Consolidated Financial Statements and Supplementary Information

North American Development Bank
Years Ended December 31, 2016 and 2015
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

North American Development Bank

Consolidated Financial Statements and Supplementary Information

Years Ended December 31, 2016 and 2015

Contents

Ernst & Young LLP
Frost Bank Tower
Suite 1700
100 West Houston Street
San Antonio, TX 78205

Tel: +1 210 228 9696
Fax: +1 210 242 7252
ey.com

Report of Independent Auditors

The Board of Directors
North American Development Bank:

We have audited the accompanying consolidated financial statements of North American Development Bank (the Bank), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of North American Development Bank at December 31, 2016 and 2015, and the consolidated results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Supplementary Information

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

Ernst & Young LLP

March 31, 2017

North American Development Bank

Consolidated Balance Sheets

	December 31	
	2016	**2015**
Assets		
Cash and cash equivalents:		
Held at other financial institutions in demand-deposit accounts	**$ 193,964**	$ 127,078
Held at other financial institutions in interest-bearing accounts	**28,833,505**	31,052,800
Repurchase agreements	**122,700,000**	83,800,000
	151,727,469	114,979,878
Held-to-maturity investment securities, at amortized cost	**53,782,155**	53,730,753
Available-for-sale investment securities, at fair value	**306,562,226**	337,477,241
Loans outstanding	**1,411,625,673**	1,325,135,449
Allowance for loan losses	**(25,075,659)**	(19,941,922)
Unamortized loan fees	**(10,682,210)**	(9,661,632)
Foreign currency exchange rate adjustment	**(55,027,169)**	(43,446,961)
Hedged items, at fair value	**(151,854,451)**	(51,606,468)
Net loans outstanding	**1,168,986,184**	1,200,478,466
Interest receivable	**26,806,845**	11,226,560
Grant and other receivable	**7,320,234**	699,125
Furniture, equipment and leasehold improvements, net	**461,759**	257,012
Other assets	**98,029,324**	59,103,755
Total assets	**$ 1,813,676,196**	$ 1,777,952,790
Liabilities and equity		
Liabilities:		
Accounts payable	**$ 7,456,087**	$ 1,813,084
Accrued liabilities	**441,447**	350,020
Accrued interest payable	**16,593,968**	9,079,465
Undisbursed grant funds	**6,328**	1,000
Other liabilities	**–**	6,210,968
Short-term debt	**5,262,000**	5,262,000
Long-term debt, net of discount and unamortized debt issuance costs	**1,176,158,912**	1,177,851,550
Hedged items, at fair value	**2,931,548**	10,180,086
Net long-term debt	**1,179,090,460**	1,188,031,636
Total liabilities	**1,208,850,290**	1,210,748,173
Equity:		
Paid-in capital	**415,000,000**	405,000,000
General Reserve:		
Allocated paid-in capital	**2,460,790**	3,027,256
Retained earnings:		
Designated	**11,780,134**	12,920,792
Reserved	**114,553,374**	99,671,114
Undesignated	**45,058,709**	39,394,125
Accumulated other comprehensive income	**15,967,278**	7,185,567
Non-controlling interest	**5,621**	5,763
Total equity	**604,825,906**	567,204,617
Total liabilities and equity	**$ 1,813,676,196**	$ 1,777,952,790

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

North American Development Bank

Consolidated Statements of Income

	Year Ended December 31	
	2016	**2015**
Interest income:		
Loans	**$ 52,430,015**	$ 45,910,933
Investments	**6,586,686**	5,355,434
Total interest income	**59,016,701**	51,266,367
Interest expense	**19,950,461**	15,101,220
Net interest income	**39,066,240**	36,165,147
Operating expenses:		
Personnel	**8,282,656**	5,590,704
General and administrative	**1,467,292**	1,712,742
Consultants and contractors	**2,720,662**	2,205,079
Provision for loan losses	**5,133,737**	8,559,254
Other	**193,253**	214,167
Depreciation	**137,153**	76,409
U.S. Domestic Program	**268,461**	285,955
Total operating expenses	**18,203,214**	18,644,310
Net operating income	**20,863,026**	17,520,837
Non-interest income and expenses:		
Gains on sales of available-for-sale securities	**137,177**	39,995
Income (expense) from hedging activities, net	**1,101,921**	3,584,628
Income (expense) from foreign exchange activities, net	**(701,842)**	(501,788)
Fees and other income	**200,000**	429,078
Loss on other real estate owned	**(1,106,240)**	(950,000)
Total non-interest income (expense)	**(368,984)**	2,601,913
Income before program activities	**20,494,042**	20,122,750
Program activities:		
U.S. Environmental Protection Agency (EPA) grant income	**843,300**	832,143
EPA grant administration expense	**(843,300)**	(832,143)
Technical Assistance Program expense	**(537,557)**	(1,179,090)
Community Assistance Program expense	**(429,633)**	(1,436,053)
Water Conservation Investment Fund expense	**(120,808)**	(2,257,725)
Net program expenses	**(1,087,998)**	(4,872,868)
Income before non-controlling interest	**19,406,044**	15,249,882
Net loss attributable to non-controlling interest	**(142)**	(242)
Net income attributable to NADB	**$ 19,406,186**	$ 15,250,124

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

North American Development Bank

Consolidated Statements of Comprehensive Income

	Year Ended December 31	
	2016	**2015**
Income before non-controlling interest	**$ 19,406,044**	$ 15,249,882
Net loss attributable to non-controlling interest	**(142)**	(242)
Net income attributable to NADB	**19,406,186**	15,250,124
Other comprehensive income (loss):		
Available-for-sale investment securities:		
Change in unrealized gains (losses) during the period, net	**15,481**	(344,579)
Reclassification adjustment for net gains included in net income	**(137,177)**	(39,995)
Total unrealized loss on available-for-sale investment securities	**(121,696)**	(384,574)
Foreign currency translation adjustment	**158,889**	147,893
Unrealized gains (losses) on hedging activities:		
Foreign currency translation adjustment, net	**(11,580,208)**	(11,501,378)
Fair value of cross-currency interest rate swaps, net	**20,324,726**	19,117,644
Total unrealized gain on hedging activities	**8,744,518**	7,616,266
Total other comprehensive income	**8,781,711**	7,379,585
Total comprehensive income	**$ 28,187,897**	$ 22,629,709

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

North American Development Bank

Consolidated Statement of Changes in Equity

	Paid-In Capital	General Reserve: Allocated Paid-In Capital	General Reserve: Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest	Total Equity
Beginning balance, January 1, 2015	$ 405,000,000	$ 4,337,076	$ 136,735,907	$ (194,018)	$ 6,005	$ 545,884,970
Transfer to Targeted Grant Program of the U.S. Domestic Program	–	(1,309,820)	–	–	–	(1,309,820)
Net income	–	–	15,250,124	–	–	15,250,124
Other comprehensive loss	–	–	–	7,379,585	–	7,379,585
Non-controlling interest	–	–	–	–	(242)	(242)
Ending balance, December 31, 2015	405,000,000	3,027,256	151,986,031	7,185,567	5,763	567,204,617
Capital contribution	**10,000,000**	**–**	**–**	**–**	**–**	**10,000,000**
Transfer to Targeted Grant Program of the U.S. Domestic Program	**–**	**(566,466)**	**–**	**–**	**–**	**(566,466)**
Net income	**–**	**–**	**19,406,186**	**–**	**–**	**19,406,186**
Other comprehensive income	**–**	**–**	**–**	**8,781,711**	**–**	**8,781,711**
Non-controlling interest	**–**	**–**	**–**	**–**	**(142)**	**(142)**
Ending balance, December 31, 2016	**$ 415,000,000**	**$ 2,460,790**	**$ 171,392,217**	**$ 15,967,278**	**$ 5,621**	**$ 604,825,906**

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

North American Development Bank

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2016	2015
Operating activities		
Net income	**$ 19,406,186**	$ 15,250,124
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	**137,153**	76,409
Amortization of net premium (discounts) on investments	**907,746**	1,618,069
Change in fair value of swaps, hedged items and other non-cash items	**68,912,405**	43,358,596
Non-controlling interest	**(142)**	(242)
Gain on sales of available-for-sale investment securities, net	**(137,177)**	(39,995)
Provision for loan losses	**5,133,737**	8,559,254
Change in other assets and liabilities:		
Increase in interest receivable	**(15,580,285)**	(768,416)
(Increase) decrease in receivable and other assets	**(4,813,027)**	2,081,279
Increase in accounts payable	**5,643,003**	746,878
Increase in accrued liabilities	**91,427**	57,795
Increase in accrued interest payable	**7,514,503**	684,724
Net cash provided by operating activities	**87,215,529**	71,624,475
Lending, investing, and development activities		
Capital expenditures	**(342,452)**	(156,100)
Loan principal repayments	**49,762,528**	110,630,097
Loan disbursements	**(136,252,752)**	(249,555,763)
Purchase of held-to-maturity investments	**(2,261,000)**	(2,292,397)
Purchase of available-for-sale investments	**(240,224,271)**	(257,306,015)
Proceeds from maturities of held-to-maturity investments	**2,235,000**	2,250,000
Proceeds from sales and maturities of available-for-sale investments	**270,221,619**	222,045,417
Net cash used in lending, investing, and development activities	**(56,861,328)**	(174,384,761)
Financing activities		
Capital contribution	**10,000,000**	–
Proceeds from other borrowings	**2,216,528**	4,521,469
Proceeds from note issuance	**–**	129,503,444
Principal repayment of other borrowings	**(5,262,000)**	(2,631,000)
Grant funds from the Environmental Protection Agency (EPA)	**10,650,006**	9,633,948
Grant disbursements – EPA	**(10,644,678)**	(9,633,948)
Grant activity – U.S. Domestic Program	**(566,466)**	(1,309,820)
Net cash provided by financing activities	**6,393,390**	130,084,093
Net increase in cash and cash equivalents	**36,747,591**	27,323,807
Cash and cash equivalents at January 1, 2016 and 2015	**114,979,878**	87,656,071
Cash and cash equivalents at December 31, 2016 and 2015	**$ 151,727,469**	$ 114,979,878
Supplemental cash information		
Cash paid during the year for interest	**$ 30,730,491**	$ 30,439,744
Significant noncash transactions		
Foreign currency translation adjustment	**$ (11,580,208)**	$ (11,501,378)
Change in fair value of cross-currency interest rate swaps, net	**20,324,726**	19,117,644
Change in fair value of available-for-sales investments, net	**(121,696)**	(384,574)

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

1. Organization and Purpose

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

The Bank is governed by a Board of Directors appointed by the two countries. The operations of the Bank are subject to certain limitations outlined in the Charter, as amended on August 6, 2004. The geographic jurisdiction of the International Program is within 100 kilometers north of the U.S.-Mexico border and within 300 kilometers south of the border. The Bank is located in San Antonio, Texas.

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

On June 2, 1998, the Board of Directors adopted a resolution authorizing the Bank to establish a limited-purpose financial institution (*sociedad financiera de objeto limitado*, SOFOL) for the purpose of facilitating Bank lending to the Mexican public sector. In January 1999, the *Corporación Financiera de América del Norte, S.A. de C.V. SOFOL* (COFIDAN) began operations in Mexico City and, in October 2006, COFIDAN was converted from a SOFOL to a non-regulated, multipurpose financial institution (SOFOM, E.N.R.), and its name was modified to *Corporación Financiera de América del Norte, S.A. de C.V. SOFOM E.N.R.* As of December 31, 2016, COFIDAN is 99.90% owned by the Bank and 0.10% owned by the Government of Mexico. The accounts of COFIDAN are consolidated with the Bank, and all material intercompany accounts and transactions are eliminated in consolidation. The non-controlling interest reflected in the consolidated balance sheets and consolidated statements of income represents the ownership of the Government of Mexico through the Ministry of Finance and Public Credit (SHCP).

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates in Financial Statements

The financial statements have been prepared in conformity with U.S. generally accepted accounting principles and are presented in a manner consistent with that of an international organization. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. These estimates include the valuation of investments, allowance for loan losses, the fair value of derivative instruments and other real estate owned included in other assets, and the fair value of derivative instruments included in other liabilities and in long-term debt. Actual results could differ from those estimates.

Principles of Consolidation

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

Cash and Cash Equivalents

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

Repurchase Agreements

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

Investment Securities

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

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

2. Summary of Significant Accounting Policies (continued)

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

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

The accretion of discounts and the amortization of premiums are computed using the interest method. Realized gains and losses are determined using the specific identification method. Investments in a loss position are reviewed in order to determine whether the unrealized loss, which is considered an impairment, is temporary or other-than-temporary. In the event of other-than-temporary impairment, the cost basis of the investment would be written down to its fair value, and the credit component of the loss would be included in current earnings. The Bank had no securities classified as other-than-temporarily impaired as of December 31, 2016 and 2015.

Taxation

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

Furniture, Equipment, and Leasehold Improvements

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

General Reserve

The Board of Directors defines the General Reserve as retained earnings plus allocated paid-in capital for the U.S. Domestic Program, as described in Note 8. Retained earnings are classified as either designated for a specific program, reserved, or undesignated. Undesignated retained

2. Summary of Significant Accounting Policies (continued)

earnings in excess of one percent (1.0%) of total assets of the International Program are used to fund four reserves in the following order of priority:

> *Debt Service Reserve* – This reserve is maintained in an amount equal to 12 months of interest due on the Bank's outstanding debt at each fiscal year-end.
>
> *Operating Expenses Reserve* – This reserve is maintained in an amount equal to 12 months of the operating budget expenses at each fiscal year-end.
>
> *Special Reserve* – This reserve is maintained in an amount equal to the sum of: 1% of undisbursed loan commitments, 3% of the outstanding balance of disbursed loans and 3% of the outstanding balance of guaranties, less the general allowance for loan losses, with a targeted minimum of $30 million. Amounts in the Special Reserve are to be used to pay costs associated with the enforcement of the Bank's rights under its loan and guaranty agreements and to offset losses on any loan or guaranty.
>
> *Capital Preservation Reserve* – This reserve is intended to maintain the value of the paid-in capital in real terms and is indexed to the U.S. annual inflation rate.

Loans and Allowance for Loan Losses

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

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

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

2. Summary of Significant Accounting Policies (continued)

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

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

The allowance for loan losses is a valuation account used to reasonably estimate loan losses incurred as of the financial statement date. Determining the appropriate allowance for loan losses involves significant judgment about when a loss has been incurred and the amount of that loss. A specific allowance is established for impaired loans that exhibit a distinct possibility 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. In 2013, under the International Program, a general allowance for loans to private-sector borrowers was established based on statistical cumulative default and recovery rates for project finance loans. In 2016, the general allowance methodology was expanded to include public and public-private borrowers.

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

2. Summary of Significant Accounting Policies (continued)

Credit Quality

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

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

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

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

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

Program Activities

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

2. Summary of Significant Accounting Policies (continued)

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

Foreign Currency

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

The lending activities of the Bank include making loans that are denominated in Mexican pesos. For such loans, the Bank enters into cross-currency interest rate swaps that mitigate its exposure to fluctuations in foreign currency exchange rates and interest rates. As of December 31, 2016, the Bank had entered into swap counterparty agreements with *Fondo de Apoyo a Estados y Municipios* (FOAEM), a fund owned by the Government of Mexico and administered by the federally run development bank, *Banco Nacional de Obras y Servicios Publicos, S.N.C.* (Banobras); directly with Banobras outside the FOAEM arrangement; and with six other financial institutions. The foreign currency translation adjustment on loans denominated in Mexican pesos as of December 31, 2016 and 2015 was $(55,027,169) and $(43,446,961), respectively. Changes in the foreign currency translation adjustment are reported through other comprehensive income.

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

The Bank discontinues hedge accounting prospectively if it determines that the derivative is no longer highly effective in offsetting changes in the fair value or cash flows of the hedged item, or if it is no longer probable that the hedged loan repayment will occur. If hedge accounting is

2. Summary of Significant Accounting Policies (continued)

discontinued because the hedge ceases to be effective, the Bank will continue to record the swap at fair value with changes in value reflected in earnings for the period, and any fair value adjustments included in other comprehensive income will be recognized in the consolidated statements of income over the remaining life of the loan. If it is probable that the hedged loan repayments will not occur, gains and losses accumulated in other comprehensive income (loss) are recognized immediately in earnings.

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

Fair Value

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Bank carries cross-currency interest rate swaps, interest rate swaps, hedged items, and available-for-sale debt securities at fair value. To determine the fair market value of its financial instruments, the Bank uses the fair value hierarchy, which is based on three levels of inputs as follows:

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

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

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant in determining the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash

2. Summary of Significant Accounting Policies (continued)

flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category includes cross-currency interest rate swaps, interest rate swaps, the fair value of hedged items, and other real estate owned where independent pricing information is not available for a significant portion of the underlying assets. For these consolidated financial statements, the Bank also obtains dealer quotations for comparative purposes to assess the reasonableness of the pricing models.

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

Accumulated Other Comprehensive Income

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

Reclassifications

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

In 2016, the Bank adopted ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-30) – Simplifying the Presentation of Debt Issuance Costs.* ASU 2015-03 requires that debt issuance costs related to a debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The consolidated balance sheet as of December 31, 2015 reflects a $4,285,143 decrease in other assets and a $4,285,143 decrease in long-term debt, net of discount and unamortized debt issuance costs.

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, 2016 and 2015.

	Amortized	Gross Unrealized		Fair
	Cost	Gains	Losses	Value
December 31, 2016				
Held-to-maturity:				
U.S. agency securities	**$ 3,868,082**	**$ 3,857**	**$ (23,507)**	**$ 3,848,432**
Mexican government securities (UMS)	**49,914,073**	**3,760,927**	**–**	**53,675,000**
Total held-to-maturity investment securities	**53,782,155**	**3,764,784**	**(23,507)**	**57,523,432**
Available-for-sale:				
U.S. government securities	**117,552,445**	**73,113**	**(299,703)**	**117,325,855**
U.S. agency securities	**62,587,782**	**176,961**	**(232,308)**	**62,532,435**
Corporate debt securities	**80,420,243**	**110,155**	**(240,116)**	**80,290,282**
Other fixed-income securities	**34,887,582**	**4,217**	**(34,100)**	**34,857,699**
Mexican government securities (UMS)	**11,661,736**	**4,957**	**(110,738)**	**11,555,955**
Mortgage-backed securities	**–**	**–**	**–**	**–**
Total available-for-sale investment securities	**307,109,788**	**369,403**	**(916,965)**	**306,562,226**
Total investment securities	**$ 360,891,943**	**$ 4,134,187**	**$ (940,472)**	**$ 364,085,658**

3. Investments (continued)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2015				
Held-to-maturity:				
U.S. agency securities	$ 3,842,082	$ 1,188	$ (6,178)	$ 3,837,092
Mexican government securities (UMS)	49,888,671	4,611,329	–	54,500,000
Total held-to-maturity investment securities	53,730,753	4,612,517	(6,178)	58,337,092
Available-for-sale:				
U.S. government securities	134,578,402	35,197	(193,458)	134,420,141
U.S. agency securities	71,593,623	109,503	(108,783)	71,594,343
Corporate debt securities	86,571,067	71,599	(228,745)	86,413,921
Other fixed-income securities	31,410,892	19,308	(25,880)	31,404,320
Mexican government securities (UMS)	13,741,982	–	(104,682)	13,637,300
Mortgage-backed securities	7,141	75	–	7,216
Total available-for-sale investment securities	337,903,107	235,682	(661,548)	337,477,241
Total investment securities	$ 391,633,860	$ 4,848,199	$ (667,726)	$ 395,814,333

3. Investments (continued)

The following schedule summarizes unrealized losses and the fair value of investments aggregated by category and the length of time individual securities have been in a continuous unrealized loss position as of December 31, 2016 and 2015.

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2016						
Held-to-maturity:						
U.S. agency securities	**$ 2,767,178**	**$ 23,507**	**$ –**	**$ –**	**$ 2,767,178**	**$ 23,507**
Available-for-sale:						
U.S. government securities	**59,557,510**	**299,703**	**–**	**–**	**59,557,510**	**299,703**
U.S. agency securities	**19,363,071**	**232,308**	**–**	**–**	**19,363,071**	**232,308**
Corporate debt securities	**42,222,042**	**240,116**	**–**	**–**	**42,222,042**	**240,116**
Other fixed-income securities	**19,571,379**	**34,100**	**–**	**–**	**19,571,379**	**34,100**
Mexican government securities (UMS)	**7,817,425**	**110,738**	**–**	**–**	**7,817,425**	**110,738**
Total available-for-sale investment securities	**148,531,427**	**916,965**	**–**	**–**	**148,531,427**	**916,965**
Total temporarily impaired securities	**$ 151,298,605**	**$ 940,472**	**$ –**	**$ –**	**$ 151,298,605**	**$ 940,472**
December 31, 2015						
Held-to-maturity:						
U.S. agency securities	$ 1,528,507	$ 6,178	$ –	$ –	$ 1,528,507	$ 6,178
Available-for-sale:						
U.S. government securities	120,167,738	193,457	–	–	120,167,738	193,457
U.S. agency securities	44,930,182	108,784	–	–	44,930,182	108,784
Corporate debt securities	56,118,940	228,745	–	–	56,118,940	228,745
Other fixed-income securities	24,132,655	25,880	–	–	24,132,655	25,880
Mexican government securities (UMS)	13,637,300	104,682	–	–	13,637,300	104,682
Total available-for-sale investment securities	258,986,815	661,548	–	–	258,986,815	661,548
Total temporarily impaired securities	$ 260,515,322	$ 667,726	$ –	$ –	$ 260,515,322	$ 667,726

3. Investments (continued)

None of the unrealized losses identified in the preceding table are considered to be other-than-temporary since, as of December 31, 2016, the Bank did not have the intent to sell any of these securities and believed that it was more-likely-than-not that the Bank would not be required to sell any such securities before a recovery of cost.

Contractual maturities of investments as of December 31, 2016 and 2015 are summarized in the following tables.

	Held-to-Maturity Securities		**Available-for-Sale Securities**	
	Fair Value	**Amortized Cost**	**Fair Value**	**Amortized Cost**
December 31, 2016				
Less than 1 year	**$ 973,654**	**$ 974,685**	**$ 169,910,035**	**$ 169,947,758**
1–5 years	**56,549,778**	**52,807,470**	**136,652,191**	**137,162,030**
5–10 years	**–**	**–**	**–**	**–**
More than 10 years	**–**	**–**	**–**	**–**
Mortgage-backed securities	**–**	**–**	**–**	**–**
	$ 57,523,432	**$ 53,782,155**	**$ 306,562,226**	**$ 307,109,788**
December 31, 2015				
Less than 1 year	$ 575,057	$ 575,000	$ 187,802,072	$ 187,898,629
1–5 years	57,762,035	53,155,753	147,637,953	147,916,989
5–10 years	–	–	2,030,000	2,080,348
More than 10 years	–	–	–	–
Mortgage-backed securities	–	–	7,216	7,141
	$ 58,337,092	$ 53,730,753	$ 337,477,241	$ 337,903,107

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

3. Investments (continued)

The following table summarizes sale, call, and maturity activity of investment securities for the years ended December 31, 2016 and 2015.

	Year Ended December 31, 2016	2015
Held-to-maturity investment securities:		
Proceeds from maturities	**$ 2,235,000**	$ 2,250,000
Available-for-sale investment securities:		
Proceeds from sales and maturities	**270,221,619**	222,045,417
Gross realized gains	**137,290**	150,969
Gross realized losses	**113**	110,974

The following table sets forth the net unrealized gains (losses) on securities available-for-sale and the reclassification adjustments required for the years ended December 31, 2016 and 2015.

	2016	2015
Net unrealized losses on investment securities available-for-sale, beginning of year	**$ (425,866)**	$ (41,291)
Net unrealized gains (losses) on investment securities available-for-sale, arising during the year	**15,481**	(344,580)
Reclassification adjustments for net gains on investment securities available-for-sale included in net income	**(137,177)**	(39,995)
Net unrealized losses on investment securities available-for-sale, end of year	**$ (547,562)**	$ (425,866)

4. Loans

The following schedule summarizes loans outstanding as of December 31, 2016 and 2015.

	International Program	U.S. Domestic Program	Total
December 31, 2016			
Loan balance	**$ 1,411,295,846**	**$ 329,827**	**$ 1,411,625,673**
Allowance for loan losses:			
General	**(25,052,471)**	**(23,188)**	**(25,075,659)**
Specific	**–**	**–**	**–**
Unamortized loan fees	**(10,682,210)**	**–**	**(10,682,210)**
Foreign currency exchange rate adjustment	**(55,027,169)**	**–**	**(55,027,169)**
Fair value of hedged items	**(151,854,451)**	**–**	**(151,854,451)**
Net loans outstanding	**$ 1,168,679,545**	**$ 306,639**	**$ 1,168,986,184**
December 31, 2015			
Loan balance	$ 1,324,777,048	$ 358,401	$ 1,325,135,449
Allowance for loan losses:			
General	(19,918,734)	(23,188)	(19,941,922)
Specific	–	–	–
Unamortized loan fees	(9,661,632)	–	(9,661,632)
Foreign currency exchange rate adjustment	(43,446,961)	–	(43,446,961)
Fair value of hedged items	(51,606,468)	–	(51,606,468)
Net loans outstanding	$ 1,200,143,253	$ 335,213	$ 1,200,478,466

At December 31, 2016 and 2015, the International Program had outstanding loan commitments on signed loan agreements totaling $58,518,271 and $51,817,048, respectively. At those same dates, the U.S. Domestic Program did not have any outstanding loan commitments on signed loan agreements. The International Program also had loan agreements under development for an additional $159,191,105 as of December 31, 2016.

The Bank under certain circumstances offered below-market-rate loans. As of December 31, 2016 and 2015, the Bank had below-market-rate loans outstanding for the International Program of $39,675,001 and $43,173,661, respectively. At December 31, 2016 and 2015, the U.S. Domestic Program did not have any below-market-rate loans.

4. Loans (continued)

The following table presents the loan portfolio by sector as of December 31, 2016 and 2015.

	December 31, 2016	December 31, 2015
International Program:		
Air quality	**$ 103,691,911**	$ 110,702,431
Basic urban infrastructure	**36,380,546**	36,853,882
Clean energy:		
Solar	**291,532,300**	302,531,030
Wind	**707,220,750**	618,587,633
Other	**4,823,929**	4,225,910
Public transportation	**31,865,601**	3,687,700
Storm drainage	**56,250,755**	59,561,462
Water and wastewater	**172,141,854**	181,210,270
Water conservation	**7,388,200**	7,416,730
Total International Program	**1,411,295,846**	1,324,777,048
U.S. Domestic Program	**329,827**	358,401
	$ 1,411,625,673	$ 1,325,135,449

4. Loans (continued)

The following table presents the loan portfolio by risk category as of December 31, 2016 and 2015. These risk categories are defined in Note 2, along with additional information on how the Bank evaluates credit quality.

	December 31, 2016	December 31, 2015
International Program		
Pass	**$ 1,394,063,313**	$ 1,324,777,048
Special Mention	**–**	–
Substandard	**17,232,533**	–
Doubtful	**–**	–
Total International Program	**1,411,295,846**	1,324,777,048
U.S. Domestic Program		
Pass	**–**	–
Special Mention	**329,827**	358,401
Substandard	**–**	–
Doubtful	**–**	–
Total U.S. Domestic Program	**329,827**	358,401
	$ 1,411,625,673	$ 1,325,135,449

There were no loans under the International Program on nonaccrual as of December 31, 2016 and 2015. The average impaired loan balance for the years ended December 31, 2016 and 2015 totaled $0 and $1,974,930, respectively. No interest income was recognized on the impaired loan for the year ended December 31, 2015. As of December 31, 2016 and 2015, the Bank had collateral from foreclosed loans reported as other assets of $2,978,307 and $4,786,389, respectively.

Under the U.S. Domestic Program, there was one loan on non-accrual as of December 31, 2016 with an outstanding balance of $329,827, and no loans on non-accrual as of December 31, 2015. The average impaired loan balance for the years ended December 31, 2016 and 2015 total $343,043 and $0, respectively. Interest income of $3,378 was recognized on the impaired loan for the year ended December 31, 2016.

4. Loans (continued)

An age analysis of past-due loans, including both accruing and non-accruing loans, as of December 31, 2016 and 2015, is shown in the following table.

	Loans 30–89 Days Past Due	Loans 90 or More Days Past Due	Total Past-due Loans
December 31, 2016			
International Program	**$ –**	**$ –**	**$ –**
U.S. Domestic Program	**–**	**329,827**	**329,827**
	$ –	**$ 329,827**	**$ 329,827**
December 31, 2015			
International Program	$ –	$ –	$ –
U.S. Domestic Program	–	358,401	358,401
	$ –	$ 358,401	$ 358,401

There were no loans past due 90 or more days accruing interest as of December 31, 2016 and 2015.

4. Loans (continued)

The following table summarizes the allowance for loan losses by classification as of December 31, 2016 and 2015.

	Allowance for Loan Losses			
	General Allowance	Specific Allowance	Total	Total Loans Outstanding
December 31, 2016				
International Program:				
Private:				
Construction	**$ 10,417,904**	**$ –**	**$ 10,417,904**	**$ 226,218,309**
Operation	**12,741,894**	**–**	**12,741,894**	**806,542,895**
Public	**1,441,539**	**–**	**1,441,539**	**288,307,752**
Public-private	**451,134**	**–**	**451,134**	**90,226,890**
Total International Program	**25,052,471**	**–**	**25,052,471**	**1,411,295,846**
U.S. Domestic Program	**23,188**	**–**	**23,188**	**329,827**
	$ 25,075,659	**$ –**	**$ 25,075,659**	**$ 1,411,625,673**
December 31, 2015				
International Program:				
Private:				
Construction	$ 10,300,322	$ –	$ 10,300,322	$ 258,088,762
Operation	9,618,412	–	9,618,412	669,139,482
Public	–	–	–	305,588,205
Public-private	–	–	–	91,960,599
Total International Program	19,918,734	–	19,918,734	1,324,777,048
U.S. Domestic Program	23,188	–	23,188	358,401
	$ 19,941,922	$ –	$ 19,941,922	$ 1,325,135,449

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

4. Loans (continued)

The following schedule summarizes the allowance for loan losses for the years ended December 31, 2016 and 2015.

	Allowance for Loan Losses				
	Beginning Balance	Loan Loss Provisions: Specific	Loan Loss Provisions: General	Loan (Charge-offs) Recoveries	Ending Balance
December 31, 2016					
International Program:					
Private:					
Construction	**$ 10,300,322**	**$ –**	**$ 117,582**	**$ –**	**$ 10,417,904**
Operation	**9,618,412**	**–**	**3,123,482**	**–**	**12,741,894**
Public	**–**	**–**	**1,441,539**	**–**	**1,441,539**
Public-private	**–**	**–**	**451,134**	**–**	**451,134**
Total International Program	**19,918,734**	**–**	**5,133,737**	**–**	**25,052,471**
U.S. Domestic Program	**23,188**	**–**	**–**	**–**	**23,188**
	$ 19,941,922	**$ –**	**$ 5,133,737**	**$ –**	**$ 25,075,659**
December 31, 2015					
International Program:					
Private:					
Construction	$ 5,528,110	$ –	$ 4,772,212	$ –	$ 10,300,322
Operation	5,827,518	–	3,790,894	–	9,618,412
Public	–	–	(3,852)	3,852	–
Public-private	–	–	–	–	–
Total International Program	11,355,628	–	8,559,254	3,852	19,918,734
U.S. Domestic Program	23,188	–	–	–	23,188
	$ 11,378,816	$ –	$ 8,559,254	$ 3,852	$ 19,941,922

5. Other Assets and Other Liabilities

The following table presents the gross and net balances of other assets and other liabilities, including the result of master netting arrangements for derivatives with certain swap counterparties, at December 31, 2016 and 2015.

	Gross Amount	Master Netting Arrangements	Net Amount
December 31, 2016			
Other assets			
Cross-currency interest rate swaps	**$ 255,338,489**	**$ (27,619,486)**	**$ 227,719,003**
Interest rate swaps	**12,513,231**	**(8,447,465)**	**4,065,766**
Collateral from swap counterparties	**(135,490,000)**	**–**	**(135,490,000)**
Credit valuation adjustment for swaps	**(1,243,752)**	**–**	**(1,243,752)**
Other real estate owned	**2,978,307**	**–**	**2,978,307**
Total other assets	**$ 134,096,275**	**$ (36,066,951)**	**$ 98,029,324**
Other liabilities			
Cross-currency interest rate swaps	**$ –**	**$ –**	**$ –**
Interest rate swaps	**–**	**–**	**–**
Total other liabilities	**$ –**	**$ –**	**$ –**
December 31, 2015			
Other assets			
Cross-currency interest rate swaps	$ 136,668,543	$ (29,973,461)	$ 106,695,082
Interest rate swaps	17,780,265	(2,053,020)	15,727,245
Collateral from swap counterparties	(67,600,000)	–	(67,600,000)
Credit valuation adjustment for swaps	(504,961)	–	(504,961)
Other real estate owned	4,786,389	–	4,786,389
Total other assets	$ 91,130,236	$ (32,026,481)	$ 59,103,755
Other liabilities			
Cross-currency interest rate swaps	$ 2,395,365	$ –	$ 2,395,365
Interest rate swaps	3,815,603	–	3,815,603
Total other liabilities	$ 6,210,968	$ –	$ 6,210,968

6. Debt

The following table summarizes the notes payable and other borrowings as of December 31, 2016 and 2015.

			December 31, 2016				
Issue Date	Maturity Date	Fixed Rate	Principal Amount	Unamortized Premium/ (Discount)	Unamortized Debt Issuance Costs	Fair Value of Hedged Items	Net Debt
Notes Payable							
USD Issuance							
02/11/10	02/11/20	4.375%	**$ 250,000,000**	**$ (203,000)**	**$ (502,811)**	**$ 11,844,826**	**$ 261,139,015**
10/26/12	10/26/22	2.400	**250,000,000**	**(500,472)**	**(865,430)**	**(3,429,048)**	**245,205,050**
12/17/12	10/26/22	2.400	**180,000,000**	**(2,202,230)**	**(548,185)**	**(4,130,413)**	**173,119,172**
12/17/12	12/17/30	3.300	**50,000,000**	**–**	**(239,978)**	**(888,004)**	**48,872,018**
10/10/13	10/10/18	2.300	**300,000,000**	**(400,402)**	**(595,962)**	**668,405**	**299,672,041**
CHF Issuance							
04/30/15	04/30/25	0.250	**128,706,754**	**666,880**	**(692,235)**	**(1,134,218)**	**127,547,181**
Total Notes Payable			**1,158,706,754**	**(2,639,224)**	**(3,444,601)**	**2,931,548**	**1,155,554,477**
Other Borrowings							
08/15/13	06/30/17	1.900	**2,631,000**	**–**	**–**	**–**	**2,631,000**
08/15/13	12/30/17	1.900	**2,631,000**	**–**	**–**	**–**	**2,631,000**
08/15/13	06/30/18	1.900	**2,631,000**	**–**	**–**	**–**	**2,631,000**
08/15/13	12/30/18	1.900	**600,467**	**–**	**–**	**–**	**600,467**
04/11/14	12/30/18	1.900	**2,030,533**	**–**	**–**	**–**	**2,030,533**
04/11/14	06/30/19	1.900	**2,631,000**	**–**	**–**	**–**	**2,631,000**
04/11/14	12/30/19	1.900	**2,632,000**	**–**	**–**	**–**	**2,632,000**
04/11/14	06/30/20	1.900	**526,785**	**–**	**–**	**–**	**526,785**
08/14/14	06/30/20	1.900	**2,105,215**	**–**	**–**	**–**	**2,105,215**
08/14/14	12/30/20	1.900	**2,632,000**	**–**	**–**	**–**	**2,632,000**
08/14/14	06/30/21	1.900	**1,008,985**	**–**	**–**	**–**	**1,008,985**
02/13/15	06/30/21	1.900	**1,623,015**	**–**	**–**	**–**	**1,623,015**
02/13/15	12/30/21	1.900	**1,470,635**	**–**	**–**	**–**	**1,470,635**
07/29/15	12/30/21	1.900	**1,161,365**	**–**	**–**	**–**	**1,161,365**
07/29/15	06/30/22	1.900	**266,455**	**–**	**–**	**–**	**266,455**
09/16/16	06/30/22	1.900	**2,216,528**	**–**	**–**	**–**	**2,216,528**
Total Other Borrowings			**28,797,983**	**–**	**–**	**–**	**28,797,983**
			$ 1,187,504,737	**$ (2,639,224)**	**$ (3,444,601)**	**$ 2,931,548**	**$1,184,352,460**

6. Debt (continued)

			December 31, 2015				
Issue Date	Maturity Date	Fixed Rate	Principal Amount	Unamortized Premium/ (Discount)	Unamortized Debt Issuance Costs	Fair Value of Hedged Items	Net Debt
Notes Payable							
USD Issuance							
02/11/10	02/11/20	4.375%	$ 250,000,000	$ (268,250)	$ (664,429)	$ 16,479,919	$ 265,547,240
10/26/12	10/26/22	2.400	250,000,000	(586,472)	(1,014,144)	(1,949,072)	246,450,312
12/17/12	10/26/22	2.400	180,000,000	(2,580,656)	(642,384)	(3,344,004)	173,432,956
12/17/12	12/17/30	3.300	50,000,000	–	(257,167)	(575,548)	49,167,285
10/10/13	10/10/18	2.300	300,000,000	(459,503)	(931,716)	1,300,346	299,909,127
CHF Issuance							
04/30/15	04/30/25	0.250	128,706,754	743,365	(775,303)	(1,731,555)	126,943,261
Total Notes Payable			1,158,706,754	(3,151,516)	(4,285,143)	10,180,086	1,161,450,181
Other Borrowings							
03/07/13	06/30/16	1.900	1,653,972	–	–	–	1,653,972
08/15/13	06/30/16	1.900	977,028	–	–	–	977,028
08/15/13	12/30/16	1.900	2,631,000	–	–	–	2,631,000
08/15/13	06/30/17	1.900	2,631,000	–	–	–	2,631,000
08/15/13	12/30/17	1.900	2,631,000	–	–	–	2,631,000
08/15/13	06/30/18	1.900	2,631,000	–	–	–	2,631,000
08/15/13	12/30/18	1.900	600,467	–	–	–	600,467
04/11/14	12/30/18	1.900	2,030,533	–	–	–	2,030,533
04/11/14	06/30/19	1.900	2,631,000	–	–	–	2,631,000
04/11/14	12/30/19	1.900	2,632,000	–	–	–	2,632,000
04/11/14	06/30/20	1.900	526,785	–	–	–	526,785
08/14/14	06/30/20	1.900	2,105,215	–	–	–	2,105,215
08/14/14	12/30/20	1.900	2,632,000	–	–	–	2,632,000
08/14/14	06/30/21	1.900	1,008,985	–	–	–	1,008,985
02/13/15	06/30/21	1.900	1,623,015	–	–	–	1,623,015
02/13/15	12/30/21	1.900	1,470,635	–	–	–	1,470,635
07/29/15	12/30/21	1.900	1,161,365	–	–	–	1,161,365
07/29/15	06/30/22	1.900	266,455	–	–	–	266,455
Total Other Borrowings			31,843,455	–	–	–	31,843,455
			$ 1,190,550,209	$ (3,151,516)	$ (4,285,143)	$ 10,180,086	$1,193,293,636

6. Debt (continued)

Notes Payable

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

The fair value of the hedges relating to interest rate swaps on a portion of the notes payable was reported at December 31, 2016 as other assets of $4,065,766 and other liabilities of $0 and at December 31, 2015 as other assets of $15,727,245 and other liabilities of $3,815,603. 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, 2016 as other assets of ($2,309,109) and at December 31, 2015 as other liabilities of $2,395,365. For additional information on the fair value of financial instruments and derivatives, see Notes 11 and 12.

Other Borrowings

On November 8, 2012, the Bank signed a loan commitment with another development bank to borrow up to $50 million to fund eligible projects in Mexico. This loan amortizes semiannually, with the first principal payment paid on December 30, 2015 and final principal payment due on December 30, 2024. As of December 31, 2016 and 2015, the outstanding balance was $28,797,983 and $31,843,455, respectively.

The following table summarizes the maturities of the notes payable and other borrowings as of December 31, 2016 and 2015.

	December 31, 2016	December 31, 2015
Less than 1 year	**$ 5,262,000**	$ 5,262,000
1–2 years	**305,262,000**	5,262,000
2–3 years	**5,263,000**	305,262,000
3–4 years	**255,264,000**	5,263,000
4–5 years	**5,264,000**	255,264,000
5–10 years	**561,189,737**	564,237,209
More than 10 years	**50,000,000**	50,000,000
Total	**$ 1,187,504,737**	$ 1,190,550,209

6. Debt (continued)

The following table summarizes the short-term and long-term debt as of December 31, 2016 and 2015.

	December 31, 2016	December 31, 2015
Short-term debt:		
Notes payable	**$ –**	$ –
Other borrowings	**5,262,000**	5,262,000
Total short-term debt	**5,262,000**	5,262,000
Long-term debt:		
Notes payable	**1,158,706,754**	1,158,706,754
Other borrowings	**23,535,983**	26,581,455
Total long-term debt	**1,182,242,737**	1,185,288,209
Total debt	**$ 1,187,504,737**	$ 1,190,550,209

7. Equity

Subscribed Capital

At December 31, 2016 and 2015, the Bank had authorized and subscribed 600,000 and 300,000 shares of capital stock, respectively, with a par value of $10,000 per share. As defined in the Charter, capital includes unqualified and qualified subscribed shares. Unqualified subscribed shares have either been funded or authorized for purchase by the subscribing country. Capital is further classified as callable or paid-in capital at December 31, 2016 and 2015 as follows.

	Mexico		United States		Total	
	Shares	Dollars	Shares	Dollars	Shares	Dollars
December 31, 2016						
Subscribed capital	300,000	$ 3,000,000,000	300,000	$ 3,000,000,000	600,000	$6,000,000,000
Less:						
Qualified callable capital	(121,833.3333)	(1,218,333,333)	(127,500)	(1,275,000,000)	(249,333.3333)	(2,493,333,333)
Unqualified callable capital	(133,166.6667)	(1,331,666,667)	(127,500)	(1,275,000,000)	(260,666.6667)	(2,606,666,667)
Qualified paid-in capital	(21,500)	(215,000,000)	(22,500)	(225,000,000)	(44,000)	(440,000,000)
Total funded paid-in capital	23,500	235,000,000	22,500	225,000,000	46,000	460,000,000
Less transfer to General Reserve for Domestic Programs	–	(22,500,000)	–	(22,500,000)	–	(45,000,000)
Total paid-in capital	23,500	$ 212,500,000	22,500	$ 202,500,000	46,000	$ 415,000,000
December 31, 2015						
Subscribed capital	150,000	$ 1,500,000,000	150,000	$ 1,500,000,000	300,000	$3,000,000,000
Less callable capital	(127,500)	(1,275,000,000)	(127,500)	(1,275,000,000)	(255,000)	(2,550,000,000)
Total funded paid-in capital	22,500	225,000,000	22,500	225,000,000	45,000	450,000,000
Less transfer to General Reserve for Domestic Programs	–	(22,500,000)	–	(22,500,000)	–	(45,000,000)
Total paid-in capital	22,500	$ 202,500,000	22,500	$ 202,500,000	45,000	$ 405,000,000

7. Equity (continued)

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

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

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

7. Equity (continued)

Retained Earnings

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

	December 31, 2016	December 31, 2015
Designated retained earnings		
International Program:		
Water Conservation Investment Fund (WCIF)	**$ 918,920**	$ 1,039,728
Technical Assistance Program (TAP)	**3,728,057**	4,055,139
Community Assistance Program (CAP)	**8,811,470**	9,241,103
Total International Program	**13,458,447**	14,335,970
U.S. Domestic Program	**(1,678,313)**	(1,415,178)
Total designated retained earnings	**11,780,134**	12,920,792
Reserved retained earnings		
International Program:		
Debt Service Reserve	**30,800,868**	24,609,470
Operating Expenses Reserve	**13,372,300**	10,396,093
Special Reserve	**30,000,000**	30,000,000
Capital Preservation Reserve	**40,370,311**	34,654,799
Total International Program	**114,543,479**	99,660,362
U.S. Domestic Program:		
Special Reserve	**9,895**	10,752
Total reserved retained earnings	**114,553,374**	99,671,114
Undesignated retained earnings		
International Program	**45,058,709**	39,394,125
Total undesignated retained earnings	**45,058,709**	39,394,125
Total retained earnings	**$ 171,392,217**	$ 151,986,031
Retained earnings by program		
International Program	**$ 173,060,635**	$ 153,390,457
U.S. Domestic Program	**(1,668,418)**	(1,404,426)
Total retained earnings	**$ 171,392,217**	$ 151,986,031

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

7. Equity (continued)

Accumulated Other Comprehensive Income

The following table presents the changes in accumulated other comprehensive income (loss) for years ended December 31, 2016 and 2015.

	Beginning Balance	Period Activity	Ending Balance
December 31, 2016			
Unrealized loss on available-for-sale investment securities	**$ (425,865)**	**$ (121,696)**	**$ (547,561)**
Foreign currency translation adjustment	**214,219**	**158,889**	**373,108**
Unrealized gain (loss) on hedging activities:			
Foreign currency translation adjustment	**(43,446,961)**	**(11,580,208)**	**(55,027,169)**
Fair value of cross-currency interest rate swaps	**50,844,174**	**20,324,726**	**71,168,900**
Net unrealized gain on hedging activities	**7,397,213**	**8,744,518**	**16,141,731**
Total accumulated other comprehensive income	**$ 7,185,567**	**$ 8,781,711**	**$ 15,967,278**
December 31, 2015			
Unrealized loss on available-for-sale investment securities	$ (41,291)	$ (384,574)	$ (425,865)
Foreign currency translation adjustment	66,326	147,893	214,219
Unrealized gain (loss) on hedging activities:			
Foreign currency translation adjustment	(31,945,583)	(11,501,378)	(43,446,961)
Fair value of cross-currency interest rate swaps	31,726,530	19,117,644	50,844,174
Net unrealized gain (loss) on hedging activities	(219,053)	7,616,266	7,397,213
Total accumulated other comprehensive income (loss)	$ (194,018)	$ 7,379,585	$ 7,185,567

8. Domestic Programs

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

8. Domestic Programs (continued)

Mexico

The MOU with Mexico specified that 10% of the initial paid-in capital from its initial capital subscription and the related earnings be set aside for the community adjustment and investment program endorsed by Mexico. The Government of Mexico instituted its domestic program, titled *Programa Complementario de Apoyo a Comunidades y Empresas* (Mexican Domestic Program), through the offices of the SHCP. In June 1996, the SHCP entered into a mandate agreement with Banobras to receive and administer the funds allocated for this program. The Mexican Domestic Program funds were fully transferred to Mexico as of June 1999. Accordingly, the activities of the Mexican Domestic Program are not reflected as operations of the Bank.

United States

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

In accordance with the Charter and MOU with the United States, net assets of the Bank in the amounts of $792,372 and $1,622,830 were designated for the U.S. Domestic Program at December 31, 2016 and 2015, respectively. The revenue related to these amounts for the years ended December 31, 2016 and 2015 were $5,161 and $20,463, respectively. Additionally, expenses directly related to the operation of the U.S. Domestic Program of $268,461 and $285,955, are included in the operations of the Bank for the years ended December 31, 2016 and 2015, respectively. All expenses and disbursements are paid out of the U.S. Domestic Program funds. Deficit retained earnings on the U.S. Domestic Program capital funds as of December 31, 2016 and 2015 were $1,668,418 and $1,404,426, respectively. Under the U.S. Domestic Program, $513,695 in cash and cash equivalents was available for disbursement as of December 31, 2016.

In January 2009, the Finance Committee approved a Targeted Grant Program (TGP) to be funded with the remaining balance of the U.S. Domestic Program’s allocated paid-in capital. As of December 31, 2016 and 2015, the U.S. Domestic Program’s allocated paid-in capital totaled $2,460,790 and $3,027,256, respectively. For the years ended December 31, 2016 and 2015, $566,466 and $1,309,820, respectively, were disbursed through the TGP. These disbursements were reported as a deduction from allocated paid-in capital.

9. Program Activities

Program activities are comprised of the following:

	Year Ended December 31, 2016	2015
Program income:		
EPA grant	**$ 843,300**	$ 832,143
Total program income	**843,300**	832,143
Program expenses:		
EPA grant administration	**(843,300)**	(832,143)
Technical Assistance Program	**(537,557)**	(1,179,090)
Community Assistance Program	**(429,633)**	(1,436,053)
Water Conservation Investment Fund	**(120,808)**	(2,257,725)
Total program expenses	**(1,931,298)**	(5,705,011)
Net program expenses	**$ (1,087,998)**	$ (4,872,868)

EPA Grants

The Bank administers grant funds from EPA through the Border Environment Infrastructure Fund (BEIF). EPA grant awards since the initial grant made in April 1997 to December 31, 2016 total $692,812,849. Under the terms of the grants, the Bank reviews and submits prospective projects to EPA, which approves the projects. EPA then disburses funds to the Bank, which directs the grant monies to the specified project. The Bank also oversees progress and compliance requirements for EPA and receives an allocation of the EPA grant funds for administrative expenses incurred.

As of December 31, 2016, EPA has approved project funding proposed by the Bank totaling $656,940,544, of which $602,857,358 has been disbursed through the Bank. The Bank recognized $843,300 and $832,143 as reimbursement of expenses incurred for the years ended December 31, 2016 and 2015, respectively. These funds have been recorded as program revenue and expenses in the consolidated statements of income.

9. Program Activities (continued)

Technical Assistance Program (TAP)

The Bank uses a portion of its retained earnings as authorized by the Board of Directors to offer technical assistance and training to project sponsors for the purpose of strengthening their financial performance and ensuring the long-term sustainability of their infrastructure. Through the TAP, assistance is provided in three categories: project development, institutional capacity-building measures, and sector studies to identify needs and generate knowledge about a new sector or technology. For the years ended December 31, 2016 and 2015, $327,082 and $849,195, respectively, was disbursed under this program. These disbursements were funded with previously designated retained earnings and have been reported as a program expense.

As part of its technical assistance program, the Utility Management Institute (UMI) provides water utility managers and their staff with an opportunity for ongoing professional development aimed at enhancing their managerial and financial skills. For the years ended December 31, 2016 and 2015, $210,475 and $329,895, respectively, was expended under this program.

Water Conservation Investment Fund (WCIF)

In August 2002, the Board of Directors established the WCIF to finance water conservation projects in the U.S.-Mexico border region and designated $80,000,000 of the Bank’s undesignated retained earnings to the program. Of that amount, $40,000,000 was reserved exclusively for water conservation projects in each country. For the years ended December 31, 2016 and 2015, $120,808 and $2,257,725 respectively, were disbursed under this fund. As of December 31, 2016, cumulative disbursements total $38,035,477 for the United States and $39,990,407 for Mexico. These disbursements were funded with previously designated retained earnings and have been reported as a program expense.

In May 2013, the Board agreed to close out the WCIF and transfer any uncommitted funds to the CAP program. In December 2013, a cumulative total of $1,055,196 in uncommitted WCIF funds was transferred to the CAP program.

9. Program Activities (continued)

Community Assistance Program (CAP)

In February 2011, the Board of Directors approved a grant program to support public projects in all sectors eligible for Bank financing. The CAP program is funded from the Bank's undesignated retained earnings as authorized by the Board. As of December 31, 2016, a cumulative total of $11,473,415 has been allocated to the CAP. For the years ended December 31, 2016 and 2015, $429,633 and $1,436,053, respectively, were disbursed under this program. These disbursements were funded with previously designated retained earnings and have been reported as a program expense.

10. Employee Benefits

401(a) Retirement Plan

The Bank has a 401(a) Retirement Plan for its employees. This plan provides for employee and nondiscretionary employer contributions. For the years ended December 31, 2016 and 2015, the Bank expended $751,187 and $604,386, respectively, relating to the plan.

Retiree Health Insurance Plan

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

11. Fair Value of Financial Instruments

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

Cash and Cash Equivalents

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

11. Fair Value of Financial Instruments (continued)

Securities Held-to-Maturity

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

Securities Available-for-Sale

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

Loans Receivable and Interest Receivable

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

Hedged Items for Loans

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

11. Fair Value of Financial Instruments (continued)

Cross-currency Interest Rate Swaps

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

Interest Rate Swaps

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

Other Real Estate Owned

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

Debt and Accrued Interest Payable

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

Hedged Items for Notes Payable

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

11. Fair Value of Financial Instruments (continued)

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

	December 31, 2016		December 31, 2015	
	Carrying Amount	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Assets				
Cash and cash equivalents	**$ 151,727,469**	**$ 151,727,469**	$ 114,979,878	$ 114,979,878
Held-to-maturity securities	**53,782,155**	**57,523,432**	53,730,753	58,337,092
Available-for-sale securities	**306,562,226**	**306,562,226**	337,477,241	337,477,241
Loans, net	**1,168,986,184**	**1,200,398,847**	1,200,478,466	1,222,140,888
Interest receivable	**26,806,845**	**26,806,845**	11,226,560	11,226,560
Cross-currency interest rate swaps	**227,719,003**	**227,719,003**	106,695,082	106,695,082
Interest rate swaps	**4,065,766**	**4,065,766**	15,727,245	15,727,245
Other real estate owned	**2,978,307**	**2,978,307**	4,786,389	4,786,389
Liabilities				
Accrued interest payable	**16,593,968**	**16,593,968**	9,079,465	9,079,465
Short-term debt	**5,262,000**	**5,262,000**	5,262,000	5,262,000
Cross-currency interest rate swaps	**–**	**–**	2,395,365	2,395,365
Interest rate swaps	**–**	**–**	3,815,603	3,815,603
Long-term debt, net	**1,176,158,912**	**1,178,937,246**	1,177,851,550	1,182,058,243

11. Fair Value of Financial Instruments (continued)

The Bank's financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2016 and 2015 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			Total
	Level 1	**Level 2**	**Level 3**	**Fair Value**
December 31, 2016				
Assets				
Available-for-sale (AFS) securities:				
U.S. government securities	**$ 117,325,855**	**$ –**	**$ –**	**$ 117,325,855**
U.S. agency securities	**–**	**62,532,435**	**–**	**62,532,435**
Corporate debt securities	**–**	**80,290,282**	**–**	**80,290,282**
Other fixed-income securities	**–**	**34,857,699**	**–**	**34,857,699**
Mexican government securities (UMS)	**–**	**11,555,955**	**–**	**11,555,955**
Mortgage-backed securities	**–**	**–**	**–**	**–**
Total AFS securities	**117,325,855**	**189,236,371**	**–**	**306,562,226**
Cross-currency interest rate swaps	**–**	**–**	**227,719,003**	**227,719,003**
Interest rate swaps	**–**	**–**	**4,065,766**	**4,065,766**
Hedged items for loans	**–**	**–**	**(151,854,451)**	**(151,854,451)**
Total assets at fair value	**$ 117,325,855**	**$ 189,236,371**	**$ 79,930,318**	**$ 386,492,544**
Liabilities				
Cross-currency interest rate swaps	**$ –**	**$ –**	**$ –**	**$ –**
Interest rate swaps	**–**	**–**	**–**	**–**
Hedged items for notes payable	**–**	**–**	**2,931,548**	**2,931,548**
Total liabilities at fair value	**$ –**	**$ –**	**$ 2,931,548**	**$ 2,931,548**

11. Fair Value of Financial Instruments (continued)

	Fair Value Measurements Using			Total
	Level 1	Level 2	Level 3	Fair Value
December 31, 2015				
Assets				
Available-for-sale (AFS) securities:				
U.S. government securities	$ 134,420,141	$ –	$ –	$ 134,420,141
U.S. agency securities	–	71,594,343	–	71,594,343
Corporate debt securities	–	86,413,921	–	86,413,921
Other fixed-income securities	–	31,404,320	–	31,404,320
Mexican government securities (UMS)	–	13,637,300	–	13,637,300
Mortgage-backed securities	–	7,216	–	7,216
Total AFS securities	134,420,141	203,057,100	–	337,477,241
Cross-currency interest rate swaps	–	–	106,695,082	106,695,082
Interest rate swaps	–	–	15,727,245	15,727,245
Hedged items for loans	–	–	(51,606,468)	(51,606,468)
Total assets at fair value	$ 134,420,141	$ 203,057,100	$ 70,815,859	$ 408,293,100
Liabilities				
Cross-currency interest rate swaps	$ –	$ –	$ 2,395,365	$ 2,395,365
Interest rate swaps	–	–	3,815,603	3,815,603
Hedged items for notes payable	–	–	10,180,086	10,180,086
Total liabilities at fair value	$ –	$ –	$ 16,391,054	$ 16,391,054

The following table summarizes the changes to the financial assets and liabilities measured at fair value on a recurring basis using unobservable inputs (Level 3) during the years ended December 31, 2016 and 2015. Additional information on how the Bank measures fair value is provided in Note 2.

11. Fair Value of Financial Instruments (continued)

	Fair Value of Level 3 Instruments		
	Cross-currency Interest Rate Swaps	Interest Rate Swaps	Hedged Items
Assets			
Beginning balance, January 1, 2016	**$ 106,695,082**	**$ 15,727,245**	**$ (51,606,468)**
Total realized and unrealized gains (losses):			
Included in earnings (expenses)	**100,699,195**	**(11,661,479)**	**(100,247,983)**
Included in other comprehensive income	**20,324,726**	**–**	**–**
Purchases	**–**	**–**	**–**
Settlements	**–**	**–**	**–**
Transfers in/out of Level 3	**–**	**–**	**–**
Ending balance, December 31, 2016	**$ 227,719,003**	**$ 4,065,766**	**$ (151,854,451)**
Beginning balance, January 1, 2015	$ 36,938,315	$ 18,433,614	$ 1,698,406
Total realized and unrealized gains (losses):			
Included in earnings (expenses)	53,303,097	(2,266,369)	(53,304,874)
Included in other comprehensive income (loss)	19,117,644	–	–
Purchases	–	–	–
Settlements	(2,663,974)	(440,000)	–
Transfers in/out of Level 3	–	–	–
Ending balance, December 31, 2015	$ 106,695,082	$ 15,727,245	$ (51,606,468)
Liabilities			
Beginning balance, January 1, 2016	**$ 2,395,365**	**$ 3,815,603**	**$ 10,180,086**
Total realized and unrealized (gains) losses:			
Included in (earnings) expenses	**(2,395,365)**	**(3,815,603)**	**(7,248,538)**
Included in other comprehensive (income) loss	**–**	**–**	**–**
Purchases	**–**	**–**	**–**
Settlements	**–**	**–**	**–**
Transfers in/out of Level 3	**–**	**–**	**–**
Ending balance, December 31, 2016	**$ –**	**$ –**	**$ 2,931,548**
Beginning balance, January 1, 2015	$ –	$ 20,426,135	$ 5,047,280
Total realized and unrealized (gains) losses:			
Included in (earnings) expenses	2,395,365	(16,610,532)	5,132,806
Included in other comprehensive (income) loss	–	–	–
Purchases	–	–	–
Settlements	–	–	–
Transfers in/out of Level 3	–	–	–
Ending balance, December 31, 2015	$ 2,395,365	$ 3,815,603	$ 10,180,086

11. Fair Value of Financial Instruments (continued)

The Bank entered into (9) nine cross-currency interest rate swaps and no interest rate swaps during the year ended December 31, 2016. Upon issuance, the fair value of the swaps is $0 and, therefore, is not portrayed in the purchases line item in the preceding table. The change in fair value of these instruments is included within the total gains (losses) line item.

The Bank has no nonfinancial assets or liabilities measured at fair value on a recurring basis. Certain nonfinancial assets and liabilities measured at fair value on a nonrecurring basis include foreclosed assets (upon initial recognition or subsequent impairment) and other nonfinancial long-lived assets measured at fair value for impairment assessment. The fair value of the collateral from foreclosed loans is measured using Level 3 unobservable inputs and is reported in other assets as other real estate owned of $2,978,307 and $4,786,389 at December 31, 2016 and 2015, respectively. For the years ended December 31, 2016 and 2015, the Bank recorded an impairment of $1,106,240 and $950,000, respectively, on the other real estate owned. The impairment is recorded as a non-interest expense in the consolidated statement of income.

12. Derivative Financial Instruments

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

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

The Bank enters into interest rate swaps that are matched to the terms of loans and to a portion of its long-term notes payable. The swaps have been designated as hedging instruments, because they hedge the risk of changes in the fair value of fixed-rate loans and notes payable due to changes in

12. Derivative Financial Instruments (continued)

the designated benchmark interest rate. The Bank designated the LIBOR swap rate as the benchmark interest rate. The swaps are structured so that the notional amounts mature to match the expected maturity of the loans and the notes payable.

Under its arrangement with FOAEM, neither the Bank nor the counterparty is required to post collateral to support the outstanding fair value of the swaps. Beginning in July 2009, under counterparty relationships with other financial institutions, collateral may be required to be posted by either the Bank or the counterparty. Cash collateral of $135,490,000 and $67,600,000 was posted from counterparties to the Bank as of December 31, 2016 and December 31, 2015, respectively. No collateral was posted by the Bank as of December 31, 2016 and 2015.

The notional amounts and estimated fair values of the swaps outstanding at December 31, 2016 and 2015 are presented in the following table. The fair value of these swaps is estimated using internal valuation models with observable market data inputs.

	December 31, 2016		**December 31, 2015**	
	Notional Amount	**Estimated Fair Value, Net**	**Notional Amount**	**Estimated Fair Value, Net**
Cross-currency interest rate swaps	**$ 655,539,583**	**$ 227,719,003**	$ 645,173,665	$ 104,299,717
Interest rate swaps	**1,326,246,801**	**4,065,766**	1,418,452,744	11,911,642

The referenced exchange rate received for the cross-currency interest rate swaps outstanding at December 31, 2016 and 2015 was 4.82% and 5.81%, respectively.

Swaps that are no longer deemed effective because of borrower default on the hedged loans are not included in the preceding table. There were no swaps that were considered ineffective due to borrower default as of December 31, 2016 and 2015.

Gains and Losses on Derivative Cash Flows

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

12. Derivative Financial Instruments (continued)

The accumulated net gain (loss) related to the swaps included in accumulated other comprehensive income totaled $16,141,732 and $7,397,213 at December 31, 2016 and 2015, respectively.

Gains or losses due to changes in the fair value of cross-currency interest rate swaps designated as fair value hedges and ineffective swaps are reported in income (expense) from net hedging activities. For the years ended December 31, 2016 and 2015, changes in the aforementioned swaps included in the accompanying consolidated statements of income were $1,447,745 and $2,974,496, respectively.

Interest Rate Swaps – With regard to the interest rate swaps on outstanding loans and a portion of the long-term notes payable, the changes in the fair value of the swaps offset the changes in the fair value of the loans and debt due to changes in the USD OIS curve, while the ineffective portion is included in income (expense) from net hedging activities. For the years ended December 31, 2016 and 2015, changes in the aforementioned swaps included in the accompanying consolidated statements of income were $394,266 and $1,115,092, respectively.

13. Credit Risk Associated with Financial Instruments

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

14. Commitments

In the normal course of business, the Bank has various outstanding commitments, in addition to the loans receivable disclosed in Note 4 and the long-term borrowings disclosed in Note 6. Under agreements with consultants and contractors in effect at December 31, 2016, the Bank has obligations to make payments contingent upon the future performance of the consultants and contractors under the terms of their respective contracts and, therefore, they are not recorded in the financial statements.

14. Commitments (continued)

Lease Commitments

The Bank rents office space under an operating lease that expires on February 28, 2026. Rent expense totaled $102,563 and $12,381 for the years ended December 31, 2016 and 2015, respectively. The following schedule summarizes the minimum future expenses for the forgoing lease.

Year Ended December 31,		
2017	$	204,797
2018		211,792
2019		214,231
2020		221,831
2021		223,064
Thereafter		994,494
	$	2,070,209

15. Accounting Standards Updates

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

15. Accounting Standards Updates (continued)

ASU 2015-02, *Consolidation* (*Topic 810) – Amendments to the Consolidation Analysis*. ASU 2015-02 implements changes to both the variable interest consolidation model and the voting interest consolidation model. ASU 2015-02 (i) eliminates certain criteria that had to be met in determining when fees paid to a decision-maker or service provider do not represent a variable interest, (ii) amends the criteria for determining whether a limited partnership is a variable interest entity and (iii) eliminates the presumption that a general partner controls a limited partnership in the voting model. ASU 2015-02 will be effective for the Bank on January 1, 2017 and is not expected to have a significant impact on the Bank's consolidated financial statements.

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

ASU 2016-02, *Leases (Topic 842).* ASU 2016-02, among other things, require lessees to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. ASU 2016-02 does not significantly change lease accounting requirements applicable to lessors; however, certain changes were made to align, where necessary, lessor accounting with the lessee accounting model and *ASC Topic 606: Revenue from Contracts with Customers.* ASU 2016-02 will be effective for the Bank on January 1, 2020 and will require transition using a modified retrospective approach

15. Accounting Standards Updates (continued)

for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Bank is evaluating the potential impact of ASU 2016- 02 to its consolidated financial statements and disclosures.

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

16. Other Significant Event

On December 3, 2014, the Board approved a resolution recommending the merger of NADB and BECC into a single institution. The proposed integration would preserve the current mission, purposes and functions of both organizations, including their environmental mandate and geographic jurisdiction. The integration is currently in process.

17. Subsequent Events

On March 10, 2017, the Bank issued 15-year notes in Norwegian krone in the amount of kr 1,445,000,000 ($173,448,566 USD), with a coupon rate of 2.47%, interest payments due annually on March 10, and first principal payment due on March 10, 2031.

The Bank has evaluated subsequent events for potential recognition and/or disclosure through March 31, 2017, the date these consolidated financial statements were issued.

Supplementary Information

North American Development Bank

Combining Balance Sheet by Program

December 31, 2016

	International Program	U.S. Domestic Program (A)	Eliminations	Total
Assets				
Cash and cash equivalents:				
Held at other financial institutions in demand deposit accounts	$ 193,964	$ –	$ –	$ 193,964
Held at other financial institutions in interest-bearing accounts	28,619,810	213,695	–	28,833,505
Repurchase agreements	122,400,000	300,000	–	122,700,000
	151,213,774	513,695	–	151,727,469
Held-to-maturity investment securities, at amortized cost	53,782,155	–	–	53,782,155
Available-for-sale investment securities, at fair value	306,562,226	–	–	306,562,226
Loans outstanding	1,411,295,846	329,827	–	1,411,625,673
Allowance for loan losses	(25,052,471)	(23,188)	–	(25,075,659)
Unamortized loan fees	(10,682,210)	–	–	(10,682,210)
Foreign currency exchange rate adjustment	(55,027,169)	–	–	(55,027,169)
Hedged items, at fair value	(151,854,451)	–	–	(151,854,451)
Net loans outstanding	1,168,679,545	306,639	–	1,168,986,184
Interest receivable	26,806,830	15	–	26,806,845
Grant and other receivable	7,320,234	–	–	7,320,234
Due from U.S. Domestic Program	9,997	–	(9,997)	–
Furniture, equipment and leasehold improvements, net	461,759	–	–	461,759
Other assets	98,029,324	–	–	98,029,324
Total assets	$ 1,812,865,844	$ 820,349	$ (9,997)	$ 1,813,676,196
Liabilities and equity				
Liabilities:				
Accounts payable	$ 7,454,439	$ 1,648	$ –	$ 7,456,087
Accrued liabilities	425,115	16,332	–	441,447
Due to International Program	–	9,997	(9,997)	–
Accrued interest payable	16,593,968	–	–	16,593,968
Undisbursed grant funds	6,328	–	–	6,328
Short-term debt	5,262,000	–	–	5,262,000
Long-term debt, net of discount and unamortized debt issuance costs	1,176,158,912	–	–	1,176,158,912
Hedged items, at fair value	2,931,548	–	–	2,931,548
Net long-term debt	1,179,090,460	–	–	1,179,090,460
Total liabilities	1,208,832,310	27,977	(9,997)	1,208,850,290
Equity:				
Paid-in capital	415,000,000	–	–	415,000,000
General Reserve:				
Allocated paid-in capital	–	2,460,790	–	2,460,790
Retained earnings:				
Designated	13,458,447	(1,678,313)	–	11,780,134
Reserved	114,543,479	9,895	–	114,553,374
Undesignated	45,058,709	–	–	45,058,709
Accumulated other comprehensive income	15,967,278	–	–	15,967,278
Non-controlling interest	5,621	–	–	5,621
Total equity	604,033,534	792,372	–	604,825,906
Total liabilities and equity	$ 1,812,865,844	$ 820,349	$ (9,997)	$ 1,813,676,196

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

North American Development Bank

Combining Statement of Income by Program

Year Ended December 31, 2016

	International Program	U.S. Domestic Program (A)	Total
Interest income:			
Loans	$ 52,426,637	$ 3,378	$ 52,430,015
Investments	6,584,903	1,783	6,586,686
Total interest income	59,011,540	5,161	59,016,701
Interest expense	19,950,461	–	19,950,461
Net interest income	39,061,079	5,161	39,066,240
Operating expenses:			
Personnel	8,282,656	–	8,282,656
General and administrative	1,467,292	–	1,467,292
Consultants and contractors	2,720,662	–	2,720,662
Provision for loan losses	5,133,737	–	5,133,737
Other	193,253		193,253
Depreciation	136,461	692	137,153
U.S. Domestic Program	–	268,461	268,461
Total operating expenses	17,934,061	269,153	18,203,214
Net operating income (loss)	21,127,018	(263,992)	20,863,026
Non-interest income and expenses:			
Gains on sales of available-for-sale securities	137,177	–	137,177
Other income (expense) from hedging activities, net	1,101,921	–	1,101,921
Other income (expense) from foreign exchange activities, net	(701,842)	–	(701,842)
Fees and other income	200,000	–	200,000
Loss on other real estate owned	(1,106,240)	–	(1,106,240)
Total non-interest income (expenses)	(368,984)	–	(368,984)
Income (loss) before program activities	20,758,034	(263,992)	20,494,042
Program activities:			
EPA grant income	843,300	–	843,300
EPA grant administration	(843,300)	–	(843,300)
TAP	(537,557)	–	(537,557)
CAP	(429,633)	–	(429,633)
WCIF	(120,808)	–	(120,808)
Net program expenses	(1,087,998)	–	(1,087,998)
Income (loss) before non-controlling interest	19,670,036	(263,992)	19,406,044
Net loss attributable to non-controlling interest	(142)	–	(142)
Net income (loss)	$ 19,670,178	$ (263,992)	$ 19,406,186
General Reserve, January 1, 2016			
Allocated paid-in capital	$ –	$ 3,027,256	$ 3,027,256
Retained earnings	153,390,457	(1,404,426)	151,986,031
Current period activity:			
Net income (loss)	19,670,178	(263,992)	19,406,186
TGP disbursements of the U.S. Domestic Program	–	(566,466)	(566,466)
General Reserve, December 31, 2016			
Allocated paid-in capital	–	2,460,790	2,460,790
Retained earnings	173,060,635	(1,668,418)	171,392,217
	$ 173,060,635	$ 792,372	$ 173,853,007

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

North American Development Bank

Combining Statement of Comprehensive Income by Program

Year Ended December 31, 2016

	International Program	U.S. Domestic Program (A)	Total
Income (loss) before non-controlling interest	$ 19,670,036	$ (263,992)	$ 19,406,044
Net loss attributable to non-controlling interest	(142)	–	(142)
Net income (loss)	19,670,178	(263,992)	19,406,186
Other comprehensive income (loss):			
Available-for-sale investment securities:			
Change in unrealized gain during the period, net	15,481	–	15,481
Reclassification adjustment for net gain included in net income	(137,177)	–	(137,177)
Total unrealized loss on available-for-sale investment securities	(121,696)	–	(121,696)
Foreign currency translation adjustment	158,889	–	158,889
Unrealized gains (losses) on hedging activities:			
Foreign currency translation adjustment, net	(11,580,208)	–	(11,580,208)
Fair value of cross-currency interest rate swaps, net	20,324,726	–	20,324,726
Total unrealized gain on hedging activities	8,744,518	–	8,744,518
Total other comprehensive income	8,781,711	–	8,781,711
Total comprehensive income (loss)	$ 28,451,889	$ (263,992)	$ 28,187,897

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

North American Development Bank

Combining Statement of Cash Flows by Program

Year Ended December 31, 2016

	International Program	U.S. Domestic Program (A)	Total
Operating activities			
Net income (loss)	$ 19,670,178	$ (263,992)	$ 19,406,186
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation	136,461	692	137,153
Amortization of net premium (discount) on investments	907,746	–	907,746
Change in fair value of swaps, hedged items and other non-cash items	68,912,405	–	68,912,405
Non-controlling interest	(142)	–	(142)
Gain on sales of available-for-sale investment securities, net	(137,177)	–	(137,177)
Provision for loan losses	5,133,737	–	5,133,737
Change in other assets and liabilities:			
(Increase) decrease in interest receivable	(15,582,102)	1,817	(15,580,285)
Increase in receivable and other assets	(4,813,027)	–	(4,813,027)
Decrease in due from U.S. Domestic Program and decrease due to International Program	15,877	(15,877)	–
Increase in accounts payable	5,641,355	1,648	5,643,003
Increase in accrued liabilities	91,277	150	91,427
Increase in accrued interest payable	7,514,503	–	7,514,503
Net cash provided by (used in) operating activities	87,491,091	(275,562)	87,215,529
Lending, investing, and development activities			
Capital expenditures	(342,452)	–	(342,452)
Loan principal repayments	49,733,954	28,574	49,762,528
Loan disbursements	(136,252,752)	–	(136,252,752)
Purchase of held-to-maturity investments	(2,261,000)	–	(2,261,000)
Purchase of available-for-sale investments	(240,224,271)	–	(240,224,271)
Proceeds from maturities of held-to-maturity investments	2,235,000	–	2,235,000
Proceeds from sales and maturities of available-for-sale investments	270,221,619	–	270,221,619
Net cash provided by (used in) lending, investing, and development activities	(56,889,902)	28,574	(56,861,328)
Financing activities			
Capital contribution	10,000,000	–	10,000,000
Proceeds from other borrowings	2,216,528	–	2,216,528
Principal repayment of other borrowings	(5,262,000)	–	(5,262,000)
Grant funds –- EPA	10,650,006	–	10,650,006
Grant disbursements – EPA	(10,644,678)	–	(10,644,678)
Grant activity – U.S. Domestic Program	–	(566,466)	(566,466)
Net cash provided by (used in) financing activities	6,959,856	(566,466)	6,393,390
Net increase (decrease) in cash and cash equivalents	37,561,045	(813,454)	36,747,591
Cash and cash equivalents at January 1, 2016	113,652,729	1,327,149	114,979,878
Cash and cash equivalents at December 31, 2016	$ 151,213,774	$ 513,695	$ 151,727,469

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

North American Development Bank

Border Environment Infrastructure Fund (BEIF)

As of and for the Year Ended December 31, 2016

Balance Sheet

	Region 6	Region 9	Total
Assets			
Cash	$ 3,445	$ 2,883	$ 6,328
Total assets	$ 3,445	$ 2,883	$ 6,328
Liabilities			
Undisbursed grant funds	$ 3,445	$ 2,883	$ 6,328
Total liabilities	$ 3,445	$ 2,883	$ 6,328

Statement of Income

	Region 6	Region 9	Total
Income:			
U.S. Environmental Protection Agency grant income	$ 297,624	$ 545,676	$ 843,300
Total income	297,624	545,676	843,300
BEIF operating expenses:			
Personnel	155,914	155,914	311,828
Consultants	103,451	370,796	474,247
General and administrative	27,857	5,054	32,911
Operational travel	10,402	13,912	24,314
Total BEIF operating expenses	297,624	545,676	843,300
Net income	$ –	$ –	$ –

Statement of Cash Flows

	Region 6	Region 9	Total
Operating activities			
Net income	$ –	$ –	$ –
Net cash provided by operating activities	–	–	–
Financing activities			
Grant funds – EPA	2,934,485	7,715,521	10,650,006
Grant disbursements – EPA	(2,931,540)	(7,713,138)	(10,644,678)
Net cash provided by financing activities	2,945	2,383	5,328
Net increase in cash and cash equivalents	2,945	2,383	5,328
Cash and cash equivalents at January 1, 2016	500	500	1,000
Cash and cash equivalents at December 31, 2016	$ 3,445	$ 2,883	$ 6,328

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

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