NORTH AMERICAN DEVELOPMENT BANK

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION (UNAUDITED)

MARCH 31, 2022

North American Development Bank (NADBank)

Consolidated Financial Statements and Supplementary Information (Unaudited)
March 31, 2022

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North American Development Bank
Consolidated Balance Sheets
As of March 31, 2022 and December 31, 2021

	(Unaudited) March 31, 2022	(Audited) December 31, 2021
Assets		
Cash and cash equivalents:		
Held at other financial institutions	$ 32,736,020	$ 26,501,393
Repurchase agreements	25,000,000	137,400,000
Total cash and cash equivalents	57,736,020	163,901,393
Held-to-maturity investment securities, at amortized cost	4,151,386	4,126,913
Available-for-sale investment securities, at fair value	1,050,875,614	961,786,427
Loans outstanding	962,360,674	976,510,337
Allowance for loan losses	(22,177,609)	(22,139,332)
Unamortized loan fees	(6,421,107)	(6,590,402)
Foreign currency exchange rate adjustment	(35,895,413)	(37,886,330)
Hedged items, at fair value	(100,864,843)	(93,844,578)
Net loans outstanding	797,001,702	816,049,695
Interest receivable	8,855,441	11,466,441
Grant and other receivable	1,652,249	1,600,323
Furniture, equipment and leasehold improvements, net	105,028	84,033
Other assets	132,830,351	155,597,898
Total assets	$ 2,053,207,791	$ 2,114,613,123
Liabilities and Equity		
Liabilities:		
Current liabilities:		
Accounts payable	$ 598,170	$ 842,333
Accrued liabilities	2,577,204	2,169,327
Accrued interest payable	6,794,206	9,024,926
Undisbursed grant funds	432,060	494,775
Other liabilities	601,144	309,166
Short-term debt, net of discounts and unamortized debt issuance costs	155,041,719	154,943,254
Hedged item, at fair value	255,762	1,477,591
Net short-term debt	155,297,481	156,420,845
Total current liabilities	166,300,265	169,261,372
Long-term liabilities:		
Long-term lease payable	737,471	-
Long-term post-retirement benefits payable	3,318,065	3,236,707
Deferred U.S. capital contribution	165,000,000	165,000,000
Long-term debt, net of discounts and unamortized debt issuance costs	963,299,185	963,232,477
Foreign currency exchange rate adjustment	16,653,221	20,504,957
Hedged items, at fair value	(14,511,335)	16,513,237
Net long-term debt	965,441,071	1,000,250,671
Total long-term liabilities	1,134,496,607	1,168,487,378
Total liabilities	1,300,796,872	1,337,748,750
Equity:		
Paid-in capital	486,500,000	486,500,000
General Reserve:		
Retained earnings:		
Designated	7,451,385	7,677,224
Reserved	192,382,949	192,382,949
Undesignated	85,100,607	85,552,407
Accumulated other comprehensive income (loss)	(19,028,792)	4,746,957
Non-controlling interest	4,770	4,836
Total equity	752,410,919	776,864,373
Total liabilities and equity	$ 2,053,207,791	$ 2,114,613,123

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

North American Development Bank
Consolidated Statements of Income (Unaudited)
For the Three Months Ended March 31, 2022 and 2021

	For the Three Months Ended March 31,	
	2022	**2021**
Interest income:		
Loans	$ 8,268,695	$ 10,107,410
Investments	1,464,325	1,298,001
Total interest income	9,733,020	11,405,411
Interest expense	3,651,240	3,535,854
Net interest income	6,081,780	7,869,557
Provision for loan losses	38,277	-
Net interest income after provision for loan losses	6,043,503	7,869,557
Operating expenses (income):		
General and administrative:		
Personnel	4,233,316	3,712,695
Administrative	582,360	485,362
Consultants and contractors	634,257	643,596
Other	(189,243)	59,245
Grant administrative reimbursements, net	(351,677)	(347,164)
Depreciation	13,555	28,547
Total operating expenses	4,922,568	4,582,281
Net operating income	1,120,935	3,287,276
Non-interest and non-operating income (expenses):		
Gain (loss) on sale of securities, net	(89,712)	1,856
Grant disbursements	(225,839)	(253,470)
Fees and other income (expenses), net	(2,111)	301,397
Income (expenses) from hedging activities, net	(1,480,978)	3,019,325
Total non-interest and non-operating income (expense)	(1,798,640)	3,069,108
Net income (loss)	(677,705)	6,356,384
Non-controlling interest in net loss	(66)	(37)
Controlling interest in net income (loss)	$ (677,639)	$ 6,356,421

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

North American Development Bank
Consolidated Statements of Comprehensive Income (Unaudited)
For the Three Months Ended March 31, 2022 and 2021

	For the Three Months Ended March 31,	
	2022	2021
Net income (loss)	$ (677,705)	$ 6,356,384
Non-controlling interest in net loss	(66)	(37)
Controlling interest in net income (loss)	(677,639)	6,356,421
Other comprehensive income (loss):		
Available-for-sale investment securities:		
Change in unrealized (gains) losses during the period, net	(22,776,850)	(5,676,098)
Reclassification adjustment for net (gains) losses included in net income	89,712	(1,856)
Total unrealized gain (loss) on available-for-sale investment securities	(22,687,138)	(5,677,954)
Foreign currency translation adjustment	(62,675)	(19,328)
Unrealized gains (losses) on hedging activities:		
Foreign currency translation adjustment, net	4,925,987	18,285,876
Fair value of cross-currency interest rate swaps and options, net	(5,951,923)	(6,423,480)
Total unrealized gain (loss) on hedging activities	(1,025,936)	11,862,396
Total other comprehensive income (loss)	(23,775,749)	6,165,114
Total comprehensive income (loss)	$ (24,453,388)	$ 12,521,535

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

North American Development Bank

Consolidated Statement of Changes in Equity

For the Three Months Ended March 31, 2022 and Year Ended December 31, 2021

	Paid-in Capital	General Reserve Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest	Total Equity
Beginning balance, January 1, 2021	$ 475,000,000	$ 273,481,566	$ 15,263,820	$ 5,043	$ 763,750,429
Capital contribution	11,500,000	-	-	-	11,500,000
Net income	-	12,131,014	-	-	12,131,014
Other comprehensive income (loss)	-	-	(10,516,863)	-	(10,516,863)
Non-controlling interest	-	-	-	(207)	(207)
Ending balance, December 31, 2021 (audited)	486,500,000	285,612,580	4,746,957	4,836	776,864,373
Net income (loss)	-	(677,639)	-	-	(677,639)
Other comprehensive income (loss)	-	-	(23,775,749)	-	(23,775,749)
Non-controlling interest	-	-	-	(66)	(66)
Ending balance, March 31, 2022 (unaudited)	$ 486,500,000	$ 284,934,941	$ (19,028,792)	$ 4,770	$ 752,410,919

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

North American Development Bank
Consolidated Statements of Cash Flows (Unaudited)
For the Three Months Ended March 31, 2022 and 2021

	For the Three Months Ended March 31,	
	2022	**2021**
Cash flows from operating activities		
Net income (loss)	$ (677,639)	$ 6,356,421
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	13,555	28,547
Amortization of net premiums (discounts) on investments	1,745,887	1,965,639
Change in fair value of swaps, options, hedged items and other non-cash items	(8,364,540)	(25,310,265)
Non-controlling interest	(66)	(37)
(Gains) losses on securities, net	89,712	(1,856)
Provision for loan losses	38,277	-
Post-retirement benefits payable	81,358	77,396
Change in other assets and liabilities:		
(Increase) decrease in interest receivable	2,611,000	2,780,357
(Increase) decrease in accounts receivable	(51,926)	526,013
Increase (decrease) in accounts payable	(244,163)	(45,425)
Increase (decrease) in accrued liabilities	407,877	160,300
Increase (decrease) in accrued interest payable	(2,230,720)	(2,588,435)
Net cash used in operating activities	(6,581,388)	(16,051,345)
Cash flows from lending, investing, and development activities		
Capital expenditures	(34,536)	(12,924)
Loan principal repayments	14,418,376	17,241,937
Loan disbursements	(268,713)	(48,142,747)
Purchase of held-to-maturity investments	(629,521)	(2,369,495)
Purchase of available-for-sale investments	(219,607,476)	(344,795,484)
Proceeds from maturities of held-to-maturity investments	599,000	1,704,000
Proceeds from sales and maturities of available-for-sale investments	106,001,600	375,141,314
Net cash used in lending, investing, and development activities	(99,521,270)	(1,233,399)
Cash flows from financing activities		
Grant funds from the Environmental Protection Agency (EPA)	4,535,592	3,555,673
Grant funds from other sources	99,753	-
Grant disbursements - EPA	(4,535,592)	(3,563,000)
Grant disbursements from other sources	(162,468)	(971)
Net cash used in financing activities	(62,715)	(8,298)
Net decrease in cash and cash equivalents	(106,165,373)	(17,293,042)
Cash and cash equivalents, beginning of period	163,901,393	63,465,192
Cash and cash equivalents, end of period	$ 57,736,020	$ 46,172,150
Supplemental cash information		
Cash paid during the year for interest	$ 3,984,449	$ 4,234,771
Significant non-cash transactions		
Foreign currency translation adjustment	$ 4,925,987	$ 18,285,876
Change in fair value of cross-currency interest rate swaps, net	(5,951,923)	(6,423,480)
Change in fair value of available-for-sales investments, net	(22,687,138)	(5,677,954)

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

1. Organization and Purpose

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

The Bank is governed by a Board of Directors appointed by the two countries. The operations of the Bank are subject to certain limitations outlined in the Charter. The geographic jurisdiction of the International Program is within 100 kilometers north of the U.S.-Mexico border and within 300 kilometers south of the border. The Bank is headquartered in San Antonio, Texas, and also has an office in Ciudad Juarez, Chihuahua (Juarez Office).

The Bank provides loan and grant financing and technical assistance for environmental infrastructure projects approved by the Board, as appropriate, and administers grant funding provided by other entities. In accordance with the Charter, the Bank also made available limited funds from its equity to establish the domestic program of each country (see Note 7).

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 March 31, 2022, COFIDAN is 99.90% owned by the Bank and 0.10% owned by the Government of Mexico. The accounts of COFIDAN are consolidated with the Bank, and all material intercompany accounts and transactions are eliminated in the consolidation. The non-controlling interest reflected in the consolidated balance sheets and consolidated statements of income represents the ownership of the Government of Mexico through the Ministry of Finance and Public Credit (SHCP).

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates in Financial Statements

The financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) and are presented in a manner consistent with that of an international organization. The preparation of financial statements in conformity with

2. Summary of Significant Accounting Policies (continued)

GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. These estimates include the valuation of investments, allowance for loan losses, the fair value of derivative instruments included in other assets, the fair value of derivative instruments included in other liabilities, long-term post-retirement benefits payable and debt. Actual results could differ from those estimates.

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

Cash and Cash Equivalents
For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash deposits, money market accounts with other financial institutions and overnight repurchase agreements. As of March 31, 2022, cash deposits with other financial institutions in demand deposit accounts and interest-bearing accounts totaled $1,007,983 and $31,728,037, respectively. As of December 31, 2021, cash deposits with other financial institutions in demand deposit accounts and interest-bearing accounts totaled $1,023,135 and $25,478,258, respectively.

Repurchase Agreements
The Bank has entered into agreements with a major financial institution 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 that financial institution. The underlying securities related to the repurchase transaction are held in the possession of that financial institution.

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

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

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

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

2. Summary of Significant Accounting Policies (continued)

The accretion of discounts and the amortization of premiums are computed using the interest method. Realized gains and losses are determined using the specific identification method. Investments in a loss position are reviewed to determine whether the unrealized loss, which is considered an impairment, is temporary or other-than-temporary. In the event of other-than-temporary impairment, the cost basis of the investment would be written down to its fair value, and the credit component of the loss would be included in current earnings. The Bank had no securities classified as other-than-temporarily impaired at March 31, 2022 and December 31, 2021.

Taxation

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

Furniture, Equipment, and Leasehold Improvements

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

Operating Lease

The Bank rents office space for its headquarters in San Antonio, Texas under an operating lease. Beginning January 1, 2022, the Bank implemented Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, which requires the recognition of operating lease obligations on a discounted basis and the recognition of a right-of-use lease asset. Additional information on the Bank's operating lease is provided in Note 13.

Retained Earnings

Retained earnings are classified as either designated for a specific program, reserved, or undesignated. Undesignated retained earnings in excess of one percent (1.0%) of total assets 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

2. Summary of Significant Accounting Policies (continued)

to be used to pay costs associated with the enforcement of the Bank's rights under its loan and guaranty agreements and to offset losses on any loan or guaranty.

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

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

Loans and Allowance for Loan Losses

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

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

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

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

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

2. Summary of Significant Accounting Policies (continued)

The allowance for loan losses is a valuation account used to reasonably estimate loan losses incurred as of the financial statement date. Determining the appropriate allowance for loan losses involves significant judgment about when a loss has been incurred and the amount of that loss. A general allowance is established for all loans. The Bank calculates the general allowance by estimating probability of default for each loan using credit risk scorecard methodologies developed by a globally recognized credit rating agency, along with statistical cumulative recovery rates for each sector.

A specific allowance is established for impaired loans when it is probable that the Bank may sustain some loss. Impairment of these loans is measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate or the fair value of the collateral, if the loan is collateral dependent.

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

Loan Portfolio Risk Rating

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

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

2. Summary of Significant Accounting Policies (continued)

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

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

Revenue Recognition

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

2. Summary of Significant Accounting Policies (continued)

Grant Program Activity

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

Third-party grants. The Bank receives grants from the U.S. Environmental Protection Agency (EPA), U.S. Department of State (DOS) and other sources associated with project financing, technical assistance activities and program operating expense reimbursements.

Third-party grant receipts and disbursements 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 grantors. The Bank's role is to administer these funds. The operating expenses and expense reimbursements for these grants are reflected in the consolidated statements of income.

Additional information on grant programs is provided in Note 8.

Foreign Currency

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

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 March 31, 2022, the Bank had entered into counterparty agreements with 12 counterparties, two (2) of which are backed by the federal government of Mexico and the other 10 are commercial financial institutions. The foreign currency translation adjustment on loans denominated in Mexican pesos as of March 31, 2022 and December 31, 2021 was $(35,895,413) and $(37,886,330), respectively.

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. Changes in the fair value of the fair value hedges are reported as non-interest income or expense.

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

2. Summary of Significant Accounting Policies (continued)

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 counterparties are subject to a master-netting arrangement, except for one (1) counterparty backed by the federal government of Mexico. The net fair value of derivatives by counterparty is offset with the outstanding balance of the collateral received from or paid to the counterparty for financial reporting purposes. Additional information on the amounts subject to master netting arrangements and collateral is provided in Note 5.

Fair Value

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

Level 1 – 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, U.S. agency securities, corporate debt securities, other fixed-income securities, mortgage-backed securities, and Mexican government securities (UMS).

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 cross-currency interest rate swaps, interest rate swaps and options.

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

2. Summary of Significant Accounting Policies (continued)

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

Accumulated Other Comprehensive Income (Loss)

The components of other comprehensive income are reported in the 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.

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 March 31, 2022 and December 31, 2021.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2022				
Held-to-maturity:				
U.S. government securities	$ 1,775,496	$ 1,284	$ (19,374)	$ 1,757,406
U.S. agency securities	2,375,890	–	(38,046)	2,337,844
Total held-to-maturity investment securities	4,151,386	1,284	(57,420)	4,095,250
Available-for-sale:				
U.S. government securities	636,299,282	179,781	(13,412,889)	623,066,174
U.S. agency securities	188,928,407	1,249	(6,274,623)	182,655,033
Corporate debt securities	145,340,064	92,197	(6,279,834)	139,152,427
Other fixed-income securities	89,003,549	2,951	(2,842,352)	86,164,148
Mexican government securities (UMS)	13,869,865	–	(459,215)	13,410,650
Mortgage-backed securities	6,740,672	–	(313,490)	6,427,182
Total available-for-sale investment securities	1,080,181,839	276,178	(29,582,403)	1,050,875,614
Total investment securities	$ 1,084,333,225	$ 277,462	$ (29,639,823)	$ 1,054,970,864
December 31, 2021				
Held-to-maturity:				
U.S. government securities	$ 1,748,543	$ 6,306	$ (4,195)	$ 1,750,654
U.S. agency securities	2,378,370	32	(11,459)	2,366,943
Total held-to-maturity investment securities	4,126,913	6,338	(15,654)	4,117,597
Available-for-sale:				
U.S. government securities	504,327,184	818,469	(3,866,906)	501,278,747
U.S. agency securities	229,863,207	66,267	(1,883,804)	228,045,670
Corporate debt securities	133,492,327	290,614	(1,469,712)	132,313,229
Other fixed-income securities	86,905,688	66,434	(660,087)	86,312,035
Mexican government securities (UMS)	6,612,785	39,851	(46,804)	6,605,832
Mortgage-backed securities	7,204,323	47,792	(21,201)	7,230,914
Total available-for-sale investment securities	968,405,514	1,329,427	(7,948,514)	961,786,427
Total investment securities	$ 972,532,427	$ 1,335,765	$ (7,964,168)	$ 965,904,024

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 March 31, 2022 and December 31, 2021.

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2022						
Held-to-maturity:						
U.S. government securities	$ 1,195,682	$ 19,374	$ –	$ –	$ 1,195,682	$ 19,374
U.S. agency securities	1,211,198	2,801	1,126,646	35,245	2,337,844	38,046
Total held-to-maturity securities	2,406,880	22,175	1,126,646	35,245	3,533,526	57,420
Available-for-sale:						
U.S. government securities	444,688,374	4,792,764	139,825,892	8,620,125	584,514,266	13,412,889
U.S. agency securities	112,505,136	2,249,191	66,142,336	4,025,432	178,647,472	6,274,623
Corporate debt securities	91,916,963	3,980,170	33,016,007	2,299,664	124,932,970	6,279,834
Other fixed-income securities	78,309,170	2,500,408	6,732,056	341,944	85,041,226	2,842,352
Mexican government securities (UMS)	13,410,650	459,215	–	–	13,410,650	459,215
Mortgage-backed securities	5,141,175	233,275	1,286,006	80,215	6,427,181	313,490
Total available-for-sale investment securities	745,971,468	14,215,023	247,002,297	15,367,380	992,973,765	29,582,403
Total temporarily impaired securities	$ 748,378,348	$ 14,237,198	$248,128,943	$15,402,625	$ 996,507,291	$ 29,639,823
December 31, 2021						
Held-to-maturity:						
U.S. government securities	$ 584,425	$ 4,195	$ –	$ –	$ 584,425	$ 4,195
U.S. agency securities	1,693,077	11,459	–	–	1,693,077	11,459
Total held-to-maturity securities	2,277,502	15,654	–	–	2,277,502	15,654
Available-for-sale:						
U.S. government securities	352,643,254	2,245,573	57,112,167	1,621,333	409,755,421	3,866,906
U.S. agency securities	213,703,196	1,694,762	7,719,093	189,042	221,422,289	1,883,804
Corporate debt securities	91,852,061	1,070,481	16,775,738	399,231	108,627,799	1,469,712
Other fixed-income securities	75,971,490	660,088	–	–	75,971,490	660,088
Mexican government securities (UMS)	5,506,801	46,803	–	–	5,506,801	46,803
Mortgage-backed securities	2,802,374	21,201	–	–	2,802,374	21,201
Total available-for-sale investment securities	742,479,176	5,738,908	81,606,998	2,209,606	824,086,174	7,948,514
Total temporarily impaired securities	$ 744,756,678	$ 5,754,562	$81,606,998	$ 2,209,606	$ 826,363,676	$ 7,964,168

None of the unrealized losses identified in the preceding table are considered to be other-than-temporary or related to a credit impairment of an issuer as of March 31, 2022. As of that same date, the Bank did not have the intent to sell any of the securities with unrealized losses and believed that it was more-likely-than-not that the Bank would not be required to sell any such securities before a recovery of cost.

3. Investments (continued)

Contractual maturities of investments as of March 31, 2022 and December 31, 2021 are summarized in the following table.

	Held-to-Maturity Securities		Available-for-Sale Securities	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
March 31, 2022				
Less than 1 year	$ 2,398,174	$ 2,404,377	$ 419,250,698	$ 420,747,290
1–5 years	1,697,076	1,747,009	620,106,334	647,421,102
5–10 years	–	–	5,091,400	5,272,775
More than 10 years	–	–	–	–
Mortgage-backed securities	–	–	6,427,182	6,740,672
	$ 4,095,250	$ 4,151,386	$ 1,050,875,614	$ 1,080,181,839
December 31, 2021				
Less than 1 year	$ 2,382,319	$ 2,376,262	$ 349,281,786	$ 349,283,489
1–5 years	1,735,278	1,750,651	596,683,974	603,023,691
5–10 years	–	–	8,589,753	8,894,011
More than 10 years	–	–	–	–
Mortgage-backed securities	–	–	7,230,914	7,204,323
	$ 4,117,597	$ 4,126,913	$ 961,786,427	$ 968,405,514

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

The following table summarizes sale and maturity activity of investment securities for the three months ended March 31, 2022 and 2021.

	Three Months Ended March 31,	
	2022	2021
Held-to-maturity investment securities:		
Proceeds from maturities	$ 599,000	$ 1,704,000
Available-for-sale investment securities:		
Proceeds from sales and maturities	106,001,600	375,141,314
Gross realized gains	62,795	11,456
Gross realized losses	152,507	9,600

3. Investments (continued)

The following table sets forth the net unrealized gains (losses) on securities available-for-sale and the reclassification adjustments required for the three months ended March 31, 2022 and the year ended December 31, 2021.

	Three Months Ended March 31, 2022	Year Ended December 31, 2021
Net unrealized gain (loss) on investment securities available-for-sale, beginning of year	$ (6,619,087)	$ 5,558,259
Net unrealized gains (losses) on investment securities available-for-sale, arising during the year	(22,776,850)	(11,238,857)
Reclassification adjustments for net (gains) losses on investment securities available-for-sale included in net income	89,712	(938,489)
Net unrealized gain (loss) on investment securities available-for-sale, end of year	$ (29,306,225)	$ (6,619,087)

4. Loans

The following schedule summarizes loans outstanding as of March 31,2022 and December 31, 2021.

	March 31, 2022	December 31, 2021
Loan balance	$ 962,360,674	$ 976,510,337
Allowance for loan losses:		
General	(19,776,189)	(19,737,912)
Specific	(2,401,420)	(2,401,420)
Unamortized loan fees	(6,421,107)	(6,590,402)
Foreign currency exchange rate adjustment	(35,895,413)	(37,886,330)
Fair value of hedged items	(100,864,843)	(93,844,578)
Net loans outstanding	$ 797,001,702	$ 816,049,695

At March 31, 2022 and December 31, 2021, outstanding unfunded loan commitments on signed loan agreements totaled $85,070,210 and $81,670,001, respectively. As of March 31, 2022, the Bank had loan agreements under development for an additional $225,835,092.

The Bank under certain circumstances offered below-market-rate loans under its Low Interest Rate Lending Facility (LIRF) program, which was terminated in May 2013. As of March 31, 2022 and December 31, 2021, the Bank had LIRF loans outstanding of $19,202,154 and $20,330,073, respectively.

4. Loans (continued)

The following table presents the loan portfolio by sector as of March 31, 2022 and December 31, 2021.

	March 31, 2022	December 31, 2021
Water	$ 127,383,963	$ 129,704,494
Solid waste	1,210,000	1,780,000
Air quality	78,099,012	83,342,652
Sustainable energy	691,095,676	696,321,733
Urban development	30,676,897	31,150,045
ProRec[1]	33,895,126	34,211,413
	$ 962,360,674	$ 976,510,337

[1] On May 21, 2020, the Board of Directors approved a COVID-19 Recovery Program (ProRec). The program's objective is to enhance the economic recovery and the general health and welfare of U.S.-Mexico border communities, supporting projects with a positive environmental impact.

The following table presents the loan portfolio by borrower type as of March 31, 2022 and December 31, 2021.

	March 31, 2022	December 31, 2021
Private	$ 708,961,960	$ 717,099,855
Public	192,597,980	197,480,140
Public-private	60,800,734	61,930,342
	$ 962,360,674	$ 976,510,337

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

4. Loans (continued)

The following table presents the loan portfolio by risk category as of as of March 31, 2022 and December 31, 2021. These risk categories are defined in Note 2, along with additional information on how the Bank evaluates credit quality.

	March 31, 2022	December 31, 2021[1.]
AAA	$ 61,719,840	$ 75,037,230
AA+	–	–
AA	16,055,000	12,285,000
AA-	–	–
A+	52,427,200	51,072,200
A	129,335,000	128,600,000
A-	11,853,272	5,224,251
BBB+	17,155,126	17,421,413
BBB	147,459,348	150,887,499
BBB-	27,013,420	27,379,423
BB+	176,231,928	177,357,817
BB	128,479,800	102,325,724
BB-	149,632,269	183,404,581
B+	28,895,325	28,958,541
B	2,755,000	2,805,000
B-	13,348,146	13,751,658
C	–	–
	$ 962,360,674	$ 976,510,337

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

The Bank has one non-accrual loan that was restructured and designated as impaired, and as of March 31, 2022 and December 31, 2021, had an outstanding balance of $13,348,146 and $13,464,043, respectively. There was no charge-off of principal and interest related to this restructured loan. The specific allowance for this loan totaled $2,401,420 as of March 31, 2022 and December 31, 2021.

No loans were restructured during the three months ended March 31, 2022 and year ended December 31, 2021. The average impaired loan balance for the three months ended March 31, 2022 and year ended December 31, 2021 totaled $13,425,411 and $13,642,191, respectively.

4. Loans (continued)

An age analysis of past-due loans, including both accruing and non-accruing loans, as of March 31, 2022 and December 31, 2021, is shown in the following table.

	Loans 30–89 days past due	Loans 90 or more days past due	Total loans 30+ days past due
March 31, 2022	$ –	$ –	$ –
December 31, 2021	–	–	–

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

The following table summarizes the allowance for loan losses by classification as of March 31, 2022 and December 31, 2021.

	Allowance for Loan Losses			
	General Allowance	Specific Allowance	Total	Total Loans Outstanding
March 31, 2022				
Mexico:				
Construction	$ –	$ –	$ –	$ –
Operation	14,864,273	2,401,420	17,265,693	670,322,544
Total Mexico	14,864,273	2,401,420	17,265,693	670,322,544
United States:				
Construction	949,812	–	949,812	42,166,372
Operation	3,962,104	–	3,962,104	249,871,758
Total United States	4,911,916	–	4,911,916	292,038,130
	$ 19,776,189	$ 2,401,420	$ 22,177,609	$ 962,360,674
December 31, 2021				
Mexico:				
Construction	$ –	$ –	$ –	$ –
Operation	14,802,385	2,401,420	17,203,805	683,128,760
Total Mexico	14,802,385	2,401,420	17,203,805	683,128,760
United States:				
Construction	947,136	–	947,136	42,036,981
Operation	3,988,391	–	3,988,391	251,344,596
Total United States	4,935,527	–	4,935,527	293,381,577
	$ 19,737,912	$ 2,401,420	$ 22,139,332	$ 976,510,337

4. Loans (continued)

The following schedule summarizes the changes in the allowance for loan losses for the three months ended March 31, 2022 and year ended December 31, 2021.

		Change in Allowance for Loan Losses			
	Beginning Balance	Specific Provisions	General Provisions	Loan (Charge-offs) Recoveries	Ending Balance
March 31, 2022					
Mexico:					
Construction	$ –	$ –	$ –	$ –	$ –
Operation	17,203,805	–	61,888	–	17,265,693
Total Mexico	17,203,805	–	61,888	–	17,265,693
United States:					
Construction	947,136	–	2,676	–	949,812
Operation	3,988,391	–	(26,287)	–	3,962,104
Total United States	4,935,527	–	(23,611)	–	4,911,916
	$ 22,139,332	$ –	$ 38,277	$ –	$ 22,177,609
December 31, 2021					
Mexico:					
Construction	$ 1,504,980	$ –	$ (1,504,980)	$ –	$ –
Operation	14,084,408	–	3,119,397	–	17,203,805
Total Mexico	15,589,388	–	1,614,417	–	17,203,805
United States:					
Construction	5,831	–	941,305	–	947,136
Operation	3,640,263	–	348,128	–	3,988,391
Total United States	3,646,094	–	1,289,433	–	4,935,527
	$ 19,235,482	$ –	$ 2,903,850	$ –	$ 22,139,332

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 March 31, 2022 and December 31, 2021.

	Gross Amount	Master Netting Arrangements	Net Amount
March 31, 2022			
Assets			
Cross-currency interest rate swaps	$ 141,449,552	$ (24,602,800)	$ 116,846,752
Interest rate swaps	11,127,412	(358,082)	10,769,330
Options	6,496,345	–	6,496,345
Collateral from counterparty	–	–	–
Credit valuation adjustment for swaps	(2,183,997)	–	(2,183,997)
Right-of-use lease asset	901,921	–	901,921
Total other assets	$ 157,791,233	$ (24,960,882)	$ 132,830,351
Liabilities			
Cross-currency interest rate swaps	$ 601,144	$ –	$ 601,144
Interest rate swaps	–	–	–
Total other liabilities	$ 601,144	$ –	$ 601,144
December 31, 2021			
Assets			
Cross-currency interest rate swaps	$ 166,428,744	$ (15,168,883)	$ 151,259,861
Interest rate swaps	7,811,447	–	7,811,447
Options	8,701,951	–	8,701,951
Collateral from counterparty	(9,600,000)	–	(9,600,000)
Credit valuation adjustment for swaps	(2,575,361)	–	(2,575,361)
Total other assets	$ 170,766,781	$ (15,168,883)	$ 155,597,898
Liabilities			
Cross-currency interest rate swaps	$ 309,166	$ –	$ 309,166
Interest rate swaps	–	–	–
Total other liabilities	$ 309,166	$ –	$ 309,166

6. Debt

The following tables summarize the notes payable and other borrowings as of March 31, 2022 and December 31, 2021.

			March 31, 2022					
Issue Date	Maturity Date	Fixed Rate	Principal Amount	Unamortized Premium/ (Discount)	Unamortized Debt Issuance Costs	FX Translation Adjustment	Fair Value of Hedged Items	Net Debt
Notes Payable								
USD Issuance								
12/17/12	10/26/22	2.40%	$ 150,002,000	$ (179,580)	$ (44,702)	$ –	$ 255,762	$ 150,033,480
12/17/12	12/17/30	3.30	50,000,000	–	(149,759)	–	(358,082)	49,492,159
CHF Issuance								
04/30/15	04/30/25	0.25	128,706,754	258,629	(256,125)	–	4,059,735	132,768,993
04/26/17	10/26/27	0.20	124,443,117	232,882	(398,491)	–	2,502,064	126,779,572
07/24/18	07/24/26	0.30	126,415,858	86,224	(439,302)	–	6,048,732	132,111,512
05/28/20	11/28/28	0.20	186,316,116	16,814	(839,859)	8,816,411	–	194,309,482
05/28/20	05/27/33	0.55	165,614,326	608,893	(909,640)	7,836,810	–	173,150,389
NOK Issuance								
03/10/17	03/10/31	2.47	86,724,283	–	(188,357)	–	(13,095,545)	73,440,381
03/10/17	03/10/32	2.47	86,724,283	–	(195,460)	–	(13,668,239)	72,860,584
Total notes payable			1,104,946,737	1,023,862	(3,421,695)	16,653,221	(14,255,573)	1,104,946,552
Other Borrowings								
07/29/15	06/30/22	1.90	266,455	–	–	–	–	266,455
09/16/16	06/30/22	1.90	2,216,528	–	–	–	–	2,216,528
03/17/17	06/30/22	1.90	149,017	–	–	–	–	149,017
03/17/17	12/30/22	1.90	2,632,000	–	–	–	–	2,632,000
03/17/17	06/30/23	1.90	2,632,000	–	–	–	–	2,632,000
03/17/17	12/30/23	1.90	2,632,000	–	–	–	–	2,632,000
03/17/17	06/30/24	1.90	2,632,000	–	–	–	–	2,632,000
03/17/17	12/30/24	1.90	2,170,720	–	–	–	–	2,170,720
11/13/17	12/30/24	1.90	461,280	–	–	–	–	461,280
Total other borrowings			15,792,000	–	–	–	–	15,792,000
			$ 1,120,738,737	$ 1,023,862	$ (3,421,695)	$ 16,653,221	$ (14,255,573)	$ 1,120,738,552

6. Debt (continued)

Issue Date	Maturity Date	Fixed Rate	December 31, 2021 Principal Amount	Unamortized Premium/ (Discount)	Unamortized Debt Issuance Costs	FX Translation Adjustment	Fair Value of Hedged Items	Net Debt
Notes Payable								
USD Issuance								
12/17/12	10/26/22	2.40%	$ 150,002,000	$ (258,419)	$ (64,327)	$ –	$ 1,477,591	$ 151,156,845
12/17/12	12/17/30	3.30	50,000,000	–	(154,056)	–	3,322,021	53,167,965
CHF Issuance								
04/30/15	04/30/25	0.25	128,706,754	282,521	(276,892)	–	8,294,718	137,007,101
04/26/17	10/26/27	0.20	124,443,117	245,878	(416,378)	–	9,221,997	133,494,614
07/24/18	07/24/26	0.30	126,415,858	92,174	(464,761)	–	11,746,103	137,789,374
05/28/20	11/28/28	0.20	186,316,116	17,628	(871,395)	10,855,566	–	196,317,915
05/28/20	05/27/33	0.55	165,614,326	629,044	(930,025)	9,649,391	–	174,962,736
NOK Issuance								
03/10/17	03/10/31	2.47	86,724,283	–	(193,623)	–	(7,902,543)	78,628,117
03/10/17	03/10/32	2.47	86,724,283	–	(200,375)	–	(8,169,059)	78,354,849
Total notes payable			1,104,946,737	1,008,826	(3,571,832)	20,504,957	17,990,828	1,140,879,516
Other Borrowings								
07/29/15	06/30/22	1.90	266,455	–	–	–	–	266,455
09/16/16	06/30/22	1.90	2,216,528	–	–	–	–	2,216,528
03/17/17	06/30/22	1.90	149,017	–	–	–	–	149,017
03/17/17	12/30/22	1.90	2,632,000	–	–	–	–	2,632,000
03/17/17	06/30/23	1.90	2,632,000	–	–	–	–	2,632,000
03/17/17	12/30/23	1.90	2,632,000	–	–	–	–	2,632,000
03/17/17	06/30/24	1.90	2,632,000	–	–	–	–	2,632,000
03/17/17	12/30/24	1.90	2,170,720	–	–	–	–	2,170,720
11/13/17	12/30/24	1.90	461,280	–	–	–	–	461,280
Total other borrowings			15,792,000	–	–	–	–	15,792,000
			$ 1,120,738,737	$ 1,008,826	$ (3,571,832)	$ 20,504,957	$ 17,990,828	$ 1,156,671,516

Notes Payable

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

The fair value of the hedges relating to interest rate swaps on notes payable denominated in U.S. dollars was reported at March 31, 2022 and December 31, 2021 as other assets of $(102,320) and $4,799,612, respectively. The fair value of the hedges relating to cross-currency interest rate swaps on notes payable not denominated in U.S. dollars was

6. Debt (continued)

reported at March 31, 2022 and December 31, 2021 as other assets of $1,609,512 and of $29,595,181, respectively. The fair value of hedges relating to options on notes payable not denominated in U.S. dollars was reported at March 31, 2022 and December 31, 2021 as other assets of $6,496,345 and $8,701,951, respectively. Additional information on the fair value of financial instruments and derivatives is provided in Notes 10 and 11.

Other Borrowings

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

The following table summarizes the maturities of the notes payable and other borrowings as of March 31, 2022 and December 31, 2021.

	March 31, 2022	December 31, 2021
Less than 1 year	$ 155,266,000	$ 155,266,000
1–2 years	5,264,000	5,264,000
2–3 years	5,264,000	5,264,000
3–4 years	128,706,754	128,706,754
4–5 years	126,415,858	126,415,858
5–10 years	534,207,799	447,483,516
More than 10 years	165,614,326	252,338,609
Total	$ 1,120,738,737	$ 1,120,738,737

The following table summarizes short-term and long-term debt as of March 31, 2022 and December 31, 2021.

	March 31, 2022	December 31, 2021
Short-term debt:		
Notes payable	$ 150,002,000	$ 150,002,000
Other borrowings	5,264,000	5,264,000
Total short-term debt	155,266,000	155,266,000
Long-term debt:		
Notes payable	954,944,737	954,944,737
Other borrowings	10,528,000	10,528,000
Total long-term debt	965,472,737	965,472,737
Total debt	$ 1,120,738,737	$ 1,120,738,737

7. Equity

Subscribed Capital

At March 31, 2022 and December 31, 2021, the shareholders of the Bank had subscribed 600,000 shares of capital stock, with a par value of $10,000 per share. As defined in the Charter, capital includes unqualified and qualified subscribed shares. Qualified subscribed shares are subject to the necessary legal requirements of each subscribing country. Unqualified subscribed shares have either been funded or authorized for purchase by the subscribing country. Capital is further classified as callable or paid-in capital at March 31, 2022 and December 31, 2021 as shown in the following table.

	Mexico		United States		Total	
	Shares	USD Thousand	Shares	USD Thousand	Shares	USD Thousand
Subscribed capital	300,000	$ 3,000,000	300,000	$ 3,000,000	600,000	$ 6,000,000
Qualified callable capital	(115,317)	(1,153,170)	(102,000)	(1,020,000)	(217,317)	(2,173,170)
Unqualified callable capital	(139,683)	(1,396,830)	(153,000)	(1,530,000)	(292,683)	(2,926,830)
Qualified paid-in capital	(20,350)	(203,500)	–	–	(20,350)	(203,500)
Total funded paid-in capital	24,650	246,500	45,000	450,000	69,650	696,500
Restricted from commitments	–	–	–	(165,000)	–	(165,000)
Transferred to Domestic Programs	–	(22,500)	–	(22,500)	–	(45,000)
Total paid-in capital	24,650	$ 224,000	45,000	$ 262,500	69,650	$ 486,500

In 1994, the initial subscribed capital of the Bank was $3,000,000,000 with equal commitments from Mexico and the United States. Each government subscribed 150,000 shares of capital with a par value of $10,000 per share ($1,500,000,000). By 2009, the Bank had received $225,000,000 in paid-in capital and $1,275,000,000 in unqualified callable capital from each country for a total of $450,000,000 paid-in capital and $2,550,000,000 unqualified callable capital.[1]

In 2015, Mexico and the United States agreed to a General Capital Increase (GCI) of 300,000 shares ($3,000,000,000), bringing the Bank's subscribed capital to $6,000,000,000. With this GCI, each government subscribed an additional 150,000 shares ($1,500,000,000).

On May 6, 2016, Mexico submitted its letter of subscription to conditionally subscribe to 150,000 additional shares of capital stock, subject to the necessary legal requirements and availability of budget allocations.

On September 1, 2016, the United States submitted its letter of subscription to conditionally subscribe to 150,000 additional shares of capital stock, subject to the necessary authorizing legislation and availability of appropriations.

[1] The Charter allows up to 10% each country's subscription of paid-in and callable capital to be set aside to finance community adjustment and investment programs (the Domestic Programs). In prior years, the Bank transferred $45 million or 10% of the initial paid-in capital to those programs.

7. Equity (continued)

On September 26, 2016, Mexico made its first GCI contribution, which unqualified 1,000 shares of paid-in capital ($10,000,000) and unqualified 5,667 shares of callable capital ($56,670,000).

In April 2020, the United States made its first GCI contribution, which unqualified 1,000 shares of paid-in capital ($10,000,000) and unqualified 5,667 shares of callable capital ($56,670,000).

On August 6, 2020, the United States completed its paid-in capital commitment under the GCI by unqualifying its subscription to 21,500 shares of paid-in capital ($215,000,000). Of this amount, $165,000,000 is restricted from commitment, until Mexico unqualifies corresponding payments, and is recorded as a deferred U.S. capital contribution in the consolidated balance sheets. On this date, the United States also unqualified its subscription to 19,833 shares of callable capital ($198,330,000).

In May 2021, Mexico made its second GCI contribution, which unqualified 1,150 shares of paid-in capital ($11,500,000) and unqualified 6,516 shares of callable capital ($65,160,000).

In accordance with Board Resolution BR 2020-7, the remaining subscriptions shall be made in several installments by December 31, 2028, 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 Chapter II, Article II, Section 3(d) of the Charter.

Retained Earnings

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

	March 31, 2022	December 31, 2021
Designated retained earnings		
Technical Assistance Program (TAP)	$ 1,814,766	$ 1,814,766
Community Assistance Program (CAP)	5,636,619	5,862,458
Total designated retained earnings	7,451,385	7,677,224
Reserved retained earnings		
Debt Service Reserve	22,103,000	22,103,000
Operating Expenses Reserve	23,913,682	23,913,682
Special Reserve	30,000,000	30,000,000
Capital Preservation Reserve	116,366,267	116,366,267
Total reserved retained earnings	192,382,949	192,382,949
Undesignated retained earnings		
Operations	87,434,391	86,409,095
Mark-to-market hedge valuations	(2,333,784)	(856,688)
Total undesignated retained earnings	85,100,607	85,552,407
Total retained earnings	$ 284,934,941	$ 285,612,580

7. Equity (continued)

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

Accumulated Other Comprehensive Income (Loss)

The following table presents the changes in accumulated other comprehensive income (loss) for the three months ended March 31, 2022 and year ended December 31, 2021.

	Beginning Balance	Period Activity	Ending Balance
March 31, 2022			
Net unrealized gain (loss) on available-for-sale investment securities	$ (6,619,087)	$ (22,687,138)	$ (29,306,225)
Post-retirement benefit liability adjustment	(142,488)	–	(142,488)
Foreign currency translation adjustment	391,273	(62,675)	328,598
Unrealized gain (loss) on hedging activities:			
Foreign currency translation adjustment	(32,333,581)	4,925,987	(27,407,594)
Fair value of cross-currency interest rate swaps and options, net	43,450,840	(5,951,923)	37,498,917
Net unrealized gain (loss) on hedging activities	11,117,259	(1,025,936)	10,091,323
Total accumulated other comprehensive income (loss)	$ 4,746,957	$ (23,775,749)	$ (19,028,792)
December 31, 2021			
Net unrealized gain (loss) on available-for-sale investment securities	$ 5,558,259	$ (12,177,346)	$ (6,619,087)
Post-retirement benefit liability adjustment	–	(142,488)	(142,488)
Foreign currency translation adjustment	340,956	50,317	391,273
Unrealized gain (loss) on hedging activities:			
Foreign currency translation adjustment	(48,981,214)	16,647,633	(32,333,581)
Fair value of cross-currency interest rate swaps and options, net	58,345,819	(14,894,979)	43,450,840
Net unrealized gain on hedging activities	9,364,605	1,752,654	11,117,259
Total accumulated other comprehensive income (loss)	$ 15,263,820	$ (10,516,863)	$ 4,746,957

Hedging Activities in Other Comprehensive Income

The following table summarizes the net unrealized gain (loss) on derivatives designated as cash flow hedges and their related hedged items included in other comprehensive income for the three months ended March 31, 2022 and year ended December 31, 2021.

	Three Months Ended March 31, 2022	Year Ended December 31, 2021
Cross-currency swaps and hedged items for loans, net	$ (1,818,657)	$ (1,280,660)
Cross-currency swaps, options and hedged items for debt, net	792,721	3,033,314
Total	$ (1,025,936)	$ 1,752,654

7. Equity (continued)

For the three months ended March 31, 2022 and year ended December 31, 2021, $0 and $787,836, respectively, were reclassified from other comprehensive income and recorded as a component of net swap and debt settlements in the consolidated statements of income.

8. Grant Programs

Bank-funded Grant Programs

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. Subject to annual limits, the CAP program is funded from the Bank's undesignated retained earnings as authorized by the Board. As of March 31, 2022, a cumulative total of $14,092,840 has been allocated to the CAP and $8,456,221 has been disbursed. For the three months ended March 31, 2022 and 2021, the Bank disbursed $225,839 and $133,326, respectively, under this program, which were reported as grant disbursements in the consolidated statements of income.

Technical Assistance Program (TAP)
The Bank designated a portion of its retained earnings as authorized by the Board of Directors to offer technical assistance and training to project sponsors for the purpose of strengthening their financial performance and ensuring the long-term sustainability of their infrastructure, subject to annual limits. For the three months ended March 31, 2022 and 2021, $0 and $120,144, respectively, were disbursed under this program. These grant disbursements are reported in the consolidated statements of income.

As part of its technical assistance program, the Utility Management Institute (UMI) provides water utility managers and their staff with an opportunity for ongoing professional development aimed at enhancing their managerial and financial skills. For the three months ended March 31, 2022 and 2021, no funds were disbursed under this program.

COVID-19 Recovery Program (ProRec)
On May 21, 2020, the Board of Directors approved the ProRec program including an allocation of $3 million for technical assistance grants (see Note 4). For the three months ended March 31, 2022 and 2021, no funds were disbursed under this program.

8. Grant Programs (continued)

The following table summarizes Bank-funded grant disbursements for the three months ended March 31, 2022 and 2021, as reported in the consolidated statement of income.

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
Community Assistance Program (CAP)	$ 225,839	$ 133,326
Technical Assistance Program (TAP)	–	120,144
Utility Management Institute (UMI)	–	–
COVID-19 Recovery Program (ProRec)	–	–
Total grant disbursements	$ 225,839	$ 253,470

In 2021, the Bank received a grant from the U.S. Department of State (DOS) for $1,902,000 that was designated for CAP and TAP. For the three months ended March 31, 2022 and 2021, the Bank disbursed $134,347 and $0, respectively in DOS funds under CAP and $27,335 and $0, respectively under TAP. The disbursement of DOS funds is reflected in the consolidated statements of cash flows. As of March 31, 2022 and December 31, 2021, the remaining DOS funds totaled $299,181 and $460,863, respectively.

Grant Programs Funded by Third Parties

Border Environment Infrastructure Fund (BEIF)

Through this program, the Bank administers grant funds from EPA to support the implementation of priority water and wastewater infrastructure projects. EPA grant awards since the initial grant made in April 1997 to March 31, 2022, total $766,957,902. Under the terms of the grants, the Bank reviews and submits prospective projects to EPA. EPA approves the projects, which are subsequently certified for financing by the Board of Directors. EPA then disburses funds to the Bank, which directs the grant monies to the specified project. The Bank also oversees progress and compliance requirements for EPA and receives an allocation of the EPA grant funds for administrative expenses incurred.

As of March 31, 2022, EPA has approved project funding proposed by the Bank totaling $698,918,402, of which $670,568,297 has been disbursed through the Bank. For the three months ended March 31, 2022 and 2021, the Bank disbursed $3,673,786 and $2,584,795, respectively, in grants for project implementation. Since the Bank administers these funds, the grant disbursements are reflected in the consolidated statements of cash flows. The Bank recognized $235,883 and $219,582 as reimbursement of expenses incurred for the three months ended March 31, 2022 and 2021, respectively. These expenses and reimbursements are reflected in the consolidated statements of income.

8. Grant Programs (continued)

Project Development Assistance Program (PDAP)

The Bank administers grant funding from EPA to provide technical assistance to communities for the development of water and wastewater projects that have been prioritized by EPA to receive a BEIF grant. For the three months ended March 31, 2022 and 2021, the Bank disbursed $408,266 and $428,175, respectively, for technical assistance. Since the Bank administers these funds, the grant disbursements are reflected in the consolidated statements of cash flows. The Bank recognized $200,114 and $218,134 as reimbursement of expenses incurred for the three months ended March 31, 2022 and 2021, respectively. These expenses and reimbursements are reflected in the consolidated statements of income.

U.S.-Mexico Environmental Border 2025 Program

The Bank administers grant funding from EPA to support the joint efforts of the two governments to improve the environment and protect the health of residents within 100 kilometers of the U.S.-Mexico border. The Bank provides logistical and administrative services to identify, contract and manage technical assistance projects and workshops funded through the program. For the three months ended March 31, 2022 and 2021, the Bank disbursed $84,334 and $102,738, respectively, to support these projects. Since the Bank administers these funds, the grant disbursements are reflected in the consolidated statements of cash flows. The Bank recognized $66,506 and $24,758 as reimbursement of expenses incurred for the three months ended March 31, 2022 and 2021, respectively. These expenses and reimbursements are reflected in the consolidated statements of income.

9. Employee Benefits

401(a) Retirement Plan

The Bank has a 401(a) Retirement Plan for its employees. This plan provides for employee and nondiscretionary employer contributions. For the three months ended March 31, 2022 and 2021, the Bank expended $314,464 and $303,661, respectively, relating to the plan.

Post-retirement Health Insurance Plan

The Bank has a post-retirement health insurance plan for qualifying employees based on number of years of service and age. Qualified retirees may purchase group health insurance coverage at the current employee rate subject to the plan limits. The plan is funded by the Bank as benefits are paid. The Bank paid benefits of $10,892 and $7,854 for the three months ended March 31, 2022 and 2021, respectively. As of March 31, 2022, the unfunded portion of the plan totaled $3,383,815 and is reflected in the consolidated balance sheet as a component of accrued liability and long-term liability of $65,750 and $3,318,065, respectively. As of December 31, 2021, the unfunded portion of the plan totaled $3,296,707 and is reflected in the consolidated balance sheet as a component of accrued liability and long-term liability of $60,000 and $3,236,707, respectively.

9. Employee Benefits (continued)

The following table presents the change in benefit obligations as of March 31, 2022 and December 31, 2021.

	March 31, 2022	December 31, 2021
Beginning balance	$ 3,296,707	$ 2,840,674
Service expense	75,750	267,000
Interest expense	22,250	81,000
Net benefits paid	(10,892)	(34,455)
Actuarial loss (gain)	–	142,488
Ending balance	$ 3,383,815	$ 3,296,707

The change in post-retirement health plan assets as of March 31, 2022 and December 31, 2021 is presented in the following table.

	March 31, 2022	December 31, 2021
Beginning balance	$ –	$ –
Employer contributions	10,892	34,455
Net benefits paid	(10,892)	(34,455)
Ending balance	$ –	$ –

The following table presents post-retirement health plan liabilities as of March 31, 2022 and December 31, 2021.

	March 31, 2022	December 31, 2021
Current liabilities	$ 65,750	$ 60,000
Non-current liabilities	3,318,065	3,236,707
Total	$ 3,383,815	$ 3,296,707

The net periodic benefit cost of the post-retirement health plan for three months ended March 31, 2022 and 2021 is presented in the following table.

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
Service expense	$ 75,750	$ 66,750
Interest expense	22,250	20,250
Total	$ 98,000	$ 87,000

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

9. Employee Benefits (continued)

The assumptions used to determine the benefit obligations and net periodic post-retirement benefit costs of the plan as of March 31, 2022 and December 31, 2021 are presented below.

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

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

April 1 - December 31, 2022	$	45,000
Year ending December 31:		
2023		80,000
2024		98,000
2025		128,000
2026		163,000
2027-2031		1,247,000

10. Fair Value of Financial Instruments

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

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

Held-to-Maturity Securities
Securities classified as held-to-maturity are reported at amortized costs. 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.

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

10. Fair Value of Financial Instruments (continued)

Loans Receivable and Interest Receivable

The fair value of loans is estimated using discounted cash flow analyses and interest rates currently being offered for loans made by the Bank with similar terms to borrowers of similar credit quality, net of allowance for loan loss, unamortized loan fees, foreign currency exchange rate adjustment and hedged items. 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. 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.

Hedged Items for Loans

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

Cross-currency interest rate Swaps

Cross-currency interest rate swaps are reported at fair value using Level 2 observable inputs. The fair value of these swaps is estimated based on discounting procedures, whereby each cash flow stream is discounted using the benchmark swap curve of the respective currency and converting the resulting net present value at the spot exchange rate, as well as other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The Bank's cross-currency interest rate swaps are all Mexican-peso for U.S.-dollar operations except for six (6) debt issuances in foreign currencies for U.S.-dollar operations. Cash flows in Mexican pesos are discounted using the TIIE 28-day swap curve. Cash flows in Swiss francs (CHF) are discounted using the CHF swap curve. Cash flows in Norwegian krone (NOK) are discounted using the NOK swap curve. Cash flows in U.S. dollars are discounted using the USD OIS curve.

Interest Rate Swaps

Interest rate swaps are reported at fair value using Level 2 observable inputs. The fair value of these swaps is estimated based on discounting procedures, whereby each cash flow stream is discounted using the USD OIS curve, as well as other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Options

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

10. Fair Value of Financial Instruments (continued)

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

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

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

	March 31, 2022		December 31, 2021	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets				
Cash and cash equivalents	$ 57,736,020	$ 57,736,020	$ 163,901,393	$ 163,901,393
Held-to-maturity securities	4,151,386	4,095,250	4,126,913	4,117,597
Available-for-sale securities	1,050,875,614	1,050,875,614	961,786,427	961,786,427
Loans, net	797,001,702	848,724,338	816,049,695	890,844,826
Interest receivable	8,855,441	8,855,441	11,466,441	11,466,441
Cross-currency interest rate swaps	116,846,752	116,846,752	151,259,861	151,259,861
Interest rate swaps	10,769,330	10,769,330	7,811,447	7,811,447
Options	6,496,345	6,496,345	8,701,951	8,701,951
Liabilities				
Accrued interest payable	6,794,206	6,794,206	9,024,926	9,024,926
Short-term debt, net	155,041,719	155,041,719	154,943,254	154,943,254
Long-term debt, net	963,299,185	963,063,403	963,232,477	963,354,521
Long-term post-retirement benefits payable	3,318,065	3,318,065	3,236,707	3,236,707
Cross-currency interest rate swaps	601,144	601,144	309,166	309,166
Interest rate swaps	–	–	–	–

The Bank's financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2022 and December 31, 2021 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.

10. Fair Value of Financial Instruments (continued)

	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total Fair Value
March 31, 2022				
Assets				
Available-for-sale (AFS) securities:				
U.S. government securities	$ 623,066,174	$ –	$ –	$ 623,066,174
U.S. agency securities	182,655,033	–	–	182,655,033
Corporate debt securities	139,152,427	–	–	139,152,427
Other fixed-income securities	86,164,148	–	–	86,164,148
Mexican government securities (UMS)	13,410,650	–	–	13,410,650
Mortgage-backed securities	6,427,182	–	–	6,427,182
Total AFS securities	1,050,875,614	–	–	1,050,875,614
Cross-currency interest rate swaps	–	116,846,752	–	116,846,752
Interest rate swaps	–	10,769,330	–	10,769,330
Options	–	6,496,345	–	6,496,345
Hedged items for loans	–	–	(100,864,843)	(100,864,843)
Total assets at fair value	$ 1,050,875,614	$ 134,112,427	$ (100,864,843)	$ 1,084,123,198
Liabilities				
Cross-currency interest rate swaps	$ –	$ 601,144	$ –	$ 601,144
Interest rate swaps	–	–	–	–
Hedged items for notes payable	–	–	(14,255,573)	(14,255,573)
Total liabilities at fair value	$ –	$ 601,144	$ (14,255,573)	$ (13,654,429)
December 31, 2021				
Assets				
Available-for-sale (AFS) securities:				
U.S. government securities	$ 501,278,747	$ –	$ –	$ 501,278,747
U.S. agency securities	228,045,670	–	–	228,045,670
Corporate debt securities	132,313,229	–	–	132,313,229
Other fixed-income securities	86,312,035	–	–	86,312,035
Mexican government securities (UMS)	6,605,832	–	–	6,605,832
Mortgage-backed securities	7,230,914	–	–	7,230,914
Total AFS securities	961,786,427	–	–	961,786,427
Cross-currency interest rate swaps	–	151,259,861	–	151,259,861
Interest rate swaps	–	7,811,447	–	7,811,447
Options	–	8,701,951	–	8,701,951
Hedged items for loans	–	–	(93,844,578)	(93,844,578)
Total assets at fair value	$ 961,786,427	$ 167,773,259	$ (93,844,578)	$ 1,035,715,108
Liabilities				
Cross-currency interest rate swaps	$ –	$ 309,166	$ –	$ 309,166
Interest rate swaps	–	–	–	–
Hedged items for notes payable	–	–	17,990,828	17,990,828
Total liabilities at fair value	$ –	$ 309,166	$ 17,990,828	$ 18,299,994

10. Fair Value of Financial Instruments (continued)

The following table summarizes the changes to hedged items included in financial assets and liabilities measured at fair value on a recurring basis using unobservable inputs (Level 3) for the three months ended March 31, 2022 and the year ended December 31, 2021. Additional information on how the Bank measures fair value is provided in Note 2.

	Fair Value of Level 3 Instruments	
	March 31, 2022	December 31, 2021
Assets		
Beginning balance	$ (93,844,578)	$ (33,183,106)
Total realized and unrealized gains (losses):		
Included in earnings (expenses)	(7,020,265)	(39,892,598)
Included in other comprehensive income (loss)	–	–
Purchases	–	–
Settlements	–	(20,768,874)
Transfers in/out of Level 3	–	–
Ending balance	$ (100,864,843)	$ (93,844,578)
Liabilities		
Beginning balance	$ 17,990,828	$ 60,574,814
Total realized and unrealized gains (losses):		
Included in earnings (expenses)	(32,246,401)	(42,583,986)
Included in other comprehensive income (loss)	–	–
Purchases	–	–
Settlements	–	–
Transfers in/out of Level 3	–	–
Ending balance	$ (14,255,573)	$ 17,990,828

The Bank has no nonfinancial assets or liabilities measured at fair value on a recurring or non-recurring basis as of March 31, 2022 and December 31, 2021.

11. Derivative Financial Instruments

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

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

11. Derivative Financial Instruments (continued)

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

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

The Bank may be required to post or receive collateral based on the outstanding fair value of its derivatives. Cash collateral and receivable totaling $0 and $9,600,000 was posted from counterparties to the Bank as of March 31, 2022 and December 31, 2021, respectively. No collateral was posted by the Bank as of those same dates.

The notional amounts and estimated fair values of the swaps outstanding at March 31 2022 and December 31, 2021 are presented in the following table. The fair value of these swaps is estimated using internal valuation models with observable market data inputs.

	March 31, 2022		December 31, 2021	
	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
Cross-currency interest rate swaps	$ 1,106,595,682	$ 116,245,608	$ 1,117,228,611	$ 150,950,695
Interest rate swaps	320,442,211	10,769,330	389,292,605	7,811,447
Options	175,965,221	6,496,345	175,965,221	8,701,951

Swaps that are no longer deemed effective because of borrower default on the hedged loans are not included in the preceding table. There were no swaps that were considered ineffective due to borrower default as of March 31, 2022 and December 31, 2021.

11. Derivative Financial Instruments (continued)

Gains and Losses on Derivative Cash Flows

Cross-currency interest rate Swaps and Options – The effective portion of the gain or loss due to changes in the fair value of cross-currency interest rate swaps and options designated as cash flow hedges is included in the accompanying consolidated statements of comprehensive income, while the ineffective portion is included in income (expense) from net hedging activities. The accumulated net unrealized gain (loss) related to the swaps and options included in accumulated other comprehensive income totaled $10,091,323 and $11,117,259 at March 31, 2022 and December 31, 2021, 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 and options are reported in income (expense) from net hedging activities. For the three months ended March 31, 2022 and 2021, changes in the aforementioned swaps and options included in the accompanying consolidated statements of income were $(1,872,341) and $2,941,785, respectively.

Interest Rate Swaps – With regard to the interest rate swaps on outstanding loans and a portion of 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 three months ended March 31, 2022 and 2021, changes in the aforementioned swaps included in the accompanying consolidated statements of income were $0.

Income (Expense) from Hedging Activities

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

	Three Months Ended March 31,	
	2022	2021
Fair value hedges with swaps and hedged items for loans	$ (2,084,549)	$ (1,309,846)
Fair value hedges with swaps and hedged items for debt	994,776	(220,418)
Cash flow hedges with options and hedged items for debt	(782,567)	4,472,049
Credit valuation adjustment	391,364	77,540
Income (expense) from hedging activities, net	$ (1,480,976)	$ 3,019,325

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

12. Credit Risk Associated with Financial Instruments

The Bank is subject to certain credit risk. Financial instruments that potentially subject the Bank to significant concentrations of credit risk consist principally of cash and cash equivalents, investments, loans receivable, options, 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.

13. Commitments

In the normal course of business, the Bank has various outstanding commitments, in addition to the loans receivable disclosed in Note 4 and the long-term borrowings disclosed in Note 6. Under agreements with consultants and contractors in effect at March 31, 2022, the Bank has obligations to make payments contingent upon the future performance of the consultants and contractors under the terms of their respective contracts and, therefore, they are not recorded in the financial statements.

Operating Lease Commitments

The Bank rents office space for its headquarters in San Antonio, Texas under an operating lease that expires on February 28, 2026. As of March 31, 2022, the right-of-use lease asset totaled $901,921 and is reflected in the consolidated balance sheets as a component of other assets. As of that same date, the operating lease obligation is reflected in the consolidated balance sheet in accrued liabilities and as a long-term lease payable of $164,450 and $737,471, respectively. For the three months ended March 31, 2022 and 2021, operating lease expenses recognized on a straight-line basis totaled $57,428 and $55,458, respectively, and are included as a component of operating expenses in the consolidated statements of income.

As of March 31, 2022, the weighted average term of the lease remaining was 3.9 years and the weighted average discount rate used on the lease liability was 1.26%, which is considered a risk-free rate by the Bank in determining the present value of future lease payments as follows:

April 1 - December 31, 2022	$	172,284
Year Ending December 31,		
2023		232,492
2024		239,436
2025		240,732
2026		40,122
Total operating lease		925,066
Discount		(23,145)
Operating lease liability	$	901,921

14. Accounting Standards Updates

Accounting Standards Update (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 2019-10 amended the effective date of ASU 2016-13, making it effective for the Bank on January 1, 2023. The Bank is evaluating the potential impact of ASU 2016-13 to its consolidated financial statements and disclosures.

ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting, provides temporary optional guidance on contract modifications and hedging accounting to ease the financial reporting burdens of the expected market transaction from the London Interbank Offered Rate ("LIBOR") to alternative reference rates. In January 2021, the FASB issued ASU 2021-01, which refines the scope of Topic 848 and clarifies some of its guidance as part of the FASB's monitoring of global reference rate activities. This new guidance was effective upon issuance, and the Bank is allowed to elect to apply contract amendments prospectively through December 31, 2022. The Bank is evaluating the potential impact of ASU-2021-01 to its consolidated financial statements.

Supplementary Information

North American Development Bank
Undisbursed Third-Party Grant Funds by Program (Unaudited)
For the Three Months Ended March 31, 2022 and 2021

	EPA				Other				
	BEIF	PDAP	Border 2025	Subtotal	DOS	Air Quality Fund	Other	Subtotal	Total
Undisbursed grant funds:									
Beginning balance, January 1, 2022	$ 1,005	$ -	$ -	$ 1,005	$ 460,863	$ 25,000	$ 7,907	$ 493,770	$ 494,775
Grant receipts	3,869,828	536,994	128,770	4,535,592	-	99,753	-	99,753	4,635,345
Grant disbursements	(3,869,828)	(536,994)	(128,770)	(4,535,592)	(161,682)	(786)	-	(162,468)	(4,698,060)
Ending balance, March 31, 2022	$ 1,005	$ -	$ -	$ 1,005	$ 299,181	$ 123,967	$ 7,907	$ 431,055	$ 432,060

	EPA				Other				
	BEIF	PDAP	Border 2025	Subtotal	DOS	Air Quality Fund	Other	Subtotal	Total
Undisbursed grant funds:									
Beginning balance, January 1, 2021	$ 1,005	$ 7,327	$ -	$ 8,332	$ -	$ -	$ 8,878	$ 8,878	$ 17,210
Grant receipts	2,781,867	646,309	127,497	3,555,673	-	-	-	-	3,555,673
Grant disbursements	(2,781,867)	(653,636)	(127,497)	(3,563,000)	-	-	(971)	(971)	(3,563,971)
Ending balance, March 31, 2021	$ 1,005	$ -	$ -	$ 1,005	$ -	$ -	$ 7,907	$ 7,907	$ 8,912

North American Development Bank
Operating Expenses by Program (Unaudited)
For the Three Months Ended March 31, 2022 and 2021

March 31, 2022	**NADBank**	**EPA BEIF**	**EPA PDAP**	**EPA Border 2025**	**Other**	**Total**
Operating expenses (income)						
General and administrative:						
Personnel	$ 3,872,032	$ 163,725	$ 142,138	$ 54,828	$ 593	$ 4,233,316
Administrative	582,360	-	-	-	-	582,360
Consultants and contractors	634,257	-	-	-	-	634,257
Other	(189,243)	-	-	-	-	(189,243)
Grant expenses	-	72,158	57,976	21,285	193	151,612
Grant expense reimbursements	-	(235,883)	(200,114)	(66,506)	(786)	(503,289)
Grant expense reimbursements, net	-	(163,725)	(142,138)	(45,221)	(593)	(351,677)
Depreciation	13,555	-	-	-	-	13,555
Total operating expenses	$ 4,912,961	$ -	$ -	$ 9,607	$ -	$ 4,922,568

March 31, 2021	**NADBank**	**EPA BEIF**	**EPA PDAP**	**EPA Border 2025**	**Other**	**Total**
Operating expenses (income)						
General and administrative:						
Personnel	$ 3,345,061	$ 156,073	$ 166,251	$ 45,310	$ -	$ 3,712,695
Administrative	485,362	-	-		-	485,362
Consultants and contractors	643,596	-	-	-	-	643,596
Other	59,245	-	-	-	-	59,245
Grant expenses	-	63,509	51,883	(82)	971	116,281
Grant expense reimbursements	-	(219,582)	(218,134)	(24,758)	(971)	(463,445)
Grant expense reimbursements, net	-	(156,073)	(166,251)	(24,840)	-	(347,164)
Depreciation	28,547	-	-	-	-	28,547
Total operating expenses	$ 4,561,811	$ -	$ -	$ 20,470	$ -	$ 4,582,281

North American Development Bank
Statements of Disbursements by Source and Program (Unaudited)
For the Three Months Ended March 31, 2022 and 2021

	For the Three Months Ended March 31, 2022	2021
Loan disbursements	$ 268,713	$ 48,142,747
NADBank grant disbursements:		
CAP	225,839	133,326
TAP	-	120,144
Total NADBank grant disbursements	225,839	253,470
Third-party grant disbursements:		
EPA:		
BEIF	3,673,786	2,584,795
PDAP	408,266	428,175
Border 2025	84,334	102,739
DOS:		
CAP	134,347	-
TAP	27,335	-
Total third-party grant disbursements	4,328,068	3,115,709
Total grant disbursements	4,553,907	3,369,179
Total loan and grant disbursements	$ 4,822,620	$ 51,511,926
NADBank disbursements	$ 494,552	$ 48,396,217
Third-party disbursements	4,328,068	3,115,709
Total disbursements	$ 4,822,620	$ 51,511,926