approved financing for the construction of a frozen food processing plant in Sonora. All of these facilities are being built using sustainable construction techniques and materials, as well as energy- and water efficient fixtures and equipment.

In the area of sustainable energy, NADBank continued to support clean energy generation and grid reliability in the border region with the approval of a solar energy park and a standalone battery energy storage system (BESS) both located in southern Texas, a region where steady economic and population growth coupled with the effects of climate change are putting a strain on the power grid, especially during the extreme heat of summer. During its first year of operation, the solar park is expected to generate electricity equivalent to the annual consumption of 13,735 households, while the electricity stored and delivered by the BESS will meet the demand of 28,597 households annually. Moreover, these projects will help reduce demand for electricity from fossil-fuel based power plants and thus the emission of greenhouse gases and other contaminants contributing to climate change.

The Bank is committed to promoting these types of investments in sustainable development, which will help mitigate the effects of climate change and ultimately improve the quality of life of border residents and future generations. Over the next five years, the Bank plans to increase investments in projects aimed at improving air quality and in particular comprehensive solutions for cleaner mobility systems for people and cargo, including electrification of public and private vehicles and more efficient ports of entry. At year end, NADBank published a project proposal to modernize public transportation services along a major thoroughfare in Tijuana, Baja California, which includes introducing the first electric buses in the city.

Sound Financial Position and Growth

NADBank continues to maintain a solid financial position, with strong asset quality and excellent capitalization and liquidity levels, as reaffirmed by its credit ratings from Moody's Investors Service (Aa1) and Fitch Ratings (AA). With nearly US$219 million in new lending offset by US$90 million in principal payments, its development asset portfolio grew 14% year over year–its largest single-year growth since 2015. This growth can be attributed to revitalized development activity as the global economy rebounds from post-pandemic disruptions and supply chains stabilize, as well as to a substantial decline in prepayments due to the high interest rate environment. As a result, NADBank closed the year with US$23.5 million in net income after transfers to its grant facility—the Environment Investment and Capacity Facility (EICF).

In its first year of operation, the EICF fund balance grew 72% from US$7.5 million to US$12.9 million. This facility has already had a notable impact on the NADBank Technical Assistance Program (TAP), significantly boosting the number of initiatives approved and funded in support of border communities. In 2023, the Bank disbursed U$1.4 million in TAP funds to support 18 studies and capacity-building webinars, more than double the disbursements made in 2022 and almost triple the annual average for the previous four years.

With the EICF in place and growing, the Bank also took steps to increase its pipeline of grant projects by updating the operating guidelines of its Community Assistance Program (CAP). Under the new guidelines, project eligibility has been refocused on investments in the priority sectors of water and solid waste, project selection is now based on an impact-oriented approach, the maximum grant amount was increased to US$750,000, and new financing options have been incorporated, including an option for emergency funding. NADBank announced an initial call for CAP grant applications in October 2023 and will initiate the first project selection process based on the applications received in the first quarter of 2024.

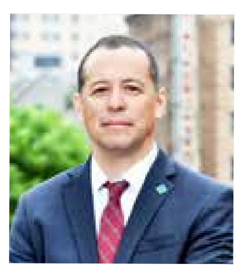
Broadening Our Reach

Throughout the year, NADBank met with stakeholders and hosted several public and private events bringing together representatives of the public sector, financial development institutions and the business community to facilitate an open dialogue aimed at boosting investment in strategic infrastructure projects in the border region. Its annual flagship summit centered on economic integration and the challenges of nearshoring in the region as an opportunity to foster sustainable economic growth and the efficient use of essential resources like water and energy.

The Bank also strengthened its relationship with the academic community by launching its University Ambassador Program, which is designed to create a hub for dialogue and interaction with the student community, as well as support the academic development of the students. Over the course of six months, 31 undergraduate students actively promoted NADBank and its mission on social media and through academic activities on their respective campuses, increasing our visibility among the next generation of government and business leaders.

With thanks to our Board and dedicated staff, as well as to our many partners in sustainable development along the border, we are pleased to share the results of our work in this annual report.

John Beckham
Managing Director



Salvador López Córdova
Chief Environmental Officer

2023 PROJECT RESULTS AT A GLANCE

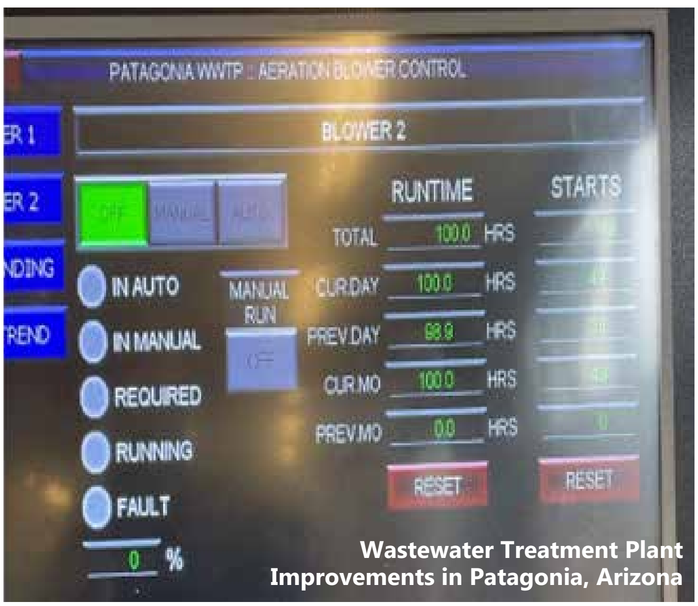
Projects Initiating Operations

Six projects in the core sectors of clean water and solid waste management completed construction and went into operation. These projects represent a total investment of US$27.6 million and are benefitting more than 303,400 border residents in the United States and Mexico. NADBank covered approximately 54% of that investment with grants through the Community Assistance Program (CAP) and Border Environment Infrastructure Fund (BEIF), which were funded by the U.S. Department of State and U.S. Environmental Protection Agency (EPA), respectively.

	Drinking Water	Wastewater	Solid Waste
Investments	• US$3.5 million BEIF grant • US$7.3 million total investment	• US$10.1 million in BEIF grants • US$936,713 in CAP grants • US$19.8 million total investment	• US$449,280 CAP grant • US$499,280 total investment
Outputs	• New distribution system installed • 7 miles of waterlines • 360 water connections installed • 72 fire hydrants	• 1 wastewater treatment plant rehabilitated • 1 new lift station and 1 rehabilitated lift station • 5.9 miles of wastewater lines • 115 sewer connections installed	• New compactor purchased for landfill operations
Outcomes	• 1,480 border residents with improved water service • Reduced exposure to high concentrations of arsenic and pathogenic organisms in groundwater • Compliance with fire protection requirements	• 287,800 border residents with new or improved wastewater services in four communities • 110,000 gallons per day of improved treatment capacity • 25.4 million gallons per day of wastewater collected and/or safely conveyed for treatment	• 14,100 border residents in two communities with ongoing access to proper waste disposal services • 40 metric tons a day of municipal solid waste and special waste disposed of properly

Six Projects Completed and in Operation in 2023


Wastewater Collection System Expansion in Camargo, Chihuahua



Wastewater Treatment Plant Improvements in Patagonia, Arizona


Drinking Water Distribution System for Vinton, Texas


Improvements to the International Outfall Interceptor: Relocation of Lateral Connections and Erosion Protection in Nogales, Arizona


Equipment for Landfill Operations in Roma, Texas

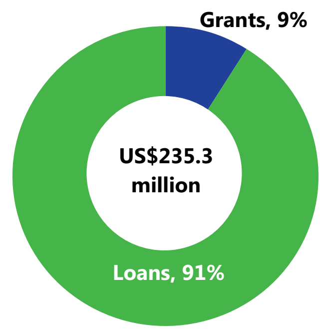

Wastewater Collection and Treatment Project in Reynosa, Tamaulipas

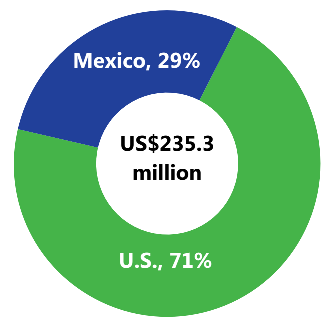
Projects Approved for Financing

Eleven projects were approved to receive up to US$235.3 million in loans and/or grants. These projects represent a total investment of US$735.9 million and will benefit more than 1.6 million border residents by improving basic water and wastewater services, preventing sewage spills, generating renewable energy or increasing energy efficiency and water conservation.

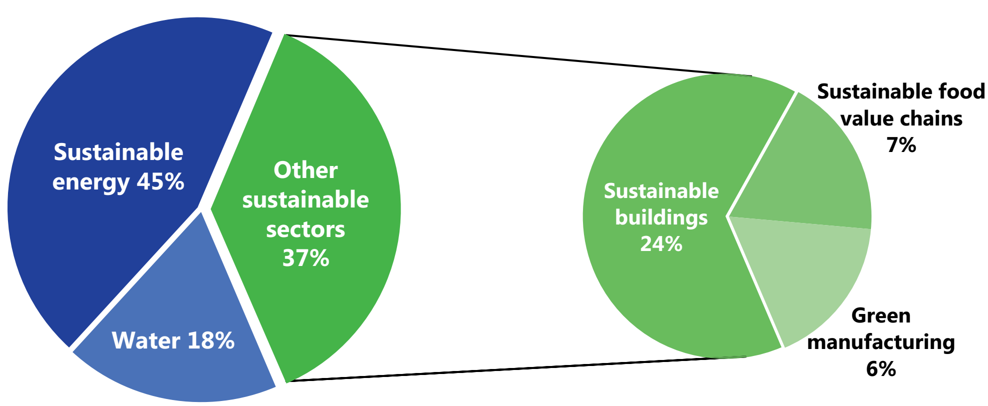
Table 1: 2023 Project Approvals

	Projects	Million USD
Sector		
Water	5	$ 42.94
Sustainable energy	2	105.00
Sustainable buildings	2	56.40
Sustainable food value chains	1	16.00
Green manufacturing	1	15.00
Total	**11**	**$ 235.34**
Country		
Mexico	6	$ 68.34
United States	5	167.00
Total	**11**	**$ 235.34**
Type of Financing		
Loans	7	$ 213.20
Grants	4	22.14
Total	**11**	**$ 235.34**





37% of financing approved is going to four sustainability projects in new sectors



Expected Environmental and Social Impacts

11 New Projects in 2023

- 1.45 million people expected to benefit
- Safer and more reliable water services for 1,570 connections in 2 communities
- Improved wastewater services for 446,126 connections in 4 communities
- 77 mgd of wastewater will be safely collected and conveyed for treatment

- A 200-MW_{AC} solar park and a 200-MW_{AC} battery energy storage system
- 515 GWh of electricity generated annually, sufficient to supply 13,735 households (38,870 people)
- 270,656 metric tons a year of carbon dioxide emissions will be displaced

- Sustainable outpatient medical facilities and an estimated 460 sustainable houses for middle-income residents
- 303,309 gallons a year in water savings
- 262,895 kWh a year in energy savings
- 59,951 kilograms a year of carbon dioxide emissions will be displaced

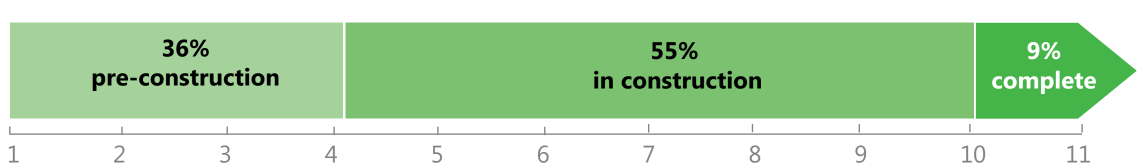
- Construction of a frozen food processing plant, providing around 440 permanent jobs during operation
- 998,570 gallons a year in water savings
- 1,251 MWh a year in annual energy savings
- 403 metric tons/year of carbon dioxide emissions will be displaced

- Green loan to support the leasing of energy- and/or water- efficient equipment to small and medium-sized businesses for green manufacturing, sustainable food value chain activities and sustainable buildings, as well as for low-emission transportation equipment and industrial recycling equipment

mgd = million gallons per day; MWAC = megawatts in alternating current
kWh= kilowatt-hours; MWh = Megawatt-hours; GWh = gigawatt-hours

Status at Year End

68% of new financing was contracted and
43% was disbursed prior to year end



Shutting off Transboundary Wastewater Flows

One of the main concerns of the U.S.-Mexico bilateral relationship is pollution resulting in a transboundary impact and, in particular, untreated wastewater discharges to a shared water body. While the chronic spills in the Tijuana River resulting in beach closures in San Diego County have captured international headlines, surging economic and demographic growth, coupled with aging infrastructure, create the potential for similar incidents along the entire U.S.-Mexico border. Because of the topography of the border region, natural drainage patterns mainly flow north from Mexico into the United States or converge in a shared water body. NADBank—in close coordination with the U.S. Environmental Protection Agency (EPA), the Mexican National Water Commission (CONAGUA) and the U.S. and Mexican Sections of the International Boundary and Water Commission (IBWC/CILA), as well as state water agencies and local utilities—continues to support infrastructure improvements to prevent transboundary wastewater flows in "hot spots," throughout the border region.

In **Baja California**, work is ongoing to design and build infrastructure to collect, convey and adequately treat the wastewater generated by a burgeoning population of more than two million people in the Tijuana metropolitan area. As part of the city's comprehensive wastewater plan and the binational cost-sharing agreements executed among the aforesaid federal agencies, in 2023, NADBank approved a project to replace and abandon the deteriorated International Collector and rehabilitate three major lift stations, which will reduce the risk of system failures and prevent the potential discharge of up to 32 million gallons per day (mgd) of raw wastewater. The rehabilitation of the Oriente sewer main, another major component of these plans approved for financing in 2020, was substantially complete at year end and will prevent the potential discharge of up to 7.1 mgd. Moreover, through its Technical Assistance Program, NADBank has funded a series of studies related to rehabilitating the San Antonio de los Buenos Wastewater Treatment Plant, as well as defining the criteria for relocating and reusing treated effluent from the La Morita and Arturo Herrera Wastewater Treatment Plants, which would not only divert those flows from the Tijuana River but also help address critical water shortages in the region.

In Mexicali, over the past four years, NADBank has approved four projects to rehabilitate aging lift stations and wastewater lines throughout the city—the most recent in 2023 to rehabilitate the valves on five major force mains. Altogether, these four projects will prevent the discharge of up to 88.8 mgd of wastewater onto local streets and into the New River, which flows northward into the United States and eventually empties into the Salton Sea. NADBank is also providing technical assistance to support the development of a project to upgrade and expand the Las Arenitas Wastewater Treatment Plant.

Moreover, to help expedite financing for similar projects along the border, the State of Baja California contracted a US$150-million sustainability loan with NADBank at the beginning of 2023. Part of the proceeds are being used to increase and improve wastewater treatment capacity, as well as rehabilitate wastewater collection infrastructure.

Along the **Arizona-Sonora** border, attention has focused on the cities of Nogales and Naco, both of which straddle the border. Among the completed projects funded by NADBank in 2023, were complimentary works essential to the success of a larger project to address the deteriorated conditions of the International Outfall Interceptor, which conveys wastewater from both Nogales, Arizona and Nogales, Sonora, to the international treatment plant in Rio Rico, Arizona. IBWC had undertaken a project to rehabilitate the pipeline in Arizona using cured-in-place-pipe technology, which required the city to remove all direct connections to the interceptor. NADBank provided critical support for the removal of five lateral connections, as well as the installation of erosion protection along the banks of the Nogales Wash to protect vulnerable segments of the pipeline from potential collapse. In Nogales, Sonora, work is ongoing to expand the city's wastewater collection system to unserved areas, while planning is underway to expand the Los Alisos Wastewater Treatment Plant. As part of those efforts, NADBank approved technical assistance in 2023 to carry out a biological assessment of the plant.

In the case of Naco, Sonora, several measures have been taken on an emergency basis in recent years through the coordinated efforts of the City and the States of Sonora and Arizona, along with NADBank, EPA, CONAGUA and IBWC/CILA, to relieve the overload pressure and blockages that were causing backflows into the sewer system, which have successfully reduced transboundary sewage spills. Chronic problems in its wastewater system resulting in periodic spills prompted the City to seek support in evaluating the underlying conditions affecting the infrastructure. NADBank provided technical assistance to perform a comprehensive assessment of both the water and wastewater systems. Among the issues identified was the significant inflow and infiltration into the sewer system due to leaks in the water distribution lines. At the end of 2023, NADBank was completing development of a project that includes the installation of water meters throughout the city, which will help the utility detect water losses and pinpoint the source of the leaks, while work continues on the development of a separate project to rehabilitate the wastewater collection and treatment infrastructure.

Along the **Rio Grande River**, which forms the boundary between Texas and the Mexican states of Chihuahua, Coahuila and Tamaulipas, as well as serves as a source of drinking water for communities along both banks of the river, NADBank has been working with federal, state and local stakeholders on a variety of fronts to prevent untreated discharges to this shared water body. In recent years, NADBank has supported the development and implementation of wastewater system improvements in several small and midsize communities in the three Mexican states.

In **Tamaulipas**, two major lift stations with a combined design capacity of 10.2 mgd were completed in Reynosa during 2023, while work is ongoing to expand and improve the wastewater systems in Gustavo Diaz Ordaz and Nueva Ciudad Guerrero. During the year, development activities were also completed on a comprehensive project for Nuevo Laredo, which will address critical deficiencies in its wastewater collection, conveyance and treatment infrastructure that has allowed approximately 12.6 mgd of untreated wastewater to discharge continuously to the Rio Grande River. In August, a Commitment Agreement to take steps to expedite financing for the US$80-million project was signed by all the funding partners, including the local utility, Municipality, State of Tamaulipas and IBWC, as well as NADBank, which submitted its project proposal for Board consideration prior to year end.

In **Chihuahua**, a project to rehabilitate aging sewer lines in Ojinaga is under construction and will help prevent contamination of the West Texas Bolson Aquifer that supplies drinking water to Ojinaga and its sister city, Presidio, Texas. In addition, procurement was underway for a project to rehabilitate four major sewer mains in Ciudad Juarez, which will help prevent the discharge of up to 22.8 mgd of untreated wastewater that could impact the Rio Grande River. Finally, in **Coahuila**, NADBank approved technical assistance in 2023 to assess the wastewater collection systems in both Ciudad Acuña and Piedras Negras in order to identify the necessary actions to prevent raw sewage discharges into the Rio Grande River.

Economic growth and integration in the border region spurred by the recent trend in nearshoring is putting additional pressure on wastewater collection and treatment systems. NADBank, in collaboration with its funding partners and local stakeholders, will continue to help border communities develop and implement projects to meet this challenge.

Note: Part of the grant financing for these projects and studies was provided by EPA through the NADBank Border Environment Infrastructure Fund (BEIF) and Project Development Assistant Program (PDAP).

Financing Activity

During the course of the year, NADBank disbursed US$232.5 million in loans and grants to support the implementation of 30 infrastructure projects, including US$13.7 million in grants in the water sector provided by EPA and the U.S. Department of State.

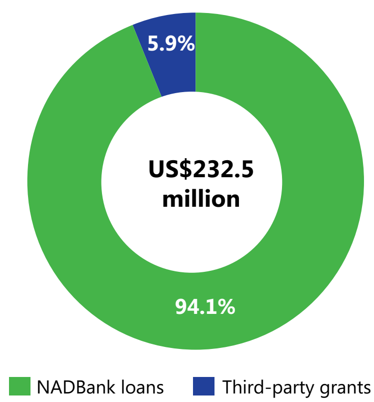
Disbursements were spread across eight of the ten border states within the geographic jurisdiction of the Bank. While almost half of the funds disbursed went to support five sustainable energy projects aimed at generating solar energy and/or storing electricity in batteries, 73% of the projects funded were related to improving water and wastewater systems in 20 communities.

Table 2: 2023 Project Disbursements

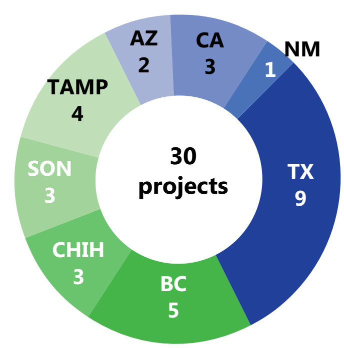
	Projects	Million USD
Sector		
Water	22	$ 90.95
Solid waste	1	0.45
Sustainable energy	5	113.39
Sustainable buildings	1	24.46
ProRec*	1	3.24
Total	**30**	**$ 232.49**
Country		
Mexico	15	$ 67.47
United States	15	165.02
Total	**30**	**$ 232.49**
Type of Financing		
Loans	9	$ 218.83
Grants	21	13.66
Total	**30**	**$ 232.49**

* COVID-19 Recovery Program (ProRec), a temporary program created to provide financing and technical assistance to support recovery from the economic crisis caused by the pandemic, while supporting projects with a positive environmental impact. It expired at the end of 2022

Disbursements by Funding Source



Distribution by Border State



Funding Partners in Basic Infrastructure and Services

U.S. Environmental Protection Agency (EPA)

Since 1997, this federal agency has partnered with NADBank by providing grant funding to support high-priority public drinking water and wastewater infrastructure projects located within 100 km of both sides of the border. This funding is administered by NADBank through its Border Environment Infrastructure Fund (BEIF), which provides grants for project implementation, and through the Project Development Assistance Program (PDAP), which supports the planning and design of projects that have been prioritized to receive a BEIF grant (see page 21).

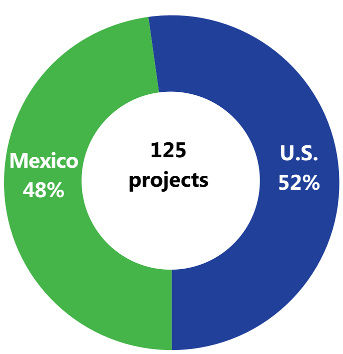
During 2023, BEIF grants totaling just over US$21.9 million were approved for the construction of a water project in New Mexico and three wastewater projects in Baja California that will help prevent or eliminate transboundary flows. In addition, the Bank disbursed almost US$12.5 million for the implementation of 17 projects in seven border states, including three projects that completed construction during the year and went into operation—a water distribution project in Texas and wastewater projects in Arizona and Tamaulipas. At year end, 15 projects partially funded with US$56.6 million in BEIF grants were under construction or preparing to begin construction.

Table 3: BEIF Financing Activity

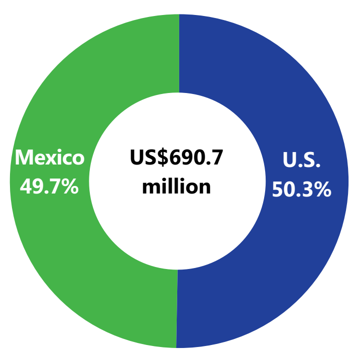
	Million USD	Projects
2023		
Approved	$ 21.94	4
Disbursed	12.47	17
Cumulative		
Approved	$ 735.41	141
Disbursed	690.70	138

To date, 125 water and wastewater projects partially funded with BEIF grants have completed construction and are in operation, benefitting an estimated 7.5 million border residents. Those projects represent a total investment of close to US$2.0 billion, with BEIF grants covering about 34%. NADBank also provided loans totaling US$129.8 million for 36 of those projects. In addition, the Mexican federal water agency, Comisión Nacional del Agua (CONAGUA), has been instrumental in supporting the financing and implementation of the projects located in Mexico.

BEIF Projects by Country



BEIF Disbursements by Country



U.S. Department of State (DOS)

Recognizing the tremendous need for basic infrastructure and services throughout the border region, especially in small, underserved communities, in 2021, the U.S. Department of State (DOS) began making grant contributions appropriated by Congress to NADBank to support the implementation of infrastructure projects through its Community Assistance Program (CAP), as well as project development and capacity-building initiatives through its Technical Assistance Program (see page 17). In 2023, Congress increased the annual contribution of DOS from US$1.9 million to US$3.0 million, boosting the impact of both programs.

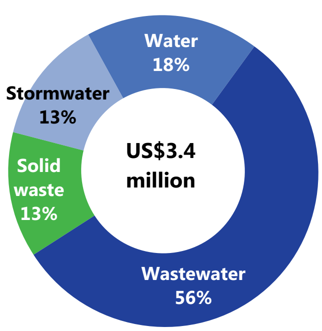
During 2023, DOS funds were used to cover almost US$1.2 million in CAP disbursements to support the construction of three wastewater projects and a solid waste project for the acquisition of landfill equipment. Two of the wastewater projects were completed, and the compactor was delivered prior to year end, benefitting more than 15,000 people in four communities.

Table 4:
DOS Disbursements through CAP

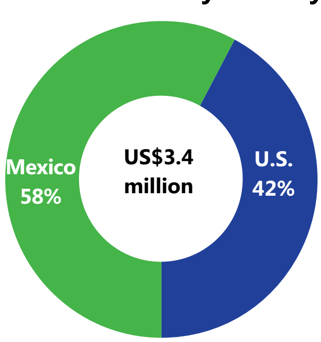
	USD	Projects
2023	$ 1,191,055	4
Cumulative	3,404,974	8

To date, a total of US$3.4 million in DOS funds have been used to cover the disbursement of all or part of the CAP grants for eight projects, benefitting an estimated 162,350 border residents. These projects represent a total investment of US$7.3 million, with DOS funds covering about 46%.

Distribution by Sector



Distribution by Country



NADBank continues to pursue opportunities to partner with other agencies and institutions to create synergies that support the development of sustainable and resilient border communities.

Capitalizing on Sustainability Financing at the State Level

While the market for green, social and sustainability financing has been steadily growing in the private sector worldwide, it is still an emerging market for public entities along the U.S.-Mexico border. The global demand for long-term investment instruments that adhere to environmental and social governance principles aligned with the United Nations Sustainable Development Goals offers state and local governments the opportunity to finance long-term, priority projects at more competitive rates by implementing them within a framework of strategic sustainability, which promotes greater transparency and accountability for investors.

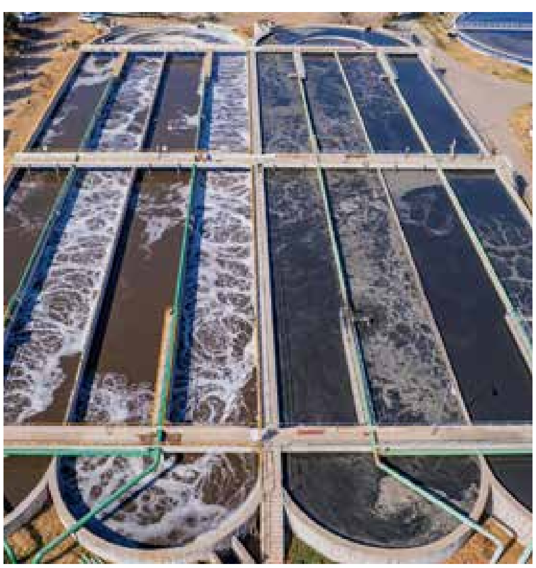
In January 2023, the Government of Baja California became the first Mexican border state to take advantage of this type of financing instrument by contracting a $3-billion-peso (US$150-million) loan to finance the implementation of priority water and wastewater projects throughout the state over a three-year period. Working closely with NADBank, the Mexican Ministry of Finance and Public Credit (SHCP) and independent consultants, the state government developed a sustainability financing framework and structured the transaction in accordance with best international practices, as well as national policies and state development plans. With technical assistance from NADBank, the State obtained the requisite second-party opinion on its sustainability framework and a credit rating for the proposed transaction.

- **Green financing**, exclusively used to finance or refinance projects or activities that have a positive environmental impact.
- **Social financing**, exclusively used to finance or refinance projects or activities that achieve positive social outcomes and/or address a social issue.
- **Sustainability financing**, exclusively used to finance or refinance projects or activities that have positive environmental and/or social impacts.

Baja California Sustainability Financing 1st Year Implementation Results

52	projects approved for financing
17	projects in construction
US$56.9	million in loan disbursements

Under this framework, a Technical Investment Committee was established to oversee project selection, execution and management, as well as to ensure transparency in the use of the funds. The financing structure was further enhanced by an interagency agreement between the State Government and each state-owned water utility aimed at generating a virtuous cycle of investments by providing incentives for the utilities to improve their efficiencies and meet pre-established performance indicators. This interagency structure makes it much easier for local governments and utilities to obtain the debt financing needed to address critical infrastructure projects in their communities, as well as leverage funding from national grant programs that generally require matching funds.



As a sound and innovative practice, the State also hired an independent consultant with technical assistance from NADBank to ensure that the loan proceeds are used for projects that comply with applicable regulations and will generate the expected benefits. The consultant reviews the technical information of each project proposed for financing to determine its eligibility under the sustainability framework, monitors project implementation and coordinates with the utilities to track their performance indicators. The consultant reports the results of those activities to the state government and NADBank on a regular basis. The State of Baja California will also be able to use this information when reporting on its contributions to support achievement of Mexico's objectives under the United Nations 2030 Agenda and the Paris Agreement.

NADBank is looking to replicate this type of financing instrument with the other Mexican border states and is already in discussions with the Governments of Tamaulipas and Chihuahua.

2023 TECHNICAL ASSISTANCE AT A GLANCE

NADBank Technical Support and Collaboration

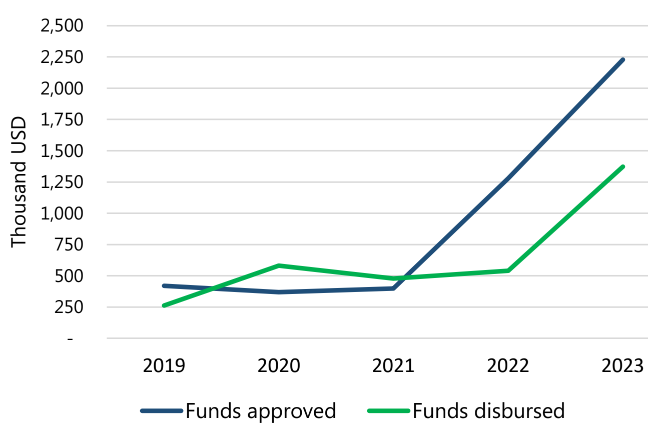
During 2023, NADBank stepped up its technical assistance activities with the approval of US$2.23 million in grants to support 21 studies, webinars and other initiatives through its Technical Assistance Program (TAP) and Utility Management Institute (UMI). Disbursements during the year also increased substantially to a total of US$1.37 million, compared to an annual average of about US$465,000 for the previous four years. This surge in activity was possible thanks to the steady growth of the Bank's new grant facility—EICF—as well as grant funding from the U.S. Department of State, which fully covered all disbursements made in 2023.

While support for the development of sustainable infrastructure remains a top priority, especially in the water sector, the Bank is also investing in more capacity-building and sector development initiatives aimed at helping the border region become more resilient to climate change and transition to a greener economy as envisioned in its strategic plan. These efforts include a multi-year collaboration with the Global Green Growth Institute (GGGI) to enhance its own procedures and practices in order to better respond to current market trends in green financing, such as upgrading the NADBank Green Loan Framework and developing frameworks for climate-smart cities and financing structures.

A total of 14 studies, seminars and other development activities were completed during the year with US$1.4 million in TAP grants, along with the final technical assistance initiative funded through the COVID-19 Recovery Program (see page 21). The TAP grants were mainly funded by the U.S. Department of State, while NADBank financed US$119,000 with its own funds. Approximately a third of the TAP funding was used to support binational initiatives benefitting communities in both countries.

More than half of that funding went to support eight project development and institutional strengthening initiatives in the priority sector of water, including the Skills for Sustainability (S4S) training program for water utility operators implemented in the communities of El

Annual TAP & UMI Funding Activity



14 studies, seminars and other initiatives completed with US$1.4 million in TAP funding

Table 5: TAP & UMI Funding Approvals in 2023

	Projects	USD
By Sector		
Water	13	$ 1,120,677
Air quality	4	621,982
Urban development	1	39,360
Climate change	3	446,451
Total	**21**	**$ 2,228,470**
By Type		
Project development	8	$ 994,500
Capacity building	8	175,488
Sector development	5	1,058,482
Total	**21**	**$ 2,228,470**
By Country		
Mexico	9	$ 962,500
United States	2	212,000
Binational	10	1,053,970
Total	**21**	**$ 2,228,470**

Table 6: TAP & UMI Disbursements in 2023*

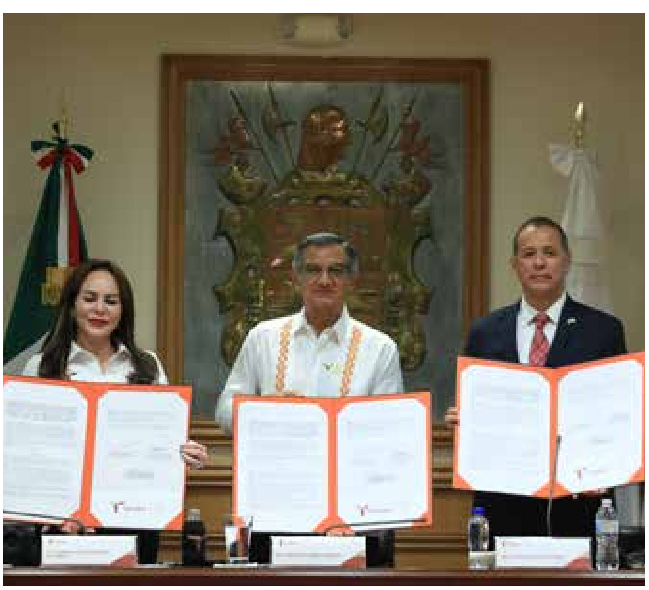
	Projects	USD
By Sector		
Water	8	$ 723,503
Solid water	1	350,000
Air quality	1	182,578
Urban development	1	56,361
Sustainable buildings		3,977
Green manufacturing	1	50,000
Climate change	2	6,451
Total	**18**	**$ 1,372,870**
By Type		
Project development	9	$ 1,003,891
Capacity building	6	72,489
Sector development	3	296,490
Total	**18**	**$ 1,372,870**
By Country		
Mexico	8	$ 982,891
Binational	10	389,979
Total	**18**	**$ 1,372,870**

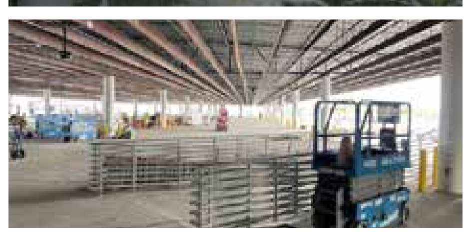
* All disbursements were covered by a grant from the U.S. Department of State.

Paso, Texas, and Juarez, Chihuahua (see page 19). Planning studies related to the rehabilitation and/or expansion of three wastewater treatment plants—one in Tijuana, Baja California and two in Nuevo Laredo, Tamaulipas—were also finalized. Construction work on the international treatment plant in Nuevo Laredo was already under way by year end with funding from the Municipality, the State of Tamaulipas and the U.S. Section of the International Boundary and Water Commission (IBWC). In addition, a binational watershed analysis and engineering study for Nogales, Arizona and Nogales, Sonora, produced hydrologic and hydraulic (H/H) models for defining flood prone areas in the region, which were shared with the U.S. Federal Emergency Management Agency (FEMA) and its Mexican counterpart, the Mexican National Civil Protection Commission (CNPC).

Seven communities are benefitting from technical support in the areas of solid waste management and efficient mobility. Studies related to the proper closure of the existing landfill and the design and relocation of the new sanitary landfill serving three communities in the municipality of Chihuahua, Chihuahua, were completed, including a comparative financial analysis of landfill operations and strategies to increase garbage collection at the source. Work was also completed on the plans for building commercial inspection facilities and related infrastructure to expand the Mexican side of the Anzalduas Port of Entry in Reynosa, Tamaulipas.

Finally, in the area of green manufacturing and products, NADBank collaborated with the Mexican arm of the United States-Mexico Foundation for Science (USMFS) on a value network analysis that examined the logistics and manufacturing sectors along the California-Baja California border through a binational lens, as well as their potential to be greener.





Training the Next Generation of Water Utility Operators

In September, NADBank celebrated the graduation of the first group of trainees to complete the Skills for Sustainability (S4S) program, a 140-hour training course for water utility technicians. This binational workforce development initiative empowers individuals to become water operators to help fill a looming employment gap, given that one-third of the water sector workforce will be eligible to retire over the next 10 years. By year end, a total of 57 trainees had graduated from the program in El Paso, Texas and Ciudad Juarez, Chihuahua, and 40 had secured entry-level jobs with water utilities and other companies in the area. The second group of trainees in both cities is scheduled to begin in February 2024.

The success of this initiative is rooted in 15 months of extensive research and collaboration spearheaded by The Trust for the Americas, a non-profit organization affiliated with the Organization of American States (OAS) that brings together diverse public and private entities to develop educational and economic opportunities. The Trust hired Manpower Group to conduct a labor market survey of the water industry in the region, funded with NADBank technical assistance, which entailed identifying entry-level jobs, the primary employers of those job types, and the technical and non-technical skills needed for successful placement in a water sector career. With the support of NADBank, the Trust also identified potential local partners to participate in this initiative, sources of curriculum content and potential employers to mentor or hire program graduates. Based on the market study, the cities of El Paso, Texas, and Ciudad Juarez, Chihuahua, were selected to launch this initiative.

The Trust partnered with Success Through Technology Education (STTE) and Western Tech in El Paso and Jovenes Constructores de la Comunidad (JCC) in Ciudad Juarez to develop program curricula adapted to the needs of each city, taking into consideration their socioeconomic differences, state certification requirements and specific employer profiles for entry-level jobs in the water sector. In general, the program curriculum in both cities focuses on improving mathematical, digital, technical and soft skills for technicians in various water-related jobs, from water utility operators to maintenance workers for industrial processes.

In El Paso, STTE worked with Western Tech and El Paso Water (EPW) to tailor the curriculum to prepare trainees for a 20-hour basic water or wastewater operations course, as well as the certification exam required to obtain a Texas Type-D license for water or wastewater operators. EPW, in collaboration with The Trust and STTE, also established a six-month apprenticeship program to bring in graduates with no professional experience and provide them with on-the-job training prior to taking the license certification exam.

In Ciudad Juarez, JCC developed a curriculum that offers intensive training in math, digital and soft skills to prepare participants for technical skills training. Training in Juarez takes place in a hybrid setting, with in-person sessions held in community centers located close to vulnerable communities or online to make the training more accessible for some participants. JCC, in partnership with two local technical institutions, Centros de Capacitacion para el Trabajo Industrial (CECATI) and Instituto de Capacitación para el Trabajo del Estado de Chihuahua (ICATECH), offers certified technical training in water operations, plumbing and hydraulic systems.

Working together to fill a workforce gap and create employment opportunities for vulnerable youths

Lead developer	▸ Trust of the Americas
Main funding partners	▸ NADBank ▸ Microsoft
Local implementing partners	▸ Success Through Technology Education (STTE) in El Paso, TX ▸ Western Tech in El Paso, TX ▸ Jóvenes Constructores de la Comunidad in Ciudad Juárez, CHIH
Technical training partners	▸ El Paso Water (EPW) in El Paso, TX ▸ CECATI in Ciudad Juárez, CHIH ▸ ICATECH in Ciudad Juárez, CHIH
Strategic partners	▸ Adult Education Literacy in El Paso, TX ▸ El Paso Chamber of Commerce ▸ National Chamber of Commerce of Juarez
Employers	**El Paso:** ▸ El Paso Water (EPW) ▸ Lower Valley Water District (LVWD) **Ciudad Juarez:** ▸ Local water utility, Junta Municipal de Agua y Saneamiento de Juárez (JMAS) ▸ Water House Group ▸ Veolia ▸ Arca Continental (Coca-Cola)

Since launching this effort in 2022, NADBank has committed US$499,153 through TAP to support the development and implementation of the program, leveraging a total investment of US$716,060 in funding and in-kind contributions from other donors, including fee discounts from the implementing and technical partners.

Since its inception, NADBank has recognized the need to build institutional capacity in water utilities on both sides of the border, which led to the creation of its Utility Management Institute (UMI) in 1999. Through this program, NADBank is investing directly in the people who run the utilities, because effective management is essential for sustainable development. The four-module basic program provided practical instruction in the financial administration and planning of water utilities, as well as other fundamental management and leadership skills. Based on its success and the need for similar training in other service sectors, in 2023, NADBank completed work to expand and update the program, which will now focus on the managerial skills required to run any type of public service. The new online program is scheduled to be launched in the second half of 2024.

Given the demand for these types of programs, NADBank is looking to expand the S4S to other areas of the border region and will continue to explore alliances to address knowledge gaps in other sectors.

2023 UMI Webinars

Altogether, 782 people registered for the webinars, with approximately 48% registering for all five sessions. Thanks to the online format, participants joined the seminars from 250 border communities, as well as 69 U.S. and Mexican communities outside the border region. Others connected from places as far away as Peru, the United Kingdom, Israel and Uruguay, illustrating the universal interest in the topics addressed by UMI. The materials presented in the webinars are available on the NADBank website.

- **Environmental Supervision of Civil Works in Mexico**, which provides a deeper understanding of the legal obligations and inspection processes for verifying compliance with environmental regulations and permits during the entire life cycle of civil work projects.
- **Arizona-Sonora Cooperation: A History of Binational Governance in the Border Region**, showcasing the positive impact of binational collaboration at the local level by promoting economic growth and tackling shared challenges jointly.
- **Continuation of the seminar: A Quick Evaluation Calculator for Water Utilities,** to help assess the overall performance of their water systems and learn ways to become more efficient.
- **Renewable and Clean Energy for Water and Wastewater Systems**, to design a customized sustainability plan to balance the use of conventional and alternative energy and begin a gradual transition to cleaner energy sources.
- **Climate Change Outlook for the Border Region**, highlighting the main challenges for local governments and border institutions, as well as mitigation and adaption measures.

Supporting Growth of Micro- and Women-owned Businesses

The last technical assistance initiative funded under the COVID-19 Recovery Program (ProRec) was implemented during 2023. The Bank provided a reimbursable grant for US$380,358 to Red Oaxaca, S.A. de C.V., S.F.C., to fund a microloan program to facilitate access to affordable financing for vulnerable populations in economically distressed areas of Ensenada and San Quintín, Baja California. A total of 244 microloans, ranging between $5,000 and $400,000 pesos (approx. US$300 to US$23,900), were made to 171 local entrepreneurs to help finance the purchase of tools and machinery to expand their businesses, as well as to 73 homeowners for basic home improvements, such as installing floors, roofs and indoor plumbing. In particular, this project has had a significant impact on the lives of 161 women, who received 67% of the microloans.

Project Development Assistance Program (PDAP)

Through this program, NADBank administers grants from EPA to support the planning and design of water and wastewater infrastructure projects that have been prioritized to receive a BEIF grant. During 2023, nine communities benefitted from 10 studies and other activities carried out to develop wastewater infrastructure projects, including a cost-benefit analysis of several system rehabilitation projects in Tijuana, Baja California, slated for funding through the Mexican federal planning mechanism (MECAPLAN), as well as a flood modeling study to assess the potential environmental impacts of a proposed border security barrier in the Tijuana River.

10 initiatives completed with US$1.5 million in PDAP funding

2023	USD	Activities
Approved	$ 1,505,600	15
Disbursed	1,197,131	12

Border 2025: U.S.-Mexico Environmental Program

NADBank provides logistical and administrative support for this binational program developed by EPA and its Mexican counterpart, the Ministry of Environment and Natural Resources (SEMARNAT), to improve the environment and protect the health of people living within 100 kilometers of both sides of the U.S.-Mexico border. With grants from EPA, the program funds studies, workshops and other initiatives focused on four key goals: (1) reducing air pollution, (2) improving water quality, (3) promoting sustainable waste management and (4) improving joint emergency preparedness.

10 initiatives completed in 2023 with Border 2025 funding

USD

Goal	No. of projects	Border 2025 Funds	Total Cost
1	3	$ 212,625	$ 339,237
2	3	158,538	184,068
3	3	273,500	655,506
4	1	63,224	63,224
	10	**$ 707,887**	**$ 1,242,035**

During 2023, three additional initiatives were selected to receive just over US$211,000 in grants, bringing the total amount of funding committed by EPA to US$1.49 million for 22 projects. During the same period, almost half of those initiatives were completed for a total cost of US$1.24 million, benefitting 19 border communities. Border 2025 funding covered about 57% of the cost, with the remainder covered by the respective project sponsors and other local stakeholders. More information about the Border 2025 program is available on the EPA website at https://www.epa.gov/usmexicoborder.

Border 2025 Initiatives Completed in 2023

Goal 1	• Mapping of atmospheric pollutant concentrations in Piedras Negras and Ciudad Acuña, COAH • Air quality monitoring system for particulate matter ($PM_{2.5}$) in Mexicali , B.C. and Imperial Valley, CA • Bilingual educational materials on the risks of lead exposure for educators and community health workers in Hidalgo County, TX
Goal 2	• Watershed restoration workshops for homeowners to learn to build erosion control structures (ECS) for their home landscapes in Patagonia AZ and Agua Prieta, SON • Design for the creation of a wetland using treated wastewater effluent and riparian vegetation on the Cocopah reservation in Arizona • Pilot real-time surface water system to monitor water quality problems and levels in a drainage ditch in Edinburg, TX
Goal 3	• Analysis of waste streams and plan to cleanup and prevent waste along the Alamar River in Tijuana, B.C. • Business plan to strengthen the sustainable operation of a household waste transfer and separation center for the Kumiai indigenous community in San Antonio Necua, Ensenada, B.C. • Strategies and tools to strengthen and expand household solid waste separation program to prevent illegal dumping in the Anexa Miramar subdivision in Tijuana, B.C.
Goal 4	• Evaluation of six sister city joint contingency plans in California/Baja California and Arizona/ Sonora

Advancing Our Mission with the Next Generation of Government and Business Leaders

In 2023, NADBank successfully launched its University Ambassadors Program, with the dual purpose of raising awareness about the Bank and its mission in the academic community, as well as supporting the academic development of the students. The first class of undergraduates was composed of 27 students in Mexico and four students in the U.S. majoring in a variety of disciplines—from international business and relations to law, education, agriculture and accounting—at institutions of higher learning in the two countries. Over the course of six months, they actively promoted NADBank and topics related to its mission in social media and through a wide range of academic activities on their respective campuses. One enterprising student even reached out to ECOCE, A.C., a non-profit environmental organization created and sponsored by the food and beverage industry in Mexico to support the proper management of packaging waste, to promote its collaboration with the Bank.

University Ambassador Activity Highlights

Debates and round table discussions

- Student debate on Innovation in Clean Energy: A Key Solution for Combating Climate Change
- Student debate on Current and Future Sustainability Challenges and the Importance of Cooperation through Green Banks such as NADBank
- Roundtable discussion and interview with Dr. José María Ramos García regarding Tijuana as a Sustainable City: Public Policies and Cross-border Cooperation

Articles published in university magazines

- "The Role of Green Banks such as NADBank in Combating Climate Change and Strengthening U.S.-Mexico Bilateral Relations"
- "Student Mobility Patterns in the Metropolitan Area of Monterrey"
- "Influence of Green Banks on the Future of Engineering in Mexico"

Interviews, webinars & conferences

- Student symposium on Water Protection and its Interdependence with the Law (live broadcast)
- Webinar on Nearshoring: Economic Integration with a Sustainable Approach in the Border Region and Innovative Solutions from NADBank with Dr. Federico Arce Navarro, UNAM School of Law
- Interview with the petroleum rates coordinator at the Mexican Energy Regulatory Commission regarding the production of sustainable energy

Creative social media posts

- Video: When you hear NADBank, what word comes to mind? (question posed to law students at UNAM)
- Video: "NADBank, my love for you is so great it reaches...[city/state/country]" declared by people on the border, throughout Mexico and around the world
- Word scramble based on NADBank topics in both English and Spanish

CLIMATE-RELATEDFINANCIAL DISCLOSURES

Since 2020, NADBank has been following the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) to enhance its climate-related financial disclosures. This fourth TCFD report details the actions and improvements carried out in 2023 to identify, assess, manage and disclose climate-related risks and opportunities. In keeping with the TCFD framework, the disclosures are grouped under the four pillars of governance, strategy, risk management, and metrics and targets.

In 2024, the International Sustainability Standards Board (ISSB) will begin integrating TCFD recommendations into International Financial Reporting Standards (IFRS), marking the completion of TCFD's work. The ISSB standards (IFRS S1 and S2) will include all TCFD recommendations, along with additional requirements for industry-specific metrics, carbon credit plans and financed emissions disclosures, both simplifying and enhancing climate-related disclosures. NADBank will evaluate whether to continue following the TCFD framework or transition to the IFRS S2 standards, with the goal of ensuring that its disclosures remain effective and aligned with best practices.

Governance

In 2023, the NADBank Board of Directors approved an Environmental, Social and Governance (ESG) Policy formalizing the Bank's commitment to ESG principles and their incorporation in all financing operations and project development processes. This policy establishes the systems for analyzing and managing potential ESG impacts, including climate-related risks, and mandates the disclosure of potential ESG and climate-related financial risks as part of the annual report.

NADBank has a dedicated team led by the Chief Environmental Officer (CEVO) that oversees, manages and coordinates the TCFD alignment process and integrates TFCD recommendations into the decision-making processes of the Bank, enhancing climate-risk management practices and ensuring compliance with its transparency and disclosure commitments.

Strategy

In November 2023, the Board of Directors approved the 2024-2028 Strategic Plan, which focuses on supporting Mexico and the U.S. achieve their environmental goals and transition to a greener economy through infrastructure investments and technical assistance. The plan emphasizes continued investment in water infrastructure to manage shared resources and address wastewater issues, as well as reflects the binational priority of accelerating investment in greener mobility and promoting sustainable development for border residents.

In carrying out its environmental mandate and strategic plan, NADBank follows three strategic lines of action:

1. *Sustainable and resilient development*: Prioritize financing for projects that are not only sustainable but also resilient to climate change and other environmental risks in the U.S.-Mexico border region.

2. *Community development*:
   - Ensure that the projects financed generate tangible benefits for local communities in the border region.
   - Promote projects with an inclusive approach, providing opportunities for disadvantaged groups.

3. *Transparency and governance*:
    - Continuously strengthen policies and practices for accountability, ethics, sustainability and ESG-risk management.
    - Foster open communication with stakeholders and ensure their concerns and expectations are considered in the decision-making process of the Bank.

NADBank is in the process of developing a comprehensive Sustainable Financing Framework to enhance the social and environmental benefits deriving from its investments. The new framework will address critical development challenges in the border region, focusing on climate resiliency and adaptation in the sectors in which NADBank invests, such as water management, sustainable energy and access to essential services, as well as reducing air quality hazards. This initiative ensures compliance with environmental and social governance standards and reaffirms the Bank's commitment to transparency and accountability.

Risk Management

Through its ESG risk scoring methodology, NADBank identifies and assesses physical and transition climate risks at the project level. In 2023, NADBank expanded its climate-related financial risk-evaluation to identify and manage climate-related risks during the entire lifecycle of the project.

For physical climate risks, NADBank uses geographic information databases to screen project locations and identify acute and chronic hazards. For transition risks, NADBank applies a qualitative approach based primarily on the industry and location of the project, as well as considers other factors such as the relevance of transition risk for the project and any existing mitigation measures.

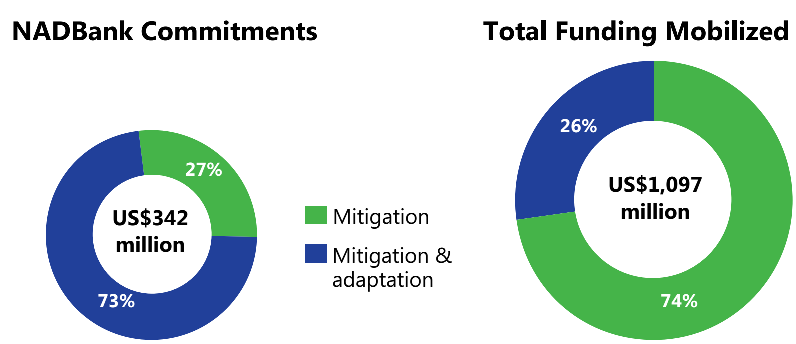
The current approach serves as a scalable and informative foundation for assessing physical and transition climate risks. This approach will evolve after a stress scenario analysis to incorporate project sensitivity and the likelihood of those risks materializing.

Metrics and Targets

During 2023, NADBank made financing commitments totaling US$341.8 million to support projects with climate-related benefits in various sectors, including renewable energy, energy storage, energy efficiency and water and wastewater management. These investments are expected to leverage US$755.6 million in additional funding from other sources, for a total investment of US$1,097 million.

All NADBank climate-related financing in 2023 involved transactions that included either (i) mitigation measures designed to reduce vehicle emissions or improve energy efficiency or (ii) both mitigation and adaptation measures

2023 Climate Funding



related to water and wastewater management and smaller green projects to be implemented through financial intermediaries. Going forward, the Bank will continue to focus on financing projects with specific climate-related benefits.

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

Table 7: NADBank GHG Emissions in 2022 and 2023

	Tons of CO_2e	
Scopes & Categories	2022	2023
Scope 1: Direct emissions[1]	6.4	6.6
Scope 2: Emissions from purchased electricity[2]	252.4	255.7
Scope 3: Emissions from:[3]	113.0	166.9
Category 6: Business travel	32.2	68.1
Category 7: Employee commuting	80.8	98.8

1. Scope 1 are direct emissions from owned sources, both stationery and mobile, within the control of NADBank.
2. Scope 2 corresponds to emissions from purchased electricity at NADBank's two offices located in San Antonio, Texas, and Juarez, Chihuahua. It includes estimates based on energy used and, in the case of leased offices, on prorated consumption and is calculated based on the emission intensity of the local grid area where usage occurred.
3. Scope 3 includes emissions estimated from business travel and employee commuting. Since March 2021, NADBank has been operating under a hybrid work scheme, combining telework and work in office.

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

Beginning in 2023, all grant and technical assistance activity of the Bank, including grant funds provided by third-party donors, is reported under the Environment Investment and Capacity Facility (EICF), and all other operations of the Bank are reported under Ordinary Capital Resources. Unless otherwise noted, all information provided in this management discussion and analysis refers to the Ordinary Capital Resources of the Bank.

Financial and Operational Highlights

- Approval of 2024-2028 Strategic Plan
- Approval of Environmental, Social and Governance (ESG) Policy
- Smooth transition to Secured Overnight Financing Rate (SOFR) completed
- Development asset portfolio grew 14% year over year
- The new grant facility (EICF) grew 72% in its first full year of operation

Executive Summary

Strategic Plan. With Mexico becoming the top trading partner to the United States in 2023, the importance of the U.S.-Mexico border region as a global economic, commercial and cultural hub continues to grow, bringing a series of environmental challenges and opportunities. NADBank has positioned itself to meet these challenges through a series of initiatives and goals identified in its 2024-2028 Strategic Plan, which addresses the expansion of eligible environmental sectors, while maintaining a focus on water and wastewater and actively promoting new partnerships with other institutions and agencies. The overarching goal is to grow its asset development portfolio to US$1.5 billion by 2028, which will increase the impact of the Bank in the region and allow it to better serve the 26 million people who live there.

ESG Policy and Risk Evaluation. In 2023, NADBank made further advances in its approach to evaluating and managing ESG risks related to the projects it finances. The Board of Directors approved the ESG Policy, formalizing the commitment of the Bank to integrate ESG considerations into its operational framework. Moreover, the ESG risk scoring methodology, established in 2019 and significantly enhanced in 2022, was refined to encompass a more detailed assessment of potential ESG risks that may impact the Bank's projects, including those related to climate change.

Benchmark Interest Rate Transition. Effective January 1, 2023, NADBank had fully transitioned to SOFR as its benchmark interest rate instead of the London Interbank Offered Rate (LIBOR). Existing contracts prior to 2023 were amended to apply the change to SOFR prospectively.

Balance Sheet Growth. The 2023 balance sheet reflects solid growth with a 15% increase in total assets, primarily due to net income of US$23.5 million, a paid-in capital contribution of US$10 million received from Mexico and debt proceeds of US$65 million, along with fair value changes in hedged items, foreign currency exchange rate adjustments and other assets.

The development asset portfolio grew 14% or US$129 million year over year, with US$219 million in loan disbursements and US$90 million in repayments, closing the year with an outstanding balance of US$1,049 million compared to US$920 million at the end of 2022.

TABLE 8: Select Financial Data – Ordinary Capital Resources

(Million USD)	2023	2022	2021	2020	2019
Balance Sheet Data					
Total assets	**$ 2,287.9**	**$ 1,994.1**	**$ 2,114.6**	**$ 2,177.2**	**$ 2,007.5**
of which					
Cash & investments	1,078.1	1,118.9	1,129.8	1,008.1	753.5
Gross loans outstanding	1,049.2	920.3	976.5	1,126.3	1,301.7
Total liabilities	**1,469.6**	**1,245.3**	**1,337.7**	**1,413.4**	**1,324.5**
of which					
Debt (short and long term)	1,123.7	1,063.5	1,118.2	1,122.8	1,305.8
Deferred U.S. capital contribution	165.0	165.0	165.0	165.0	–
Total equity	**818.3**	**748.8**	**776.9**	**763.8**	**683.0**
of which					
Paid-in capital	506.0	496.0	486.5	475.0	415.0
Retained earnings and reserves	310.0	286.6	285.6	273.5	258.6
Unqualified callable capital[1]	3,037.3	2,980.7	2,926.8	2,861.7	2,606.7
Income Statement Data					
Interest income	$ 102.4	$ 53.3	$ 47.0	$ 57.0	$ 84.3
Interest expense	59.1	26.1	14.3	21.2	44.6
Net interest income	43.4	27.2	32.7	35.8	39.7
Provision for loan losses	(1.7)	0.0	2.9	0.0	0.0
Operating expense	19.7	19.0	17.5	15.1	19.1
Net operating income	25.3	8.2	12.3	20.7	20.6
Transfer to EICF	5.1	7.5	–	–	–
Net income	23.5	1.0	12.1	14.9	29.7
Ratios					
Loans / Equity (%)	128.2	122.9	125.7	147.5	190.6
Assets / Equity (%)	279.6	266.3	272.2	285.0	293.9
Debt (short & long-term) / Callable capital (%)	37.0	35.7	38.2	39.2	50.0
Liquid assets / Short-term debt (%)	20,341.5	21,111.3	729.4	19,020.8	295.3
Net income / Equity (%)	3.0	0.1	1.6	2.1	8.7
Net operating income / Equity (%)	3.2	1.1	1.6	2.9	6.0
Non-accrual loans / Loans outstanding (%)	–	–	1.4	1.2	1.1
Operating expenses per $1 M outstanding loans ($)	18,776	20,645	17,921	13,407	14,673

[1] *Unqualified* callable capital shares have been authorized for purchase by the subscribing country, as opposed to *qualified* capital shares, which are subject to the necessary legal requirements of each subscribing country.

As detailed in the next section, lending activity in 2023 was mainly driven by disbursements to private-sector borrowers investing in five sustainable energy projects in the United States, representing just over half of the loans disbursed, while two major water and wastewater infrastructure projects sponsored by public entities in Baja California and Texas, along with the first sustainable building loan for a private-sector sponsor in California, accounted for most of remaining disbursements (47%).

Gross debt increased 6% or US$60 million net of repayments to fund the peso treasury for lending in Mexico.

Results of Operations. The main source of revenue for NADBank is interest on its development asset and investment portfolios, less the interest expense on its borrowed funds and provisions for credit losses. In 2023, the Bank had net interest income after credit loss provisions of US$45.0 million, up 66% from the prior year, due to the growth of the development asset portfolio, rising interest rates and a decrease of US$1.7 million in provisions. Operating expenses remained stable at US$19.7 million, a 4% increase over the previous year due to inflation-related adjustments, resulting in net operating income of US$25.3 million, up 210% from a year earlier. After transfers of US$5.1 million to the EICF, net income for the year ended 2023 totaled US$23.5 million, an increase of US$22.5 million compared to the prior year, in part due to the transfer of US$7.5 million in retained earnings to establish the EICF in 2022.

Credit Ratings. During 2023, Moody's Investors Service affirmed NADBank's global rating at Aa1 with a stable outlook, while Fitch Ratings downgraded its global rating of NADBank by one notch to AA, based on shareholder support following the recent sovereign downgrade of the United States to AA+ from AAA. Both agencies noted the strength and stability of NADBank's finances, its sound capital and liquidity position, the prudent management of credit, as well as its strong risk management practices and continued support from shareholders. A strong credit profile is a strategic priority for NADBank since it serves as the basis of its cost of funding and active lending.

2023	Fitch	Moody's
Global	AA/F1+ stable	Aa1/Prime-1 stable
Local	AAA(mex) stable	AAA(mex) stable

Institutional Overview

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

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

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

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

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

Development Asset Portfolio

Development assets consist of loans executed with public and private entities to finance the implementation of environmental infrastructure that support sustainable development in the U.S.-Mexico border region. Table 9 summarizes lending activity during 2023 in comparison with 2022.

TABLE 9: Summary of Lending Activity

(Million USD)	2023 No.	2023 Amount	2022 No.	2022 Amount
Loans approved	7	$ 213.20	8	$ 357.05
Loans signed	8	329.90	5	172.95
Loans disbursed	9	218.83	5	90.03
Undisbursed balances:				
Signed loans*	14	257.03	10	174.78
Approved loans pending signing**	10	176.57	8	257.00

* Figures include the available balance of two revolving loans.
** 2023 figures include four unsigned loans, as well as the unsigned portion of six partially executed loans. 2022 figures include three unsigned loans, as well as the unsigned portion of five partially executed loans.

Lending Activity. During the year, NADBank continued to make progress toward diversifying its development asset portfolio with the approval of US$56.4 million in loans for two sustainable building projects—a medical complex in the U.S. and middle-income housing in Mexico—as well as US$16 million for a frozen food plant in support of sustainable food value chains. In addition, a US$15 million loan was approved through the NADBank Green Loan Program for a financial intermediary in Mexico that will use the proceeds to fund its leasing operations with small and medium-size enterprises, mainly for energy- and water-efficient equipment in manufacturing processes.

Altogether, NADBank approved US$213.2 million in loans, five of which were contracted prior to year end for a total of US$151.8 million. In addition, three of the loans pending contracting at the end of 2022 were also executed in 2023 for a total of US$178.1 million.

Loan disbursements totaled US$218.8 million in 2023, an increase of 143% over the previous year (US$90.0 million) and 79% over the average of the previous five years (US$122.4 million). Table 10 shows a breakdown of loan disbursements by sector and country for the past two years. New lending in 2023 was primarily fueled by five sustainable energy projects in the U.S., which accounted for 52% of disbursements, followed by two water-related projects in Texas and Baja California, representing 36% of disbursed funds. The development asset portfolio was further diversified by the disbursement of the Bank's first sustainable building loan, which accounted for 11% of disbursed funds. In contrast, during 2022, the disbursement of a US$63.0 million loan to expand a land port of entry in the U.S. accounted for 70% of lending activity, while sustainable energy represented only 3% of disbursements.

TABLE 10: Annual Loan Disbursements

(Million USD)	2023	2022
By Sector		
Water	$ 77.73	$ –
Sustainable energy	113.39	3.04
Air quality	–	63.00
Sustainable buildings	24.46	–
Sustainable food value chains	–	10.12
ProRec*	3.25	13.87
Total	**$ 218.83**	**$ 90.03**
By Country		
Mexico	$ 60.18	$ 23.99
United States	158.65	66.04
Total	**$ 218.83**	**$ 90.03**

* COVID-19 Recovery Program (ProRec), a temporary program created to provide financing and technical assistance to support recovery from the economic crisis caused by the pandemic, while supporting projects with a positive environmental impact, which expired at the end of 2022.

Disbursements outpaced principal payments as prepayments continued to decline in a high interest rate environment. During 2023, NADBank received a total of US$89.9 million in principal payments, of which US$55.8 million were scheduled amortizations and US$34.1 million were prepayments for five sustainable energy projects. In comparison, during 2022, the Bank received US$146 million in payments, of which US$72.5 million were scheduled amortizations and US$73.8 million were prepayments.

Portfolio Status. As a result of lending activity in 2023, the development asset portfolio increased by US$128.9 million to US$1,049.2 million from US$920.3 million a year earlier. Table 11 shows the distribution of the development asset portfolio by sector and country at the end of 2023 and 2022.

Sector Distribution. Although loans for sustainable energy projects continued to make up the largest portion of the development asset portfolio, prepayments and the overall growth of the portfolio reduced their share to 63% in 2023 from 66% in 2022, in line with the Bank's strategy to diversify its portfolio. In contrast, the portion of the portfolio invested in water-related projects jumped to 18% from 13% a year earlier, reflecting the priority given to this sector in the Bank's strategic plan. Moreover, a new sector was introduced with the disbursement of the first sustainable building loan.

Geographic Distribution. Given that 72% of disbursements in 2023 went to borrowers in the U.S., the portion of the portfolio held in the U.S. rose to 38% from 31% a year earlier, while the portion held in Mexico dropped to 62% from 69% during the same period.

TABLE 11: Distribution of Development Assets

(Million USD)	2023	2022
By Sector		
Water	$ 190.13	$ 121.61
Solid waste	0.61	1.21
Air quality	100.79	115.74
Sustainable energy	658.50	607.77
Urban development	15.37	16.74
Sustainable buildings	24.46	–
Sustainable food value chains	10.12	10.12
ProRec*	49.24	47.11
Total	**$ 1,049.22**	**$ 920.30**
By Country		
Mexico	$ 646.08	$ 633.55
United States	403.14	286.75
Total	**$ 1,049.22**	**$ 920.30**

* COVID-19 Recovery Program (ProRec), a temporary program created to provide financing and technical assistance to support recovery from the economic crisis caused by the pandemic, while supporting projects with a positive environmental impact, which expired at the end of 2022.

In Mexico, the US$646.1 million in outstanding loans were distributed across all six border states, with the largest concentrations in Tamaulipas (32%), Sonora (26%) and Baja California (16%). In the U.S., outstanding loans totaled US$403.1 million, with 79% invested in Texas and the remaining 21% in California.

Portfolio Quality. NADBank rates its entire loan portfolio annually, including projects in operation and under construction, using a credit risk scorecard developed by an internationally recognized credit rating agency. The Bank uses the standard rating scale of that agency, and the probability of default is estimated using the remaining maturity of the loan.

Additionally, NADBank assigns an ESG risk score to each loan using a multivariable evaluation framework aligned with international standards and tailored to its operational environment. Projects are evaluated based on their exposure to the risk and their capacity to mitigate it. ESG scores are determined on a scale from "1" to "5", where "1" is indicative of very low risk.

Internal Credit Risk Rating. Table 12 shows a breakdown of the loan portfolio by rating. In 2023 and 2022, the largest concentration of loans was in the BB category, with an outstanding balance of US$493.3 million and US$417.7 million, representing 47% and 45% of the loan portfolio, respectively. Loans rated AAA to BBB-, which would be considered investment grade, represented 49% and 44% of the portfolio, in 2023 and 2022, respectively. At those same dates, B category loans represented 4% (US$43.9 million) and 11% (US$100.4 million) of the portfolio, respectively.

ESG Scoring. As of December 31, 2023, more than 93% of projects with a loan component had an ESG risk score of 2, indicating low risk to the Bank, compared to 95% the previous year. The remainder of the loan portfolio was assigned an ESG score of 3 (five projects in 2023 and three projects in 2022), signaling moderate ESG risk exposure. NADBank is committed to the continuous monitoring of ESG risks throughout the project lifecycle and updating scores as conditions change or new information becomes available.

As of December 31, 2023 and 2022, the Bank had zero loan impairments, underscoring its sound origination, credit assessment and risk management practices, which contribute to the overall health and stability of the loan portfolio. The allowance for credit losses as of December 31, 2023, was US$16.5 million, equivalent to 1.57% of the balance of outstanding loans.

Outlook. At the close of 2023, the Bank had US$257.0 million in loans contracted pending disbursement for 14 projects, as well as up to US$176.6 million in approved loans pending contracting for 10 projects. Consequently, as of December 31, 2023, loans outstanding plus loans contracted pending disbursement totaled US$1,306.2 million.

TABLE 12: Internal Rating of Loan Portfolio

(Million USD)	2023	2022
AAA	$ -	$ -
AA+	23.0	–
AA	2.6	26.3
AA-	–	–
A+	21.6	1.4
A	4.4	4.6
A-	113.0	115.0
BBB+	108.8	115.4
BBB	170.7	124.6
BBB-	67.9	14.9
BB+	215.6	144.4
BB	248.3	132.3
BB-	29.4	141.0
B+	31.3	28.5
B	12.6	13.1
B-	–	58.8
C	–	–
D	–	–
Total	**$ 1,049.2**	**$ 920.3**

NADBank also had a strong pipeline of projects in development at year end, including utility-scale energy storage systems, mobility projects and green loans to fund the lending operations of several small and medium sized financial intermediaries in Mexico in various environmental sectors. Prior to the end of the year, two financing proposals totaling US$16 million were submitted for consideration of the Board—a wastewater infrastructure project in Tamaulipas and a public transportation project that includes introducing the first electric buses in Tijuana, Baja California.

Lending Capacity. As of December 31, 2023, the lending capacity of the Bank was US$3,570 million, compared to US$3,497 million at the close of 2022.

Shareholder Support

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

The Bank has received GCI contributions from both shareholders. To date, Mexico has contributed US$41 million in paid-in capital, of which US$10 million were received in 2023. Mexico has also unqualified US$232.3 million in callable capital. The United States has provided its

TABLE 13: NADBank Capital

(Million USD)	2023	2022
Total subscribed capital[1]	$ 6,000	$ 6,000
of which		
Callable capital[2]	5,100	5,100
Qualified	2,063	2,119
Unqualified	3,037	2,981
Paid-in capital	506	496

[1] *Callable capital* is composed of funds that are pledged to be provided to NADBank from the two countries only if required to meet the Bank's guarantee obligations or obligations on borrowings of funds for inclusion in its capital resources as specified in the charter. *Paid-in capital* consists of cash funds contributed to NADBank by the two governments.
[2] *Qualified* capital shares are subject to the necessary legal requirements of each subscribing country. *Unqualified* capital shares have either been funded or authorized for purchase by the subscribing country.

full contribution of US$225.0 million in paid-in capital, of which US$165.0 million is restricted from commitment until corresponding payments are received from Mexico, and has unqualified US$255 million of callable capital.

As of December 31, 2023, total equity was US$818.3 million, an increase of US$69.5 million (9%) compared to US$748.8 million at the close of 2022. The increase was primarily due to the aforementioned paid-in capital contribution of Mexico, US$23.5 million in net income and an increase of US$36.1 million in accumulated other comprehensive income.

External Funding

Gross debt increased 6% to US$1,125.3 million in 2023 from US$1,065.5 million a year earlier, due to other borrowings of MXN$1,190 million (approximately US$65.1 million), less US$5.3 million in debt repayments. In October, NADBank increased its Mexican peso treasury with the execution of a second collateralized debt borrowing that will mature in 2029.

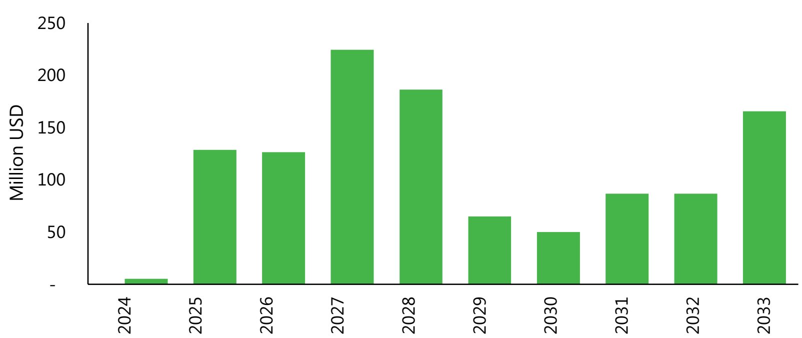
This debt was contracted in line with the NADBank Green Bond Framework. The NADBank Green Bond Framework is consistent with the 2018 Green Bond Principles of the International Capital Market Association (ICMA) and has been reviewed and certified by an independent third party. Further details about the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

TABLE 14: Gross Debt by Currency

(Million USD)	2023	2022
USD	$ 55.27	$ 60.53
CHF	731.49	731.49
NOK	173.45	173.45
MXN	165.08	100.00
Total	**$ 1,125.29**	**$ 1,065.47**

Table 14 shows gross outstanding debt by currency for the past two years. The debt maturity schedule is illustrated in the following graph.

NADBank Debt Amortization Profile



The NADBank debt limit policy establishes that total debt outstanding may not exceed the callable portion of the subscribed capital shares, plus the minimum liquidity level required under the liquidity policy. With US$3,037.3 million in subscribed callable capital and a minimum liquidity level of US$352 million, the maximum debt limit in 2023 was US$3,389.3 million, compared to the maximum limit of US$3,278.7 million in 2022. At the close of 2023, total debt outstanding (US$1,125.3 million) was 33% of the debt limit.

Use of Derivatives

NADBank uses derivatives to mitigate its exposure to fluctuations in foreign currency exchange rates and/or interest rates for its development assets and debt. No derivatives are used for speculative purposes. All derivatives are measured at fair value.

Cash and Investments

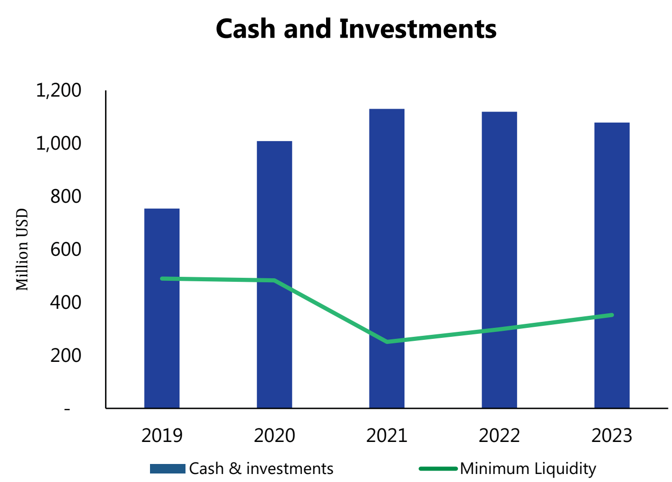
As of December 31, 2023, cash and investments totaled US$1,078.1 million, down from US$1,118.9 million at year-end 2022, and represented 96% of total gross debt. The portfolio decreased 4.0%, primarily as a result of net disbursements in development assets, offset by the proceeds from other borrowings, the paid-in capital from Mexico, unrealized mark-to-market gains on available-for-sale investments and net income for the year.

TABLE 15: NADBank Cash and Investments

(Million USD)	2023 USD	2023 %	2022 USD
Cash and cash equivalents	$ 53.73	5.0	$ 164.75
U.S. government securities	353.77	32.8	418.98
U.S. agency securities	88.39	8.2	155.09
Mexican government securities	114.27	10.6	29.34
Corporate debt securities	164.54	15.3	129.16
Other fixed-income securities	59.47	5.5	75.17
Securities pledged under collateralize borrowings	239.32	22.2	141.23
Mortgage-backed securities	4.56	0.4	5.19
Total	**$ 1,078.05**	**100.0**	**$ 1,118.91**

The NADBank investment policy limits the investment portfolio to highly rated, liquid fixed-income securities. Table 15 shows the NADBank cash and the allocation of its investments as of December 31, 2023 and 2022.

The figure shows NADBank cash and investments relative to the minimum liquidity requirement of US$352 million determined by its Liquidity Policy.



Net Income

Net income for the year ended 2023 totaled US$23.5 million, an increase of US$22.5 million over the prior year. The main income and expenses components are detailed below.

Net Interest Income. With a larger development asset portfolio and higher interest rates on both loans and investments, the Bank had interest revenue of US$102.4 million in 2023, almost double the US$53 million received in 2022. Rising interest rates also impacted interest expense, which totaled US$59.1 million at year end, an increase of US$33.0 million from a year earlier, resulting in net interest income of US$43.4 million for the year, up US$16.2 million over the previous year.

In 2023, the Bank decreased provisions for credit losses by US$1.7 million, compared to a US$14,482 increase in 2022, reflecting the stable quality of the loan portfolio. The decrease in 2023 provisions was primarily due to the adoption of a new accounting standard, the Current Expected Credit Loss (CECL) model, beginning January 1, 2023, which requires that the allowance for credit losses be measured based on estimated credit losses over the life of the financial instrument, including undisbursed commitments of development assets. Consequently, the Bank closed the year with US$45.0 million in net interest income after provisions, an increase of US$17.8 million over the previous year.

Net Operating Income. Operating expenses for the year totaled US$19.7 million, up 4% over the previous year, and were partially offset by the reimbursement of operating expenses incurred in the administration of third-

TABLE 16: Interest Income

(Million USD)	2023	2022
Loans	$ 72.04	$ 42.16
Investments	30.39	11.17
Total interest income	102.43	53.33
Interest expense	59.07	26.11
Net interest income	43.36	27.22
Provision for loan losses	(1.69)	0.01
Net interest income after provision for loan losses	**$ 45.05**	**$ 27.21**

TABLE 17: Operating Expenses

(Million USD)	2023	2022
Personnel	$ 18.14	$ 17.32
Administrative	2.62	2.23
Consultants and contractors	2.10	1.79
Other	(1.66)	(0.92)
Grant operating reimbursements, net	(1.54)	(1.43)
Depreciation	0.06	0.06
Total operating expenses	**$ 19.72**	**$ 19.05**

party grants under the EICF. As a result, the Bank closed the year with net operating income of US$25.3 million, an increase of US$17.1 million over the previous year (US$8.2 million).

Transfers to EICF. Upon creation of this grant facility, the Board agreed to continue providing ongoing support to the EICF by transferring a portion of the allocable income from the Ordinary Capital Resources of the Bank. During 2023, the Bank transferred US$5.1 million to the EICF, following an initial transfer of US$7.5 million in designated retained earnings to establish the fund in 2022.

Environment Investment and Capacity Facility (EICF)

This facility was created in December 2022 to hold the grant funds of the Bank for project implementation and technical assistance, including those provided by third-party donors.

In its first year of operation, the EICF fund balance grew 72% from US$7.5 million to US$12.9 million. This growth is mainly the result of US$5.1 million in transfers from the Bank's allocable income, as well as to contributions from the U.S. Department of State that covered US$2.5 million in grant disbursements through the NADBank CAP and TAP. Table 18 presents the summary balance sheet of the facility as of December 31, 2023 and 2022.

During 2023, the Bank disbursed a total of US$17.1 million in grants through the EICF for the implementation of infrastructure projects and technical assistance initiatives, which were entirely funded by third-party donors. In 2022, NADBank disbursed $14.2 million in grants through its Ordinary Capital Resources prior to the creation of the EICF. Table 19 shows a breakdown of the disbursements by sector, country and type. More information about the grant programs and sources of funding is provided in the notes to the EICF financial statements.

TABLE 18: EICF Summary Balance Sheet

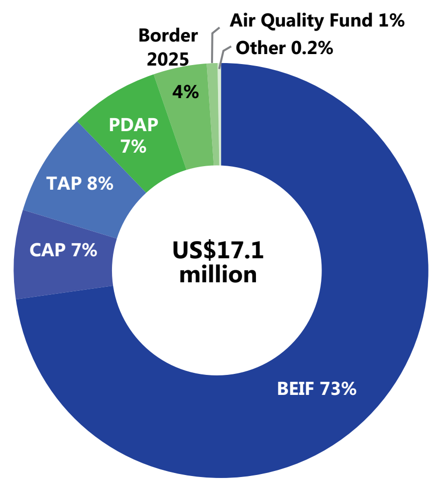
(Million USD)	2023	2022
Cash and cash equivalents	$ 12.72	$ 8.73
Receivables	2.10	0.13
Total assets	**14.82**	**8.86**
Payables	0.29	0.13
Undisbursed grant funds	1.59	1.23
Fund balance	12.94	7.50
Total liabilities and fund balance	**$ 14.82**	**$ 8.86**

TABLE 19: 2023 Grant Disbursements*

	Thousand USD	No. of projects
By Sector		
Water	$ 15,529	53
Solid waste	937	6
Air quality	525	8
Urban development	56	1
Sustainable building	4	1
Green manufacturing	50	1
Climate resilience	6	2
Emergency preparedness	39	1
Total	**$ 17,146**	**73**
By Country		
Mexico	$ 8,965	36
United States	7,665	23
Binational	516	14
Total	**$ 17,146**	**73**
By Type of Funding		
Grant financing**	$ 13,663	21
Technical assistance***	3,483	52
Total	**$ 17,146**	**73**

* Includes project financing and technical assistance initiatives.
** Includes BEIF and CAP projects.
*** Includes technical assistance through TAP/UMI, PDAP, Border 2025, the Air Quality Monitoring Fund and other EPA grant.

Disbursements by Program



Basis of Financial Reporting

The financial statements of the Bank are prepared in conformity with generally accepted accounting principles (GAAP) in the United States and are consistent with those 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

External Auditors

The accounts of the Bank are audited annually by independent external auditors of international reputation chosen by the Board of Directors on the basis of a proposal by Bank management. In compliance with its procurement and external auditor policies, NADBank carried out a competitive bid process in 2023 to select a new accounting firm to perform the annual audit of its accounts. Ernst & Young LLP (E&Y) won the bid and was appointed by the Board of Directors to perform the annual audit of the Bank's accounts for fiscal years 2023 through 2027.

NORTH AMERICAN DEVELOPMENT BANK
Ordinary Capital Resources

Audited Consolidated Financial Statements
December 31, 2023

Report of Independent Auditors

Those Charged with Governance
North American Development Bank
Ordinary Capital Resources

Opinion

We have audited the consolidated financial statements of North American Development Bank - Ordinary Capital Resources and subsidiary (the Bank), which comprise the consolidated balance sheet as of December 31, 2023, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and the related notes (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank at December 31, 2023, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Bank's ability to continue as a going concern for a reasonable period of time.

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

Ernst & Young LLP

August 21, 2024

Ordinary Capital Resources
Consolidated Balance Sheet
December 31, 2023

Assets	
Cash and cash equivalents:	
Held at other financial institutions	$ 22,531,480
Repurchase agreements	31,200,000
Total cash and cash equivalents	53,731,480
Held-to-maturity investment securities, at amortized cost	4,308,115
Available-for-sale investment securities, at fair value	1,020,014,675
Loans outstanding	1,049,224,579
Allowance for loan losses	(16,546,195)
Unamortized loan fees	(6,528,697)
Foreign currency exchange rate adjustment	(25,251,690)
Hedged items, at fair value	1,296,457
Net loans outstanding	1,002,194,454
Interest receivable	22,420,512
Security settlement receivable	4,000,000
Grant and other receivable	3,947,387
Furniture, equipment, and leasehold improvements, net	76,601
Other assets	177,206,661
Total assets	$ 2,287,899,885
Liabilities and Equity	
Liabilities	
Current liabilities:	
Accounts payable	$ 4,868,540
Accrued liabilities	3,125,033
Accrued interest payable	15,017,438
Due to Environment Investment and Capacity Facility (EICF)	2,000,000
Other liabilities	48,143,933
Short-term debt	5,264,000
Total current liabilities	78,418,944
Long-term liabilities	
Long-term lease payable	278,654
Long-term post-retirement benefits payable	3,441,778
Deferred U.S. capital contribution	165,000,000
Long-term debt, net of discounts and unamortized debt issuance costs	1,118,474,408
Foreign currency exchange rate adjustment	108,478,892
Hedged items, at fair value	(4,458,154)
Net long-term debt	1,222,495,146
Total long-term liabilities	1,391,215,578
Total liabilities	1,469,634,522
Equity	
Subscribed capital	6,000,000,000
Less callable capital	(5,100,000,000)
Less due from shareholders or restricted	(394,000,000)
Paid-in capital	506,000,000
Retained earnings	309,966,937
Accumulated other comprehensive income (loss)	2,293,932
Non-controlling interest	4,494
Total equity	818,265,363
Total liabilities and equity	$ 2,287,899,885

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

Ordinary Capital Resources
Consolidated Statement of Income
December 31, 2023

Interest income	
Loans	$ 72,039,640
Investments	30,394,011
Total interest income	102,433,651
Interest expense	59,074,407
Net interest income	43,359,244
Provision for credit losses	(1,689,191)
Net interest income after provision for loan losses	45,048,435
Operating expenses (income):	
General and administrative:	
Personnel	18,138,834
Administrative	2,628,323
Consultants and contractors	2,102,607
Other	(1,664,099)
Grant operating reimbursements, net	(1,544,195)
Depreciation	61,780
Total operating expenses	19,723,250
Net operating income	25,325,185
Non-interest and non-operating income (expenses):	
Loss on sale of securities, net	(1,373,307)
Fees and other income (expenses), net	495,456
Income (expense) from foreign currency exchange rate adjustments and hedging activities, net	4,184,255
Total non-interest and non-operating income (expense)	3,306,404
Transfer to Environment Investment and Capacity Facility (EICF)	5,101,424
Net income	23,530,165
Non-controlling interest in net loss	(106)
Controlling interest in net income	$ 23,530,271

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

Ordinary Capital Resources
Consolidated Statement of Comprehensive Income
December 31, 2023

Net income	$ 23,530,165
Non-controlling interest in net loss	(106)
Controlling interest in net income	23,530,271
Other comprehensive income	
Available-for-sale investment securities:	
Change in unrealized gains (losses) during the period, net	27,366,381
Reclassification adjustment for net losses included in net income	1,373,307
Total unrealized gain on available-for-sale investment securities	28,739,688
Foreign currency translation adjustment	41,002
Unrealized gains (losses) on hedging activities:	
Foreign currency translation adjustment, net	(15,912,110)
Fair value of cross-currency interest rate swaps and options, net	23,237,517
Total unrealized gain on hedging activities	7,325,407
Total other comprehensive income	36,106,097
Total comprehensive income	$ 59,636,368

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

Ordinary Capital Resources

Consolidated Statement of Changes in Equity

For the Year Ended December 31, 2023

		General Reserve			
	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interest	Total Equity
Beginning balance, January 1, 2023	$ 496,000,000	$ 286,619,700	$ (33,812,165)	$ 4,600	$ 748,812,135
Capital contribution	10,000,000	-	-	-	10,000,000
Cumulative adjustment for adoption of credit loss accounting standard	-	(183,034)	-	-	(183,034)
Net income	-	23,530,271	-	-	23,530,271
Other comprehensive income	-	-	36,106,097	-	36,106,097
Non-controlling interest	-	-	-	(106)	(106)
Ending balance, December 31, 2023	$ 506,000,000	$ 309,966,937	$ 2,293,932	$ 4,494	$ 818,265,363

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

Ordinary Capital Resources
Consolidated Statement of Cash Flows
For the Year Ended December 31, 2023

Cash flows from operating activities	
Net income	$ 23,530,271
Adjustments to reconcile net income to net cash provided by (used in) operating activities:	
Depreciation	61,780
Amortization of net premiums (discounts) on investments	(5,875,630)
Change in fair value of swaps, options, hedged items and other non-cash items	(23,487,368)
Non-controlling interest	(106)
(Gains) losses on securities, net	1,373,307
Provision for credit losses	(1,689,191)
Post-retirement benefits payable	304,870
Change in other assets and liabilities:	
Increase in interest receivable	(4,135,407)
Increase in accounts receivable	(362,872)
Increase in securities settlement receivable	(4,000,000)
Increase in accounts payable	748,936
Increase in accrued liabilities	112,739
Increase in accrued interest payable	1,359,006
Decrease in due to EICF	(6,729,539)
Net cash used in operating activities	(18,789,204)
Cash flows from lending, investing, and development activities	
Capital expenditures	(57,464)
Loan principal repayments	89,900,704
Loan disbursements	(218,828,632)
Purchase of held-to-maturity investment securities	(9,871,713)
Purchase of available-for-sale investment securities	(645,854,189)
Proceeds from maturities of held-to-maturity investments	9,861,000
Proceeds from sales and maturities of available-for-sale investments	612,805,876
Net cash used in lending, investing, and development activities	(162,044,418)
Cash flows from financing activities	
Capital contribution	10,000,000
Proceeds from other borrowings	65,083,916
Principal repayment of other borrowings	(5,264,000)
Net cash provided by financing activities	69,819,916
Net decrease in cash and cash equivalents	(111,013,706)
Cash and cash equivalents, beginning of period	164,745,186
Cash and cash equivalents, end of period	$ 53,731,480
Supplemental cash information	
Cash paid during the year for interest	$ 22,545,961
Significant non-cash transactions	
Foreign currency translation adjustment	$ (15,912,110)
Change in fair value of cross-currency interest rate swaps, net	23,237,517
Change in fair value of available-for-sales investments, net	28,739,688

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

Ordinary Capital Resources
Notes to Consolidated Financial Statements
December 31, 2023

1. Organization and Purpose

The North American Development Bank (NADBank or the Bank) was established on January 1, 1994 by an agreement between the Governments of the United States of America (the United States or U.S.) and the United Mexican States (Mexico) that was signed by their respective Presidents on November 16 and 18, 1993 (the Charter). The Bank was created to finance environmental infrastructure projects in the U.S.-Mexico border region. On March 16, 1994, the President of the United States issued an Executive Order designating the Bank as an international organization under the International Organization Immunities Act.

The Bank is governed by a Board of Directors (the Board) appointed by the two countries. Its operations are subject to certain limitations outlined in the Charter. The geographic jurisdiction of the Bank is within 100 kilometers north and 300 kilometers south of the U.S.-Mexico border. The primary activities of the Bank are providing loan and grant financing and technical assistance for environmental infrastructure projects approved by the Board and administering grant funding provided by other entities. The Bank is headquartered in San Antonio, Texas, and also has an office in Ciudad Juarez, Chihuahua (Juarez Office).

In June 1998, the Board authorized the establishment of a financial institution to facilitate lending to the Mexican public sector, and since 2006 it has operated as the Corporación Financiera de América del Norte, S.A. de C.V. SOFOM E.N.R. As of December 31, 2023, COFIDAN is 99.93% owned by the Bank and 0.07% owned by the Government of Mexico. The non-controlling interest is reflected in the consolidated balance sheet and consolidated statement of income and represents the ownership of the Government of Mexico through the Ministry of Finance and Public Credit (SHCP).

On December 28, 2022, the Board approved the establishment of the Environment Investment and Capacity Facility (EICF) to hold the Bank's grant funds available for construction and technical assistance purposes, including funds provided by third-party donors. With the establishment of the grant facility, the activities of the Bank are conducted through either Ordinary Capital Resources or the EICF, which are accounted for separately. All grant and technical assistance activities are reported under the EICF, while all other operations of the Bank are reported through Ordinary Capital Resources.

These consolidated financial statements reflect the operations of the Bank through the Ordinary Capital Resources and its subsidiary, COFIDAN.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates in Financial Statements
The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) and are presented in a manner consistent with that of an international organization. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. These estimates include the valuation of investments, allowance for credit losses, the fair value of derivative instruments included in other assets and other liabilities, long-term post-retirement benefits payable and debt. Actual results could differ from those estimates.

Principles of Consolidation
These consolidated financial statements of the Bank include the accounts of the Ordinary Capital Resources and its subsidiary, COFIDAN. All material intercompany accounts and transactions with COFIDAN have been eliminated in the consolidation. In accordance with U.S. GAAP, EICF does not meet the criteria for consolidation; therefore, the financial statements of EICF are accounted for and issued separately.

Cash and Cash Equivalents
For the purposes of the consolidated statement of cash flows, cash and cash equivalents include cash deposits, money market accounts with other financial institutions and overnight repurchase agreements. As of December 31, 2023, cash deposits with other financial institutions in demand deposit accounts and interest-bearing accounts totaled $568,112 and $21,963,368, respectively.

Repurchase Agreements
The Bank has entered into repurchase agreements with other financial institutions. Shorter term repurchase agreements, which are included in cash and cash equivalents, may occur daily and involve U.S. government and federally sponsored agency securities. Longer term repurchase agreements may be part of collateralized borrowings. The underlying securities

2. Summary of Significant Accounting Policies (continued)

related to the repurchase transactions are held in the possession of the respective financial institution. Additional information on investment securities and borrowings is provided in Notes 3 and 6, respectively.

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

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

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

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

The accretion of discounts and the amortization of premiums are computed using the effective interest method. Realized gains and losses are determined using the specific identification method.

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

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

Retained Earnings
Retained earnings are classified as reserved or undesignated. Undesignated retained earnings in excess of one percent (1.0%) of total assets are used to fund four reserves in the following order of priority:

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

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

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

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

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

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

2. Summary of Significant Accounting Policies (continued)

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

Loans are generally placed on nonaccrual status when principal or interest is delinquent for 180 days (unless adequately secured and in the process of collection) or circumstances indicate that the full collection of principal and interest is in doubt. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is reversed through current-year interest income.

In cases where a borrower experiences financial difficulty, the Bank may make certain modifications to the contractual terms of the loan. If the borrower's ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

Loans in nonaccrual status are evaluated on an individual basis for impairment when it is probable that the Bank may sustain some loss. Impairment of these loans is measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate or the fair value of the collateral, if the loan is collateral dependent.

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

Loan Portfolio Risk Rating

The Bank uses a loan credit risk scorecard methodology developed by an internationally recognized credit rating agency. The scorecard methodology is based on a model that scores quantitative and qualitative variables to address both project and borrower risks and is tailored to the characteristics of each transaction and project type. The analysis includes financial and operating metrics relevant to the overall performance of the project or loan, as well as relevant credit risk mitigating measures.

For each loan, a letter rating is assessed using the scorecard methodology. Loans in Mexico with sovereign/sub-sovereign repayment sources or guarantees are capped at BBB, equivalent to the foreign currency issuer rating of Mexico.

2. Summary of Significant Accounting Policies (continued)

The loan portfolio is classified using the following risk grades and scale.

Loan Credit Rating

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

Allowance for Credit Losses

On January 1, 2023, the Bank adopted ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended by ASU 2019-10, which applies to financial assets, including loans receivable and held-to-maturity investment securities measured at amortized cost, available-for-sale investment securities measured at fair value, related interest receivables, and undisbursed loan commitments and requires that allowances for credit losses be measured based on management's estimate of credit losses over the life of the financial instruments. Upon adoption of the standard as of January 1, 2023, the allowance for credit losses decreased by $1,519,413, which was offset with the allowance for off-balance sheet, undisbursed loan commitments of $1,702,447. The net difference of $183,034 resulted in an opening retained earnings cumulative-effect adjustment using a modified-retrospective approach.

Determining the expected allowance for credit losses involves significant judgment and reflects management's best estimate based on the current information available, including: 1) past events; 2) current conditions; and 3) reasonable and supportable forecasts.

Loans – For outstanding loans, the allowance for credit losses is calculated based on the estimated probability of default using the risk horizon (remaining life) of the loan, which is mapped to the undiscounted default probability table provided by the same credit rating agency used to develop the Bank's credit risk grades. The estimated credit losses for outstanding loans are reported separately as a contra-asset to loans outstanding on the consolidated balance sheet.

For undisbursed loan commitments, the liability for expected credit losses is calculated based on the projected probability of default and loss given default. The estimated credit losses for undisbursed loan commitments is reported as a component of other liabilities on the consolidated balance sheet.

2. Summary of Significant Accounting Policies (continued)

The allowance for credit losses is maintained at a level considered appropriate by management to provide for estimable losses inherent over the contractual life of the loan portfolio. Changes to the allowance are recorded as an expense or recovery of provision for loan losses in the consolidated statement of income. Additional information on the allowance for credit losses related to loans is provided in Note 4.

Held-to-Maturity (HTM) Investment Securities – For these securities, management estimates the credit losses on an individual basis based on credit loss history, current conditions, and reasonable and supportable forecasts.

Available-for-sale (AFS) Investment Securities – For AFS investment securities with fair values lower than amortized cost, an impairment loss is recognized in earnings only if the Bank has the intent to sell the investment securities or if it is more-likely-than-not required to sell the investment securities before recovery of the amortized cost. If the Bank intends to hold and is not required to sell the debt securities, it will evaluate the securities to determine if a credit loss exists. If a portion of the decline in fair value below amortized cost is due to credit-related factors, it is recognized as an allowance for credit losses in the consolidated balance sheet with a related charge to provisions for credit losses in the consolidated statement of income. Available-for-sale securities are charged off against the allowance or, in the absence of any allowance, written down through income when deemed uncollectible.

Additional information on the allowance for credit losses on investment securities is provided in Note 3.

Revenue Recognition
Interest income from financial instruments, such as investments, loans and swaps used for hedging purposes, is recognized in the period earned and is not within the scope of Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts and Customers*.

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

Derivatives
The lending activities of the Bank include making loans that are denominated in Mexican pesos. When such loans are not funded with debt proceeds denominated in Mexican pesos, the Bank enters into cross-currency interest rate swaps to convert the Mexican pesos back into U.S. dollars to mitigate its exposure to fluctuations in foreign currency exchange rates and interest rates. As of December 31, 2023, the Bank had entered into agreements with 12 swap counterparties.

All derivative financial instruments are recorded at fair value on the consolidated balance sheet. Certain swaps relating to the lending activities of the Bank are designated as fair value hedges of interest rate risk. Certain swaps and options related to debt activities are designated as cash flow or fair value hedges. Changes in the fair value of the cash flow hedges are reported in other comprehensive income. For fair value hedges and the hedged items, changes in the fair value are reported as net income (expense) from hedging activities in the consolidated statement of income.

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

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

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, interest rate swaps, options, hedged items and available-for-sale debt securities at fair value. To determine the fair market value of its financial instruments, the Bank uses the fair value hierarchy, which is based on three levels of inputs as follows:

> *Level 1* - Quoted prices in active markets for identical assets or liabilities, which the reporting entity has the ability to access at the measurement date. This category generally includes U.S. government securities.
>
> Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. This category generally includes U.S. agency securities, corporate debt securities, other fixed-income securities, Mexican government securities, securities pledged under collateralized borrowings, mortgage-backed securities, cross-currency interest rate swaps, interest rate swaps and options. For these consolidated financial statements, the Bank also obtains dealer quotations for comparative purposes to assess the reasonableness of the pricing models.
>
> *Level 3* - Unobservable inputs that are supported by little or no market activity and that are significant in determining the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category includes the fair value of hedged items where independent pricing information is not available for a significant portion of the underlying assets or liabilities.

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

Accumulated Other Comprehensive Income (Loss)
The components of other comprehensive income are reported in the consolidated statement of comprehensive income for the period presented and in Note 7.

3. Investments

All investments held by the Bank are classified as either held-to-maturity or available-for-sale securities. The following schedule summarizes investments as of December 31, 2023.

		Gross Unrealized		
	Amortized Cost	Gains	Losses	Fair Value
Held-to-maturity:				
U.S. government securities	$ 4,308,115	$ 1,679	$ -	$ 4,309,794
Total held-to-maturity investment securities	4,308,115	1,679	-	4,309,794
Available-for-sale:				
U.S. government securities	360,049,360	440,956	(11,030,608)	349,459,708
U.S. agency securities	92,284,806	45,023	(3,938,163)	88,391,666
Corporate debt securities	168,052,854	1,099,862	(4,612,075)	164,540,641
Other fixed-income securities	61,126,755	173,901	(1,829,472)	59,471,184
Mexican government securities	114,991,080	58,216	(784,374)	114,264,922
Securities pledged under collateralized borrowings[1]	235,297,666	4,895,996	(871,055)	239,322,607
Mortgage-backed securities	5,078,173	-	(514,226)	4,563,947
Total available-for-sale investment securities	1,036,880,694	6,713,954	(23,579,973)	1,020,014,675
Total investment securities	$ 1,041,188,809	$ 6,715,633	$ (23,579,973)	$ 1,024,324,469

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

As of December 31, 2023, accrued interest on held-to-maturity and available-for-sale securities totaled $5,229,329 and is reported as a component of interest receivable in the consolidated balance sheet.

The following schedule summarizes unrealized losses and the fair value of investments aggregated by category and the length of time individual securities have been in a continuous unrealized loss position as of December 31, 2023.

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale:						
U.S. government securities	$ 32,698,075	$ 258,551	$ 222,733,257	$ 10,772,057	$ 255,431,332	$ 11,030,608
U.S. agency securities	824,434	1,565	81,243,582	3,936,598	82,068,016	3,938,163
Corporate debt securities	8,047,355	22,208	96,268,180	4,589,867	104,315,535	4,612,075
Other fixed-income securities	4,979,319	64,566	34,641,868	1,764,906	39,621,187	1,829,472
Mexican government securities	–	–	14,664,520	784,374	14,664,520	784,374
Securities pledged under collateralized borrowings[1]	141,591,699	871,055	–	–	141,591,699	871,055
Mortgage-backed securities	–	–	4,563,947	514,226	4,563,947	514,226
Total available-for-sale investment securities	188,140,882	1,217,945	454,115,354	22,362,028	642,256,236	23,579,973
Total temporarily impaired securities	$ 188,140,882	$ 1,217,945	$ 454,115,354	$ 22,362,028	$ 642,256,236	$ 23,579,973

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

3. Investments (continued)

None of the unrealized losses identified in the preceding table were related to credit-related factors of an issuer as of December 31, 2023. This assessment is based on the overall high quality of the investment portfolio, the underlying risk characteristics for the types of investment securities, credit ratings and other qualitative factors, including historical credit loss experience. As of that same date, the Bank did not have the intent to sell any of the securities with unrealized losses and believed that it was more-likely-than-not that the Bank would not be required to sell any such securities before a recovery of cost. Therefore, as of December 31, 2023, no allowance for credit losses for investment securities was recorded.

Contractual maturities of investments as of December 31, 2023 are summarized in the following table.

	Held-to-Maturity Securities		Available-for-Sale Securities	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
Less than one year	$ 4,309,794	$ 4,308,115	$ 264,716,248	$ 266,140,512
1-5 years	-	-	648,094,720	667,846,709
5-10 years	-	-	102,639,760	97,815,300
More than 10 years	-	-	-	-
Mortgage-backed securities	-	-	4,563,947	5,078,173
	$ 4,309,794	$ 4,308,115	$ 1,020,014,675	$ 1,036,880,694

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

The following table summarizes sale and maturity activity of investment securities for the year ended December 31, 2023.

	Year ended December 31, 2023
Held-to-maturity investment securities:	
Proceeds from maturities	$ 9,861,000
Available-for-sale investment securities:	
Proceeds from sales and maturities	612,805,876
Gross realized gains	1,704
Gross realized losses	1,375,011

The following table sets forth the net unrealized gains (losses) on securities available-for-sale and the reclassification adjustments required for the year ended December 31, 2023.

	Year ended December 31, 2023
Net unrealized losses on investment securities available-for-sale, beginning of period	$ (45,605,707)
Net unrealized gains (losses) on investment securities available-for-sale, arising during the period	27,366,381
Reclassification adjustments for net losses on investment securities available-for-sale included in net income	1,373,307
Net unrealized loss on investment securities available-for-sale, end of period	$ (16,866,019)

4. Loans

The following schedule summarizes loans outstanding as of December 31, 2023.

Loan balance	$	1,049,224,579
Allowance for loan losses		(16,546,195)
Unamortized loan fees		(6,528,697)
Foreign currency exchange rate adjustment		(25,251,690)
Fair value of hedged items		1,296,457
Net loans outstanding	$	1,002,194,454

At December 31, 2023, outstanding undisbursed loan commitments on signed loan agreements totaled $257,028,338. As of the same date, the Bank had loan agreements under development for an additional $176,575,387.

As part of the implementation of ASU 2016-13 on January 1, 2023, the Bank recorded a reserve for off-balance sheet credit exposure for its undisbursed loan commitments. As of December 31, 2023, this reserve estimate totaled $4,101,462 and is reported as a component of other liabilities on the consolidated balance sheet.

The Bank under certain circumstances offered below-market-rate loans under its Low Interest Rate Lending Facility (LIRF) program, which was terminated in May 2013. As of December 31, 2023, the Bank had LIRF loans outstanding of $13,053,907.

The following table presents the loan portfolio by sector as of December 31, 2023.

Water	$	190,128,972
Solid waste		615,000
Air quality		100,790,868
Sustainable energy		658,498,525
Urban development		15,370,682
Sustainable buildings		24,462,325
Sustainable food value chains		10,121,560
ProRec[1]		49,236,647
	$	1,049,224,579

[1] In May 2020, the Board approved a COVID-19 Recovery Program (ProRec) to enhance the economic recovery and the general health and welfare of U.S.-Mexico border communities, while supporting projects with a positive environmental impact. The program was closed as of December 31, 2022.

The following table presents the loan portfolio by borrower type as of December 31, 2023.

Private	$	700,092,391
Public		296,577,830
Public-private		52,554,358
	$	1,049,224,579

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

4. Loans (continued)

The following table presents the loan portfolio by risk category and country as of December 31, 2023. These risk categories are defined in Note 2, along with additional information on how the Bank evaluates credit quality.

Risk Category	Mexico	United States	Total
AAA	$ -	$ -	$ -
AA+	-	23,045,000	23,045,000
AA	-	2,605,000	2,605,000
AA-	-	-	-
A+	-	21,630,000	21,630,000
A	-	4,375,000	4,375,000
A-	-	112,987,134	112,987,134
BBB+	96,000,000	12,765,000	108,765,000
BBB	170,750,964	-	170,750,964
BBB-	15,029,079	52,831,543	67,860,622
BB+	106,232,513	109,344,286	215,576,799
BB	184,737,802	63,556,671	248,294,473
BB-	29,435,632	-	29,435,632
B+	31,259,661	-	31,259,661
B	12,639,294	-	12,639,294
B-	-	-	-
CCC to C	-	-	-
	$ 646,084,945	$ 403,139,634	$ 1,049,224,579

The following table presents the loan portfolio by risk category and year committed as of December 31, 2023.

	Year of Loan Commitment						Total Loans at December 31, 2023
Risk Category	**2023**	2022	2021	2020	2019	Prior	
AAA	**$ -**	$ -	$ -	$ -	$ -	$ -	$ -
AA+ to AA-	**-**	-	23,045,000	-	-	2,605,000	25,650,000
A+ to A-	**20,800,000**	63,000,000	-	20,642,614	615,000	33,934,520	138,992,134
BBB+ to BBB-	**56,932,828**	52,831,543	1,665,000	13,693,695	105,987,814	116,265,706	347,376,586
BB+ to BB-	**79,610,695**	27,352,463	1,410,000	3,199,752	-	381,733,994	493,306,904
B+ to B-	**3,246,244**	-	-	-	-	40,652,711	43,898,955
CCC to C	**-**	-	-	-	-	-	-
Total	**$ 160,589,767**	$ 143,184,006	$ 26,120,000	$ 37,536,061	$ 106,602,814	$ 575,191,931	$ 1,049,224,579

As of December 31, 2023, no loans were on non-accrual or impaired. For the year ended December 31, 2023, no loans were modified, and the average impaired loan balance was $0.

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

	Loans 30-89 Days Past Due	Loans 90+ Days Past Due	Total Loans 30+ Days Past Due
December 31, 2023	$ -	$ -	$ -

4. Loans (continued)

There were no loans past due 90 or more days accruing interest as of December 31, 2023.

The following table summarizes the allowance for loan losses by classification as of December 31, 2023.

	Allowance for Credit Losses	Total Loans Outstanding
Mexico:		
Construction	$ 672,458	$ 17,084,033
Operation	10,699,509	629,000,912
Total Mexico	11,371,967	646,084,945
United States:		
Construction	2,459,284	220,180,104
Operation	2,714,944	182,959,530
Total United States	5,174,228	403,139,634
	$ 16,546,195	$ 1,049,224,579

The following schedule summarizes the changes in the allowance for credit losses related to loans for the year ended December 31, 2023.

		Change in Allowance for Credit Losses			
	Beginning Balance	CECL Adoption Impact[1]	Provision for Credit Losses[2]	Loan (Charge-offs) Recoveries[3]	Ending Balance
Mexico:					
Construction	$ 667,629	$ (1,820)	$ 6,649	$ -	$ 672,458
Operation	13,274,228	(1,355,757)	(1,218,962)	-	10,699,509
Total Mexico	13,941,857	(1,357,577)	(1,212,313)	-	11,371,967
United States:					
Construction	1,391,769	887	1,066,628	-	2,459,284
Operation	6,820,188	(162,723)	(3,942,521)	-	2,714,944
Total United States	8,211,957	(161,836)	(2,875,893)	-	5,174,228
	$ 22,153,814	$ (1,519,413)	$ (4,088,206)	$ -	$ 16,546,195

[1] Current expected credit loss (CECL): The Bank adopted ASU 2016-13 as of January 1, 2023, which decreased the loan allowance by $1,519,413.
[2] For the year ended December 31, 2023, provision for credit losses totaled $(1,689,191), which included $2,399,015 in credit loss provisions for undisbursed loan commitments reported as a component of other liability. The provision for credit losses is reflected in the consolidated statement of income.
[3] For the year ended December 31, 2023, there were no loan charge-offs or recoveries.

5. Other Assets and Other Liabilities

The following table summarizes other assets and other liabilities as of December 31, 2023.

	Assets	Liabilities
Swaps and options, net	$ 167,042,265	$ 44,042,471
Collateral to counterparty	20,196,176	-
Collateral from counterparty	(8,049,975)	-
Credit valuation adjustment	(2,494,782)	-
Right-of-use lease asset	512,977	-
Off-balance sheet credit exposure	-	4,101,462
Total	$ 177,206,661	$ 48,143,933

The following table presents swaps and options subject to counterparty master netting arrangements at December 31, 2023.

	Assets	Liabilities
Cross-currency interest rate swaps	$ 144,833,059	$ 59,632,128
Interest rate swaps	19,999,994	14,117,988
Options	31,916,857	-
	196,749,910	73,750,116
Master netting by counterparty	(29,707,645)	(29,707,645)
Total swaps and options, net	$ 167,042,265	$ 44,042,471

6. Debt

The following table summarizes the notes payable and other borrowings as of December 31, 2023.

Issue Date	Maturity Date	Rate (%)	December 31, 2023 Principal Amount	Unamortized Premium/ (Discount)	Unamortized Debt Issuance Costs	FX Translation Adjustment	Fair Value of Hedged Items	Net Debt
Notes Payable								
USD issuance								
12/17/12	12/17/30	3.30	$ 50,000,000	$ -	$ (119,678)	$ -	$ (4,458,154)	$ 45,422,168
CHF issuance								
04/30/15	04/30/25	0.25	128,706,754	122,608	(110,755)	19,849,869	-	148,568,476
04/26/17	10/26/27	0.20	124,443,117	175,085	(273,284)	24,113,507	-	148,458,425
07/24/18	07/24/26	0.30	126,415,858	56,180	(261,090)	22,140,766	-	148,351,714
05/28/20	11/28/28	0.20	186,316,116	13,588	(619,114)	27,605,423	-	213,316,013
05/28/20	05/27/33	0.55	165,614,326	562,807	(766,946)	24,538,152	-	189,948,339
NOK issuance								
03/10/17	03/10/31	2.47	86,724,283	-	(151,492)	(15,698,763)	-	70,874,028
03/10/17	03/10/32	2.47	86,724,283	-	(161,054)	(15,698,763)	-	70,864,466
Total notes payable			954,944,737	930,268	(2,463,413)	86,850,191	(4,458,154)	1,035,803,629
Other Borrowings								
USD								
03/17/17	06/30/24	1.90	2,632,000	-	-	-	-	2,632,000
03/17/17	12/30/24	1.90	2,170,720	-	-	-	-	2,170,720
11/13/17	12/30/24	1.90	461,280	-	-	-	-	461,280
MXN								
12/14/22	12/01/27	TIIE var.	100,000,606	-	(21,706)	16,574,458	-	116,553,358
10/27/23	10/01/29	TIIE var.	65,083,916	-	-	5,054,243	-	70,138,159
Total other borrowings			170,348,522	-	(21,706)	21,628,701	-	191,955,517
			$ 1,125,293,259	$ 930,268	$ (2,485,119)	$ 108,478,892	$ (4,458,154)	$ 1,227,759,146

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

Notes Payable

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

The fair value of a hedge relating to a interest rate swap on notes payable denominated in U.S. dollars was reported at December 31, 2023 as other assets of $(4,458,154). The fair value of the hedges relating to cross-currency interest rate swaps on notes payable not denominated in U.S. dollars was reported at December 31, 2023 as other assets of $72,876,949 and as other liabilities of $35,536,063. The fair value of hedges relating to options on notes payable not denominated in U.S. dollars was reported at December 31, 2023 as other assets of $31,916,857. Additional information on the fair value of financial instruments and derivatives is provided in Notes 10 and 11.

6. Debt (continued)

Other Borrowings
On November 8, 2012, the Bank signed a loan commitment with another financial institution to borrow up to $50 million to fund eligible projects in Mexico. This loan amortizes semiannually, with the first principal payment paid on December 30, 2015, and final principal payment due on December 30, 2024. At December 31, 2023, the outstanding balance was $5,264,000.

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

On October 27, 2023, the Bank entered into a collateralized borrowing with another financial institution in the form of a repurchase agreement to borrow MXN $1,190 million ($65 million USD) with a maturity date of October 1, 2029, and a variable interest rate referenced to Mexico's TIIE. This borrowing is collateralized by U.S. Treasury Notes, which are reflected on the consolidated balance sheet as available-for-sale investment securities.

The following table summarizes the maturities of the notes payable and other borrowings as of December 31, 2023.

Less than one year	$	5,264,000
1-2 years		128,706,754
2-3 years		126,415,858
3-4 years		224,443,723
4-5 years		186,316,116
5-10 years		454,146,808
More than ten years		–
Total	$	1,125,293,259

The following table summarizes short-term and long-term debt as of December 31, 2023.

Short-term debt:		
Other borrowings	$	5,264,000
Total short-term debt		5,264,000
Long-term debt:		
Notes payable		954,944,737
Other borrowings		165,084,522
Total long-term debt		1,120,029,259
Total debt	$	1,125,293,259

7. Equity

Subscribed Capital
At December 31, 2023, the shareholders of the Bank had subscribed 600,000 shares of capital stock, with a par value of $10,000 per share. Subscribed capital is divided into paid-in and callable capital. Callable capital are shares that the Bank can request that its shareholders pay under Chapter II, Article II, Section 3(d) of the Bank's Charter. As defined in the Charter, subscribed shares can be unqualified or qualified. Qualified shares are subject to the respective domestic legal requirements of each subscribing country. Unqualified shares have completed the domestic legal requirements.

7. Equity (continued)

The Bank's capital at December 31, 2023 is shown in the following table.

	Mexico		United States		Total	
	Shares	USD Million	Shares	USD Million	Shares	USD Million
Subscribed capital	300,000	$ 3,000.0	300,000	$ 3,000.0	600,000	$ 6,000.0
Qualified callable capital	(104,267)	(1,042.7)	(102,000)	(1,020.0)	(206,267)	(2,062.7)
Unqualified callable capital	(150,733)	(1,507.3)	(153,000)	(1,530.0)	(303,733)	(3,037.3)
Qualified paid-in capital	(18,400)	(184.0)	-	-	(18,400)	(184.0)
Total funded paid-in capital	26,600	266.0	45,000	450.0	71,600	716.0
Restricted from commitments	-	-	(16,500)	(165.0)	(16,500)	(165.0)
Transfer to Domestic Programs	-	(22.5)	-	(22.5)	-	(45.0)
Total paid-in capital	26,600	$ 243.5	28,500	$ 262.5	55,100	$ 506.0

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

As of December 31, 2023, Mexico has unqualified 4,100 shares of paid-in capital and 23,233 shares of callable capital from its GCI subscription.

As of December 31, 2023, the United States has unqualified 22,500 shares of paid-in capital from its GCI subscription. Of these shares, 16,500 shares were restricted from commitment, until Mexico unqualifies corresponding payments. As such, the restricted shares are recorded as a deferred U.S. capital contribution. As of the same date, the United States has also unqualified 25,500 shares of callable capital from its GCI subscription.

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

Retained Earnings
Retained earnings are classified as reserved or undesignated as shown in the following table as of December 31, 2023.

Reserved retained earnings	
Debt Service Reserve	$ 65,894,000
Operating Expenses Reserve	28,088,200
Special Reserve	30,000,000
Capital Preservation Reserve	159,320,901
Total reserved retained earnings	283,303,101
Undesignated retained earnings	26,663,836
Total retained earnings	$ 309,966,937

Additional information regarding the reserve funds listed above is provided in Note 2.

7. Equity (continued)

Accumulated Other Comprehensive Income (Loss)
The following table presents the changes in accumulated other comprehensive income (loss) for the year ended December 31, 2023.

	Beginning Balance	Period Activity	Ending Balance
Net unrealized gain (loss) on available-for-sale investment securities	$ (45,605,707)	$ 28,739,688	$ (16,866,019)
Post-retirement benefit liability adjustment	285,079	-	285,079
Foreign currency translation adjustment	287,365	41,002	328,367
Unrealized gain (loss) on hedging activities:			
Foreign currency translation adjustment	(24,082,548)	(15,912,110)	(39,994,658)
Fair value of cross-currency interest rate swaps and options, net	35,303,646	23,237,517	58,541,163
Net unrealized gain on hedging activities	11,221,098	7,325,407	18,546,505
Total accumulated other comprehensive income (loss)	$ (33,812,165)	$ 36,106,097	$ 2,293,932

Hedging Activities in Other Comprehensive Income (Loss)
The following table summarizes the change in net unrealized gain (loss) on derivatives designated as cash flow hedges and their related hedged items included in other comprehensive income for the year ended December 31, 2023.

	Year Ended December 31, 2023
Cross-currency swaps and hedged items for loans, net	$ (1,863,794)
Cross-currency swaps, options and hedged items for debt, net	9,189,201
Total	$ 7,325,407

For the year ended December 31, 2023, $1,863,794 was reclassified from other comprehensive income and recorded as income from hedging activities, net, in the consolidated statements of income.

8. EICF Transfers and Reimbursements

As part of the establishment of the EICF, the Board agreed to continue providing support to the EICF by transferring a portion of allocable income from the Bank's Ordinary Capital Resources. For the year ended December 31, 2023, the Bank transferred $5,101,424 to the EICF, which is reflected in the consolidated statement of income.

All operating expenses of the Bank are paid through the accounts of the Ordinary Capital Resources, including those related to grant operations under the EICF. Operating expenses incurred for third-party grants are subject to reimbursement to the Bank. Such reimbursements represent personnel expenses, net of administrative expenses and are recorded in the consolidated income statement as net grant operating reimbursements. For the year ended December 31, 2023, the Bank recognized $1,544,195 in net reimbursements from the EICF.

9. Employee Benefits

401(a) Retirement Plan
The Bank has a 401(a) Retirement Plan for its employees. This plan provides for employee and nondiscretionary employer contributions. For the year ended December 31, 2023, the Bank expended $1,380,024 relating to the plan.

9. Employee Benefits (continued)

Post-Retirement Health Insurance Plan

The Bank has a post-retirement health insurance plan for qualifying employees based on number of years of service and age. Qualified retirees may purchase group health insurance coverage at the current employee rate subject to the plan limits. The plan is funded by the Bank as benefits are paid. The Bank paid benefits of $63,130 for the year ended December 31, 2023. As of December 31, 2023, the unfunded portion of the plan totaled $3,543,778 and is reflected in the consolidated balance sheet as a component of accrued liabilities and long-term post-retirement benefits payable of $102,000 and $3,441,778, respectively.

The following table presents the change in benefit obligations as of December 31, 2023.

Beginning balance	$	3,215,908
Service expense		253,000
Interest expense		138,000
Net benefits paid		(63,130)
Actuarial loss (gain)		–
Ending balance	$	3,543,778

The change in post-retirement health plan assets as of December 31, 2023, is presented in the following table.

Beginning balance	$	-
Employer contributions		63,130
Net benefits paid		(63,130)
Ending balance	$	-

The following table presents post-retirement health plan liabilities as of December 31, 2023.

Current liabilities	$	102,000
Non-current liabilities		3,441,778
Total	$	3,543,778

The net periodic benefit cost of the post-retirement health plan for the year ended December 31, 2023, is presented in the following table.

		Year Ended December 31, 2023
Service expense	$	253,000
Interest expense		138,000
Total	$	391,000

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

The assumptions used to determine the benefit obligations and net periodic post-retirement benefit costs of the plan as of December 31, 2023, are presented below.

Discount rate (%)	4.36%
Current healthcare trend rate (%)	6.30%
Ultimate healthcare trend rate (%)	5.00%
Year in which ultimate trend is reached	2028

9. Employee Benefits (continued)

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

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

10. Fair Value of Financial Instruments

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

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

Hedged Items for Loans
Hedged items for loans are reported at fair value using Level 3 unobservable inputs. The fair value of these hedged items is estimated by discounting each cash flow stream using the benchmark swap curve of the contractual currency and converting the resulting net present value at the spot exchange rate, as well as using external pricing models and counterparty pricing. Cash flows in Mexican pesos (MXN) are discounted using the MXN swap curve. Cash flows in U.S. dollars are discounted using the Secured Overnight Financing Rate (SOFR) curve.

Cross-Currency Interest Rate Swaps
Cross-currency interest rate swaps are reported at fair value using Level 2 observable inputs. The fair value of these swaps is estimated based on discounting procedures, whereby each cash flow stream is discounted using the benchmark swap curve of the respective currency and converting the resulting net present value at the spot exchange rate, as well as other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The Bank's cross-currency interest rate swaps are all Mexican-peso for U.S.-dollar operations except for six (6) debt issuances in foreign currencies for U.S.-dollar operations. Cash flows in Mexican pesos are discounted using the MXN swap curve. Cash flows in Swiss francs (CHF) are discounted using the CHF swap curve. Cash flows in Norwegian kroner (NOK) are discounted using the NOK swap curve. Cash flows in U.S. dollars are discounted using the USD Overnight Index Swap (OIS) or SOFR curve.

Interest Rate Swaps
Interest rate swaps are reported at fair value using Level 2 observable inputs. The fair value of these swaps is estimated based on discounting procedures, whereby each cash flows in U.S. dollars is discounted using the SOFR curve, and cash flows in Mexican pesos are discounted using the MXN swap curve, as well as on other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

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

Hedged Items for Notes Payable
Hedged items for notes payable are reported at fair value using Level 3 unobservable inputs. The fair value of the hedged items is estimated based on discounting procedures, whereby each cash flow stream is discounted using the USD SOFR curve for USD issuances, as well as on external pricing models and counterparty pricing.

10. Fair Value of Financial Instruments (continued)

The following table summarizes the carrying amounts and fair value of the Bank's financial instruments as of December 31, 2023.

	Carrying Amount	Estimated Fair Value
Assets		
Available-for-sale securities	$ 1,020,014,675	$ 1,020,014,675
Loans	226,956,094	228,252,551
Cross-currency interest rate swaps	144,833,059	144,833,059
Interest rate swaps	19,999,994	19,999,994
Options	31,916,857	31,916,857
Liabilities		
Long-term debt	50,000,000	45,541,847
Cross-currency interest rate swaps	59,632,128	59,632,128
Interest rate swaps	14,117,988	14,117,988

The Bank's financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2023 are summarized in the following table by the valuation level of the inputs used to measure fair value. Additional information on how the Bank measures and classifies the levels of fair-value inputs is provided in Note 2.

	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total Fair Value
Assets				
Available-for-sale (AFS) securities:				
U.S. government securities	$ 349,459,708	$ -	$ -	$ 349,459,708
U.S. agency securities	-	88,391,666	-	88,391,666
Corporate debt securities	-	164,540,641	-	164,540,641
Other fixed-income securities	-	59,471,184	-	59,471,184
Mexican government securities	-	114,264,922	-	114,264,922
Securities pledged under collateralized borrowings	-	239,322,607	-	239,322,607
Mortgage-backed securities	-	4,563,947	-	4,563,947
Total ASF securities	349,459,708	670,554,967	-	1,020,014,675
Cross-currency interest rate swaps	-	144,833,059	-	144,833,059
Interest rate swaps	-	19,999,994	-	19,999,994
Options	-	31,916,857	-	31,916,857
Hedged items for loans	-	-	1,296,457	1,296,457
Total assets, at fair value	$ 349,459,708	$ 867,304,877	$ 1,296,457	$ 1,218,061,042
Liabilities				
Cross-currency interest rate swaps	$ -	$ 59,632,128	$ -	$ 59,632,128
Interest rate swaps	-	14,117,988	-	14,117,988
Hedged items for notes payable	-	-	(4,458,154)	(4,458,154)
Total liabilities, at fair value	$ -	$ 73,750,116	$ (4,458,154)	$ 69,291,962

10. Fair Value of Financial Instruments (continued)

The following table summarizes the changes to hedged items included in financial assets and liabilities measured at fair value on a recurring basis using unobservable inputs (Level 3) for the year ended December 31, 2023. Additional information on how the Bank measures fair value is provided in Note 2.

Fair Value of Level 3 Instruments	Year Ended December 31, 2023
Assets	
Beginning balance	$ (106,748,200)
Total realized and unrealized gains (losses):	
Included in earnings (expenses)	108,044,657
Included in other comprehensive income (loss)	-
Purchases	-
Settlements	-
Transfers in/out of Level 3	-
Ending balance	$ 1,296,457
Liabilities	
Beginning balance	$ (57,376,728)
Total realized and unrealized (gains) losses:	
Included in (earnings) expenses	52,918,574
Included in other comprehensive income (loss)	-
Purchases	-
Settlements	-
Transfers in/out of Level 3	-
Ending balance	$ (4,458,154)

11. Derivative Instruments

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

The Bank enters into cross-currency interest rate swaps that are matched to the terms of the loans denominated in Mexican pesos that the Bank has entered into directly or through COFIDAN. In the latter case, the swaps are entered into on the exact same terms COFIDAN signs with its borrowers. The Bank has also entered into cross-currency interest rate swaps for its long-term notes payable issued in Swiss francs and Norwegian kroner. The swaps are structured so that the notional amounts mature to match the expected maturity of the related loans and notes payable.

The Bank enters into interest rate swaps for some loans and one of its long-term notes payable. The swaps are structured so that the notional amounts match the expected maturity of the related loans and notes payable. Certain swaps have been designated as hedging instruments because they hedge the risk of changes in the fair value of fixed-rate loans and notes payable due to changes in the designated benchmark interest rate.

The Bank transitioned to the Secured Overnight Financing Rate (SOFR) rate as its benchmark interest rate instead of the London Interbank Offered Rate (LIBOR). Beginning January 1, 2023, the Bank implemented ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. Prior to that date, the Bank elected to apply the contract amendments prospectively.

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

11. Derivative Instruments (continued)

The Bank may be required to post or receive collateral based on the outstanding fair value of its derivatives and other collateralized borrowings. Cash collateral and receivables totaling $8,049,975 were posted from counterparties to the Bank as of December 31, 2023. As of the same date, $20,196,176 in cash collateral was posted by the Bank.

The notional amounts and estimated fair values of the swaps and options outstanding at December 31, 2023 are presented in the following table. The fair value of these swaps is estimated using internal valuation models with observable market data inputs.

	Notional Amount	Estimated Fair Value
Derivative assets		
Hedging instruments:		
Cross-currency swaps for debt	$ 175,965,221	$ 37,543,676
Cross-currency options for debt	175,965,221	31,916,857
Interest rate swaps for loans	77,327,055	8,363,377
	429,257,497	77,823,910
Non-hedging instruments:		
Cross-currency interest rate swaps for debt	379,565,730	49,929,490
Cross-currency interest rate swaps for loans	208,646,560	57,359,893
Interest rate swaps for loans	58,941,099	11,636,617
	647,153,389	118,926,000
Derivative liabilities		
Hedging instruments:		
Interest rate swaps for debt	50,000,000	4,458,153
	50,000,000	4,458,153
Non-hedging instruments:		
Cross-currency interest rate swaps for debt	173,448,566	50,132,281
Cross-currency interest rate swaps for loans	70,506,240	9,499,847
Interest rate swaps for loans	161,127,468	9,659,835
	405,082,274	69,291,963

There were no swaps that were considered ineffective due to borrower default as of December 31, 2023.

Gains and Losses on Derivative Cash Flows

Cross-currency Swaps and Options -The fair value adjustments of cross-currency swaps and options designated as cash flow hedges are included in the consolidated statement of comprehensive income. Amounts are reclassified to earnings when the hedged items are included in earnings. The accumulated net unrealized gain (loss) related to the swaps and options included in accumulated other comprehensive income totaled $18,546,505 at December 31, 2023.

Interest Rate Swaps - The changes in the fair value of interest rate swaps offset the changes in the fair value of the loans and debt (hedged items) using the "short-cut" method due to changes in the SOFR curve and are included in income (expense) from net hedging activities.

11. Derivative Instruments (continued)

Income (Expense) from Foreign Currency Exchange Rate Adjustments and Hedging Activities
The following table summarizes the income (expense) from foreign currency exchange rate adjustments and hedging activities for the year ended December 31, 2023.

	Year Ended December 31, 2023
Foreign currency exchange rate adjustments:	
Loans	$ (58,834,299)
Debt	10,184,132
	(48,650,167)
Changes in hedged items and derivative instruments:	
Hedged items for loans and fair value swaps	101,795,810
Hedged items for debt and fair value swaps	(52,918,575)
Hedged items for debt and cash flow options	4,702,229
	53,579,464
Credit valuation adjustment	(745,042)
Income (expense) from foreign currency adjustments and hedging activities, net	$ 4,184,255

Net income from hedging activities is included as a component of non-operating income (expenses) in the accompanying consolidated statement of income.

12. Credit Risk Associated with Financial Instruments

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

13. Commitments

In the normal course of business, the Bank has various outstanding commitments, in addition to the loans receivable disclosed in Note 4 and borrowings disclosed in Note 6. Under agreements with consultants and contractors in effect on December 31, 2023, the Bank has obligations to make payments contingent upon the future performance of the consultants and contractors under the terms of their respective contracts and, therefore, they are not recorded in the consolidated financial statements.

Operating Lease Commitments
The Bank rents office space for its headquarters in San Antonio, Texas, under an operating lease that expires on February 28, 2026. As of December 31, 2023, the right-of-use lease asset totaled $512,977 and is reflected in the consolidated balance sheet as a component of other assets. As of that same date, the operating lease obligation is reflected in the consolidated balance sheet in accrued liabilities and as a long-term lease payable of $234,323 and $278,654, respectively. For the year ended December 31, 2023, operating lease expenses recognized on a straight-line basis totaled $233,071 and are included as a component of operating expenses in the consolidated statement of income.

13. Commitments (continued)

As of December 31, 2023, the weighted average term of the lease remaining was 2.2 years and the weighted average discount rate used on the lease liability was 1.26%, which is considered a risk-free rate by the Bank in determining the present value of future lease payments as follows:

Year ending December 31,	
2024	$ 238,857
2025	240,732
2026	40,122
Total operating lease	519,711
Discount	(6,734)
Operating lease liability	$ 512,977

14. Subsequent Events

On January 23, 2024, the Bank entered into a collateralized borrowing with another financial institution in the form of a repurchase agreement to borrow MXN $430 million ($25 million USD) with a maturity date of October 1, 2029. The loan carries a variable interest rate referenced to Mexico's TIIE and is collateralized by U.S. Treasury Notes.

The Bank has evaluated subsequent events for potential recognition and/or disclosure through August 21, 2024, the date these consolidated financial statements were issued.

NORTH AMERICAN DEVELOPMENT BANK

Environment Investment and Capacity Facility

Audited Financial Statements

December 31, 2023

Report of Independent Auditors

Those Charged with Governance
North American Development Bank
Environment Investment and Capacity Facility

Opinion

We have audited the financial statements of North American Development Bank - Environment Investment and Capacity Facility (EICF), which comprise the balance sheet as of December 31, 2023, and the related statements of changes in fund balance and statement of cash flows for the year then ended, and the related notes (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the EICF at December 31, 2023, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the EICF's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the EICF's ability to continue as a going concern for a reasonable period of time.

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

Ernst & Young, LLP

August 21, 2024

Environment Investment and Capacity Facility
Balance Sheet
As of December 31, 2023

Assets		
Cash and cash equivalents		
Held at other financial institutions	$	24,069
Repurchase agreements		12,700,000
Total cash and cash equivalents		12,724,069
Due from Ordinary Capital Resources		2,000,000
Interest receivable		5,609
Grants receivable:		
U.S. Environmental Protection Agency (EPA):		
Border Environment Infrastructure Fund (BEIF)		62,855
Project Development Assistance Program (PDAP)		23,323
U.S.-Mexico Environmental Border 2025 Program (Border 2025)		7,896
Total grants receivable		94,074
Total assets	$	14,823,752
Liabilities and Fund Balance		
Due to Ordinary Capital Resources	$	291,485
Undisbursed grant funds:		
U.S. Department of State (DOS)		1,457,280
Air Quality Fund (AQ Fund)		132,768
Total undisbursed grant funds		1,590,048
Total liabilities		1,881,533
Fund balance		12,942,219
Total liabilities and fund balance	$	14,823,752

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

Environment Investment and Capacity Facility

Statement of Changes in Fund Balance

For the Year Ended December 31, 2023

Additions		
Transfer from Ordinary Capital Resources	$	5,101,424
Interest income		340,795
		5,442,219
Change in fund balance		5,442,219
Fund balance, beginning balance		7,500,000
Fund balance, ending balance	$	12,942,219

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

Environment Investment and Capacity Facility
Statement of Cash Flows
For the Year Ended December 31, 2023

Cash flows from operating activities		
Change in fund balance	$	5,442,219
Adjustments to reconcile change in fund balance		
to net cash provided by operating activities:		
Change in other assets and liabilities:		
Increase in interest receivable		(5,609)
Decrease in grants receivable		36,032
Decrease in due from Ordinary Capital Resources		6,729,539
Increase in due to Ordinary Capital Resources		161,379
Net cash provided by operating activities		12,363,560
Cash flows from financing activities		
Grant funds received from:		
EPA:		
BEIF		13,628,700
PDAP		2,011,869
Border 2025		1,016,556
Other		43,316
DOS		3,000,000
AQ Fund		74,363
Grant disbursements:		
EPA:		
BEIF		(13,629,709)
PDAP		(2,011,869)
Border 2025		(1,016,556)
Other		(43,316)
DOS		(2,563,925)
AQ Fund		(148,920)
Net cash provided by financing activities		360,509
Net increase in cash and cash equivalents		12,724,069
Cash and cash equivalents, beginning of period		-
Cash and cash equivalents, end of period	$	12,724,069

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

Environment Investment and Capacity Facility
Notes to Financial Statements
December 31, 2023

1. Organization and Purpose

The North American Development Bank (NADBank or the Bank) was established on January 1, 1994 by an agreement between the Governments of the United States of America (the United States or U.S.) and the United Mexican States (Mexico) that was signed by their respective Presidents on November 16 and 18, 1993 (the Charter). The Bank was created to finance environmental infrastructure projects in the U.S.-Mexico border region. On March 16, 1994, the President of the United States issued an Executive Order designating the Bank as an international organization under the International Organization Immunities Act.

The Bank is governed by a Board of Directors (the Board) appointed by the two countries. Its operations are subject to certain limitations outlined in the Charter. The geographic jurisdiction is within 100 kilometers north and 300 kilometers south of the U.S.-Mexico border. The primary activities of the Bank are providing loans, grant financing and technical assistance for environmental infrastructure projects approved by the Board, as well as administering grant funding provided by other entities. The Bank is headquartered in San Antonio, Texas, and also has an office in Ciudad Juarez, Chihuahua (Juarez Office).

On December 28, 2022, the Board approved the establishment of the Environment Investment and Capacity Facility (EICF) to hold the Bank's grant funds available for project implementation and technical assistance purposes, including funds provided by third-party donors. With the establishment of the grant facility, the activities of the Bank are conducted through either Ordinary Capital Resources or the EICF, which are accounted for separately. All grant and technical assistance activities are reported under the EICF, while all other operations of the Bank are reported under Ordinary Capital Resources.

Grant activity may be financed by the Bank with its own funds or by third parties. In some cases, the Bank receives third-party pass-through grants, meaning that the funds are not drawn until needed for disbursement. In other cases, the third-party grantors entrust the funds to the Bank, which are held in custody for the programs.

Grant Programs

Community Assistance Program (CAP)
Established in 2011, the CAP provides grants to support the implementation of infrastructure projects in the water and solid waste sectors. Disbursements for CAP are funded with fund balance or with grants from the U.S. Department of State (DOS).

Technical Assistance Program (TAP)
The TAP was established in 2009 to offer technical assistance and training to project sponsors for the purpose of strengthening their financial performance and ensuring the long-term sustainability of their infrastructure. As part of its technical assistance program, the Bank created the Utility Management Institute (UMI) to provide water utility managers and their staff with an opportunity for ongoing professional development aimed at enhancing their managerial and financial skills. Disbursements for TAP and UMI are funded with fund balance or with grants from DOS.

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

Project Development Assistance Program (PDAP)
The Bank administers grant funding from EPA to provide technical assistance to communities for the development of water and wastewater projects that have been prioritized by EPA to receive a BEIF grant. The Bank provides administrative services to identify, contract and manage technical assistance projects.

U.S.-Mexico Environmental Border 2025 Program
The Bank administers grant funding from EPA to support the joint efforts of the two governments to improve the environment and protect the health of residents within 100 kilometers of the U.S.-Mexico border. The Bank provides logistical and administrative services to identify, contract and manage technical assistance projects and workshops funded through the program.

Environment Investment and Capacity Facility
Notes to Financial Statements
December 31, 2023

1. Organization and Purpose (continued)

Air Quality Monitoring Fund
Through this fund, the Bank manages funds from the Texas Commission on Environmental Quality (TCEQ) and the Paso del Norte Community Foundation to improve air quality monitoring in the Paso del Norte air basin, formed by the Municipality of Juarez, Chihuahua, El Paso County, Texas, and Dona Ana County, New Mexico.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates in Financial Statements
The financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions from fund balance during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents
For the purposes of the statements of cash flows, cash and cash equivalents include cash deposits with a financial institution and overnight repurchase agreements. As of December 31, 2023, cash deposits with the financial institution totaled $24,069.

Repurchase Agreements
The Bank has entered into repurchase agreements with other financial institutions. Repurchases, which are included in cash and cash equivalents, occur daily involving U.S. government and federally sponsored agency securities. The underlying securities related to the repurchase transactions are held in the possession of the respective financial institution.

Grant Recognition

Bank-funded grants: Grant commitments are recognized at the date the Bank becomes obligated under the terms of the grant agreements, and associated costs are recognized as incurred. Grant disbursements from fund balance are reflected in the statement of changes in fund balance.

Third-party grants: These grants are funded by third-party grantors and disbursed in accordance with their respective agreements. Third-party grants are recognized upon receipt and reflected on the balance sheet as undisbursed grant funds until disbursed. Grant receipts and disbursements are reflected in the statement of cash flows. Additional information on undisbursed third-party grant funds is provided in Note 3.

Grant Operating Expenses and Reimbursements
All operating expenses associated with the EICF are paid through the Ordinary Capital Resources and are subject to reimbursement to the Ordinary Capital Resources when incurred for third-party grants. As such, no operating expenses are reported under the EICF.

Income Transfers from Ordinary Capital Resources
As part of the establishment of the EICF, the Board agreed to continue providing support to the EICF by transferring a portion of allocable income from the Ordinary Capital Resources. For the year ended December 31, 2023, EICF received transfers of $5,101,424, which is reflected in the statement of changes in fund balance.

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

Environment Investment and Capacity Facility
Notes to Financial Statements
December 31, 2023

3. Undisbursed Third-party Grant Funds

The following table summarizes the changes in undisbursed grants from third-party grantors as of December 31, 2023.

	Beginning Balance January 1, 2023	Grant Receipts	Grant Disbursements for Projects[1]	Grant Disbursements for Expense Reimbursements	Ending Balance December 31, 2023
EPA:					
BEIF	$ 1,009	$ 13,628,700	$ 12,472,492	$ 1,157,217	$ -
PDAP	-	2,011,869	1,197,131	814,738	-
Border 2025	-	1,016,556	726,390	290,166	-
Other	-	43,316	42,500	816	-
	1,009	16,700,441	14,438,513	2,262,937	-
DOS	1,021,205	3,000,000	2,563,925	-	1,457,280
Air Quality Fund	207,325	74,363	143,765	5,155	132,768
Total	$ 1,229,539	$ 19,774,804	$ 17,146,203	$ 2,268,092	$ 1,590,048

[1] Includes funds disbursed for project financing and technical assistance.

4. Disbursements by Program and Source

The following table summarizes disbursements for project implementation and technical assistance by program and source for the year ended December 31, 2023.

	Year Ended December 31, 2023
By Program	
BEIF	$ 12,472,492
PDAP	1,197,131
Border 2025	726,390
CAP	1,191,055
TAP	1,372,870
Air Quality Fund	143,765
Other	42,500
	$ 17,146,203
By Source	
Bank-funded	$ -
Third-party:	
EPA	14,438,513
DOS	2,563,925
Air Quality Fund	143,765
	$ 17,146,203

Environment Investment and Capacity Facility
Notes to Financial Statements
December 31, 2023

5. Fund Balance

The following table summarizes the changes in fund balance for the year ended December 31, 2023.

	CAP	TAP	Undesignated	Total
Beginning balance, January 1, 2023	$ 5,685,234	$ 1,814,766	$ –	$ 7,500,000
Interest income	–	–	340,795	340,795
Transfers-in from Ordinary Capital Resources	1,654,484	3,446,940	–	5,101,424
Disbursements	–	–	–	–
Ending balance, December 31, 2023	$ 7,339,718	$ 5,261,706	$ 340,795	$ 12,942,219

6. Undisbursed Commitments

Undisbursed commitments are signed grant agreements less disbursements. The following table summarizes the changes in undisbursed commitments by program for the year ended December 31, 2023.

	CAP	TAP	Total
Undisbursed commitments, January 1, 2023	$ 899,883	$ 1,024,720	$ 1,924,603
Commitments	917,539	1,587,855	2,505,394
Disbursements:			
Bank-funded	-	-	-
DOS-funded	(1,191,055)	(1,372,870)	(2,563,925)
Undisbursed commitments, December 31, 2023	$ 626,367	$ 1,239,705	$ 1,866,072

The following table summarizes the grant funds available for commitment as of December 31, 2023.

	CAP	TAP	Undesignated	Total
December 31, 2023				
Total fund balance	$ 7,339,718	$ 5,261,706	$ 340,795	$ 12,942,219
Undisbursed commitments	(626,367)	(1,239,705)	–	(1,866,072)
Approved, pending commitment	–	(622,000)	–	(622,000)
Total available for commitment	$ 6,713,351	$ 3,400,001	$ 340,795	$ 10,454,147

In addition to the fund balance available for commitment in the above table, $1,457,280 in undisbursed grant funds from DOS were available as of December 31, 2023, to cover disbursements under those programs.

7. Subsequent Event

The Bank has evaluated subsequent events for potential recognition and/or disclosure through August 21, 2024, the date these financial statements were issued.

APPENDIX

Governance

Board of Directors	
Mexico	**United States**
Secretary of Finance and Public Credit (SHCP)*	Secretary of the Treasury
Secretary of Foreign Relations (SRE)	Secretary of State
Secretary of Environment and Natural Resources (SEMARNAT)	Administrator of the Environmental Protection Agency (EPA)
Border state representative	Border state representative
Border resident representative	Border resident representative

* Board chair, 2023

Bank Organization as of December 31, 2023	
Management	
Managing Director	Calixto Mateos Hanel
Deputy Managing Director	John Beckham
Chief Environmental Officer	Salvador López Córdova
Directors	
Chief Financial Officer	Julio R. Zamora
General Counsel	Lisa A. Roberts
Director of Environmental Infrastructure Finance	Carlos Carranza
Director of Technical Services and Grants	Renata Manning-Gbogbo
Director of Asset Management	Michael Ratliff
Director of Risk Management and Control	Bernardo Salas
Unit Heads	
Strategy and Planning	Mauricio Mora
Environment and Knowledge Management	Fernando Ortiz
Partnerships and Stakeholder Engagement	Jesse J. Hereford
Institutional Relations and Communication	Oscar Duran
Human Resources and Facilities Management	Diana Rojas

CREDITS

Offices responsible for Publication

Finance Department and Institutional Relations & Communication Unit

Photography

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