North American Development Bank

2020 ANNUAL REPORT

Contents

North American Development Bank
Banco de Desarrollo de América del Norte


WE Wilson Electric

Our Mission

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

2020 Highlights

NADB staff successfully continued bank operations remotely despite the pandemic

US$200 million COVID-19 Recovery Program approved to support border communities affected by the pandemic

US$225 million in paid-in capital received

International capital markets tapped to issue two green bonds

New Deputy Managing Director appointed

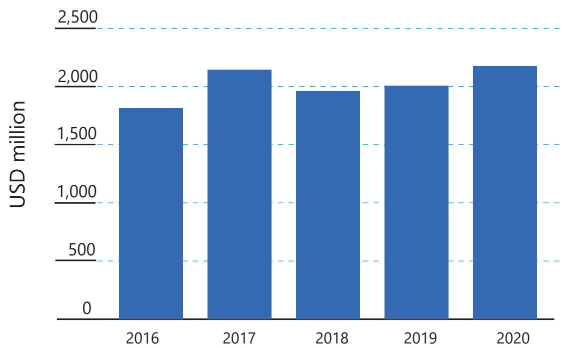
15 projects began operation benefitting 600,000 border residents

16 new projects approved representing a total investment of US$730 million

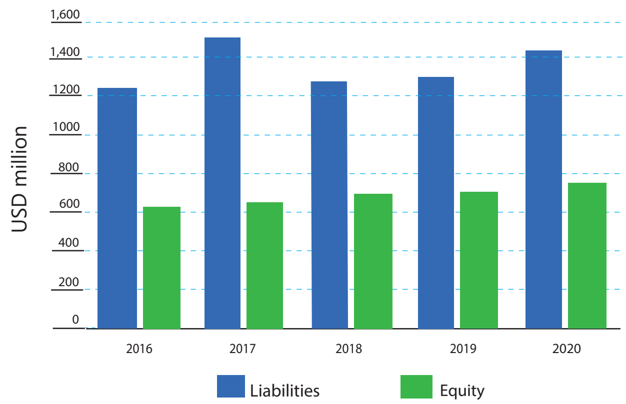
US$249.2 million in NADB financing approved

US$19.3 million in EPA-funded BEIF grants approved

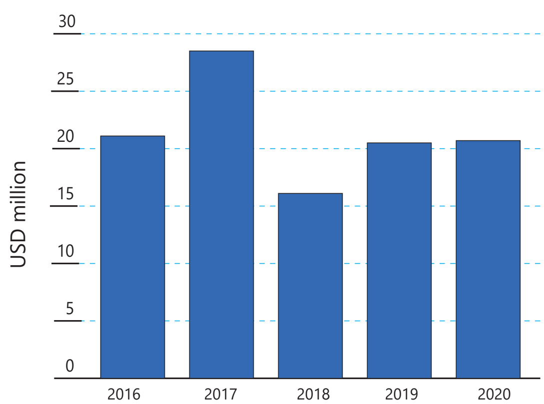
Total Assets



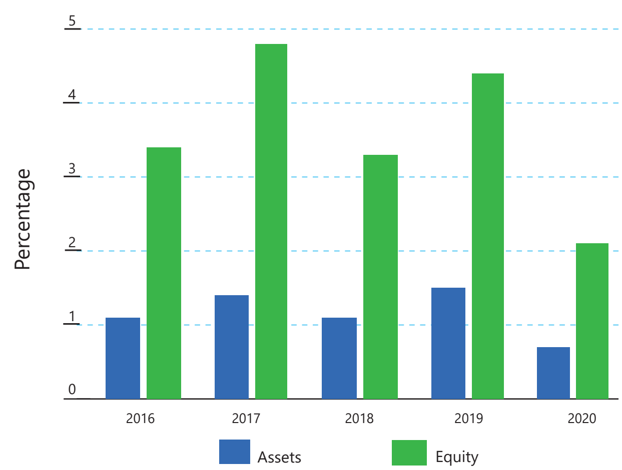
Total Liabilities and Equity



Operating Income



Return on Assets and Equity



Message from Management

Calixto Mateos Hanel
Managing Director

Salvador López Córdova
Chief Environmental Officer

While 2020 was a difficult year due to the global pandemic, the North American Development Bank (NADB) took several important steps to advance its mission of preserving, protecting and improving the environment of the U.S.-Mexico border region, including overseeing the operational start-up of 15 infrastructure projects and approving the COVID-19 Recovery Program (ProRec) to help mitigate the impact of the pandemic on border communities. In addition, NADB successfully issued two green bonds in the capital markets and received contributions from the United States related to the Bank's capital increase.

At the beginning of the year, the United States-Mexico-Canada Trade Agreement (USMCA) Implementation Act was signed into law. With this legislation, the U.S. Government completed its authorization and appropriation of its full commitment of US$225 million in additional paid-in capital for the Bank, which will gradually be matched by Mexico. These capital contributions reflect the importance of NADB in the U.S.-Mexico relationship and recognize that the dynamic border region requires focused sustainable development resources.

Similarly, the Bank reaffirmed its role as a leader in green finance by issuing two additional green bonds in global markets, channeling investor funding to environmental projects in the border region.

NADB worked diligently to identify opportunities to serve border residents and in May approved ProRec to support the economic recovery of border communities through projects that also demonstrate environmental and health benefits. Thanks to the refinancing of debt through this new program, two U.S. communities and a U.S. water utility secured loans that will generate US$6.5 million in combined savings over the life of the loans.

During the year, US$268.5 million in loans and grants was approved for 20 environmental infrastructure projects. Of that amount, US$19.3 million in grants were provided by the U.S. Environmental Protection Agency (EPA) through the Border Environment Infrastructure Fund (BEIF) administered by NADB. Nine of the new projects were in the priority sector of water.

NADB also approved its first energy storage facility to enhance grid efficiency, as well as its third border-wide vehicle program for public transportation in Mexico to improve transportation fleets and help displace criteria pollutants and greenhouse gases.

With the support and collaboration of our many partners in the border region, during the course of the year, 15 projects began operation—nine in the U.S. and six in Mexico. As detailed in this report, these projects are providing better water, wastewater and solid waste services, as well as public transportation and clean energy, for more than 600,000 residents on both sides of the border.

2020 also brought some new faces to the NADB executive team and management. At the beginning of the year, the Bank hired Julio Zamora, with more than 30 years of experience in international financial markets, as its Chief Financial Officer. Towards the end of the year, the Board of Directors announced the appointment of John Beckham, a U.S. citizen, as Deputy Managing Director beginning in January 2021. John Beckham brings more than 20 years of experience in executive leadership positions in banking, business and strategic planning to the Bank.

With the support of our Board and the dedication of the NADB staff, as well as the project sponsors and all our partners at the various local, state and federal stakeholder agencies, substantial progress has been made to fulfill the mission of the Bank. Nevertheless, significant challenges remain, not only to achieve universal water, wastewater and solid waste service coverage and replace aging infrastructure, but also to meet the growing challenges of climate change and help the border region transition to a green economy. In pursuit of its mission, the Bank is constantly exploring innovative financing options, and we look forward to working with our partners to become a nexus of bilateral cooperation in tackling these environmental challenges along our shared border in order to improve the quality of life of millions of U.S. and Mexican citizens.

We are proud to present the NADB 2020 Annual Report, which includes the report of the Chief Environmental Officer in accordance with the requirements of Chapter II, Article VII, section 4(b), of the NADB Charter.

Calixto Mateos Hanel
Managing Director

Salvador López Córdova
Chief Environmental Officer

During 2020, NADB disbursed a total of US$62.6 million in loans and grants to support the implementation 29 environmental infrastructure projects and 24 technical assistance initiatives, including US$9.6 million in grants provided by the U.S. Environmental Protection Agency (EPA) in the water sector. Of the total amount disbursed, US$44.0 million went to projects in the U.S. and US$18.6 million to projects in Mexico.

Environmental & Operational Results

NADB was specifically created to finance environmental infrastructure projects along the U.S.-Mexico border. In pursuit of its mission, NADB provides financing to public and private entities for project implementation. In addition to loans, NADB offers limited grants through its Community Assistance Program (CAP), as well as administers grants from other entities. Likewise, the Bank provides and administers technical assistance for studies and other activities to support the development and long-term sustainability of those projects.

Projects that qualify as environmental infrastructure are those that will prevent, control or reduce environmental pollutants, improve the drinking water supply or protect flora and fauna, provided that such projects also improve human health, promote sustainable development or contribute to a higher quality of life. These projects fall within five general sectors: water, solid waste, air quality, clean and efficient energy and basic urban infrastructure. In 2020, NADB also supported economic recovery efforts from the pandemic under its COVID-19 Recovery Program (ProRec).

Table 1: 2020 Activity[1]
(USD thousand)

	Approvals		Disbursements	
	Financing	Projects	Financing	Projects
Project Financing				
Water[2]	$ 25,239	13	$ 21,610	22
Solid waste	–	–	6	2
Air quality	24,330	1	6,953	1
Clean and efficient energy	186,800	3	245	1
Basic urban infrastructure	–	–	–	–
ProRec	32,095	3	32,095	3
Total	$ 268,464	20	$ 60,909	29
Technical Assistance				
Water	$ 1,782	18	$ 1,522	21
Air quality	–	–	48	1
Clean and efficient energy	–	–	112	1
ProRec	80	1	50	1
Total	$ 1,862	19	$ 1,732	24

1 The financing and technical assistance figures for water include grant funding from the U.S. Environmental Protection Agency (EPA) administered by NADB.

2 In addition to nine new projects certified in 2020, $7.06 million was also approved for four projects certified in prior years.

“The NADB Community Assistance Program (CAP) was vital to the improvements of the Whetstone Community. It provided a new water source that now allows us to perform much needed maintenance and make upgrades to our existing water sources. It also gave us a new line underneath a four-lane highway, which improved pressure throughout the system.

“The Whetstone Water Board and the community of Whetstone are very grateful a program like this exists. Without the CAP program, rates would have had to be raised to perform this much needed upgrade. During these trying times of a pandemic and being a low-income community, a rate increase would have been hard for the residents to bear.”

– Robert Salazar, Whetstone Water Improvement District Manager
Whetstone, Arizona

Water

Increasing access to sustainable and safe drinking water and eliminating exposure to unsanitary water conditions by collecting and treating wastewater in the U.S.-Mexico border region are fundamental objectives of NADB. Conserving freshwater resources in this semi-arid and drought-prone region, as well as providing adequate stormwater management to prevent contaminated runoff and harness rainwater for beneficial uses also support these objectives.

To achieve those objectives, in addition to offering financing and technical assistance with its own funds, NADB administers grants from the U.S. Environmental Protection Agency (EPA) through the Border Environment Infrastructure Fund (BEIF) for the implementation of water and wastewater infrastructure projects and through the Project Development Assistance Program (PDAP) to support their development.

During 2020, a total of US$25.2 million in financing was approved for 13 water and/or wastewater projects, consisting of US$18.2 million for nine new projects certified during the year and US$7.1 million for four projects certified in prior years. NADB also disbursed US$21.6 million to support 22 projects in various stages of implementation, including one project that received both a loan and BEIF grant. Moreover, more than 40 communities benefitted from technical support for the planning and development of water-related infrastructure projects or to strengthen their institutional capacity to manage and operate public utilities.

Table 2: 2020 Activity in Water[1]

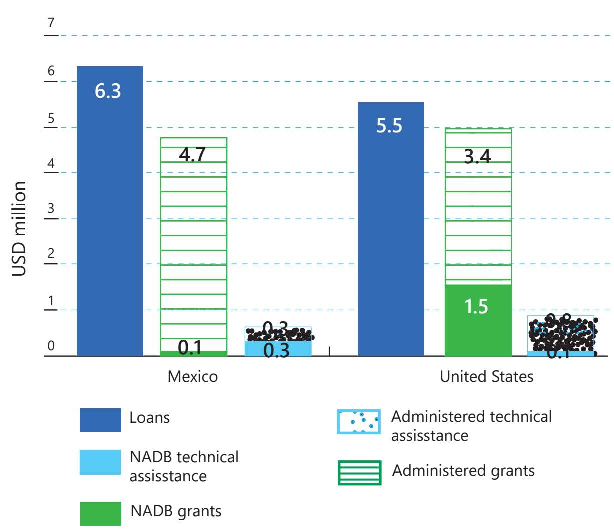
(USD million)

	Funding Approved		Funding Disbursed	
	No	Amount	No	Amount
Project Financing				
Loans	2	$ 4.96	3	$ 11.87
NADB grants	2	1.00	6	1.65
BEIF grants (EPA)	9	19.28	14	8.10
Total[2]	13	$ 25.24	23	$ 21.62
Technical Assistance				
NADB	4	0.37	7	0.42
PDAP (EPA)	14	1.41	14	1.10
Total	18	$ 1.78	21	$ 1.52

1 Border Environment Infrastructure Fund (BEIF) and the Project Development Assistance Program (PDAP) are funded by EPA and administered by NADB.

2 Disbursements were made under 23 financing agreements—three loans and 20 grants—to support the implementation of 22 projects. One project received both loan and grant funding.

Figure 1: 2020 Disbursements by Country



"The Pena Blanca Wastewater System Improvement Project was a high priority for the City of Nogales since the damage to our existing sewer main had the potential of affecting the environment by discharging raw sewage to the Potrero Wash.

"Thanks to the financial support of NADBank, the City of Nogales was able to replace the force main crossing the Nogales Wash and upgrade the lift station serving this line. These much-needed repairs benefit a residential area of about 60 homes."

– Alejandro Barcenas, Community Services/Public Works Director
Nogales, Arizona

2020 Project Results

During the year, seven water-related projects completed construction and began operations benefitting an estimated 211,600 border residents. These projects represent a total investment of US$28.5 million, of which NADB provided US$1.9 million in grants and administered US$11.0 million in EPA-funded BEIF grants.

1 water supply project
- 1 new well
- 615 ft of waterlines

Safe and reliable drinking water services for 904 people

4 wastewater collection projects
- 167,214 ft of sewer lines
- 1 new lift station

691,420 gallons per day of wastewater discharges eliminated

1 wastewater treatment plant
- 600,000 gallons per day capacity

Treated wastewater can be reused for irrigation

1 water conservation project
- River pump station replaced

Better water management benefitting 191,400 residents in 3 communities

Community Impact since 1995

165 projects in operation	US$1.06 billion disbursed	13.5 million people benefitting
138 water and wastewater	26 water treatment facilities with a combined capacity of 163 mgd 62 wastewater treatment plants with a combined capacity of **443 mgd** **1,345 miles** of sewer lines	Safe & reliable water supply sufficient for **1.9 million people** Wastewater treatment sufficient to serve **8.6 million people** **236 mgd** of wastewater eliminated
24 water conservation	**1,033 miles** of improved water conveyance systems	**513 cubic feet per second** of water being saved in 19 irrigation districts
3 storm drainage	**21.5 miles** of stormwater collectors installed	**122,493 households** benefitted in 3 communities

mgd = million gallons a day

UMI Module IV Survey Results

“In-person participation is more effective, but under pandemic conditions the virtual alternative worked very well.”

“As always, excellent!! Personally, the 4th module has made me think. It is nice to be able to interact with colleagues from other utilities and hear about their problems, but above all solutions.”

“The topic of leadership in particular helped me identify the small but not insignificant problems that occur in our utility and thus be able to work on them.”

“It was very clear that a lot of work was put into the success of this module as we had to adjust to our current pandemic situation.”

2020 Technical Support

During the year 21 technical assistance initiatives were financed in the water sector with disbursements totaling just over US$1.5 million. Fourteen were completed, benefitting 27 communities on both sides of the border through capacity-building and the development of infrastructure projects to improve or expand water services. These 14 initiatives represented a total investment of US$1.9 million, of which NADB provided US$108,629 from its own funds for a stormwater study and two seminars, as well as administered US$1.4 million in EPA-funded PDAP grants for the other 11 studies.[1] The remaining costs were covered by the study sponsors.

8 activities related to development of water and wastewater projects

- Final designs for 2 water projects and 1 wastewater project in Texas
- 2 water audits to support the design of projects in New Mexico and Texas
- Technical report for a water project in New Mexico
- Analysis of alternatives for a wastewater project in Baja California
- Evaluation of a wastewater collection system in Tamaulipas

5 activities related to strengthening institutional capacities

- 2 seminars attended by 27 participants from 12 utilities in Mexico and 6 in the U.S.
- 2 water audits to improve system efficiency for utilities in Arizona and Texas
- Asset management program for a utility in New Mexico

1 sector study related to storm drainage

- Legal framework for creating stormwater utilities in Chihuahua

In February, NADB held Module III of its basic water utility management program, which focuses on financial planning, in San Antonio, Texas. Adapting to the safety restrictions instituted during the pandemic, the fourth and last module of the 2019-2020 seminar cycle, which focuses on leadership skills, was presented as a webinar in October.

1 Part of these funds were disbursed prior to 2020 for studies that began in 2019.

Close to 5,000 residents are now receiving first-time wastewater collection and treatment services in Loma Blanca, Chihuahua, located about three miles southeast of Ciudad Juarez. Prior to the project, residents used latrines or other on-site sanitary systems for wastewater disposal, and occasionally wastewater was discharged directly onto streets or vacant lots. Now the wastewater is collected and conveyed to the Valle de Juarez Wastewater Treatment Plant for proper treatment, and the old on-site systems have been decommissioned.

Administered Grants for Water Projects

In pursuit of its mission, NADB administers grant funding provided by the U.S. Environmental Protection Agency (EPA) for the development and implementation of high-priority public drinking water and wastewater infrastructure projects located within 100 km of both sides of the U.S.-Mexico border. This funding is channeled through the NADB Border Environment Infrastructure Fund (BEIF), which provides grants for project implementation and through the Project Development Assistance Program (PDAP), which supports the development of projects that have been prioritized to receive a BEIF grant. Both programs have been key to increasing wastewater collection and treatment along both sides of the U.S.-Mexico border.

BEIF

During 2020, BEIF grants totaling almost US$19.3 million were approved, with US$12.9 million going to six new projects certified during the year and US$6.4 million to three projects certified in prior years. NADB also disbursed US$8.1 million in BEIF funds to support 14 projects in various stages of implementation, including one project that also received a NADB loan. Of the seven water-related projects that completed construction during the year, three wastewater collection system projects and one wastewater treatment plant were partially funded with US$11.0 million in BEIF grants.

Impact of BEIF since Program Inception

To date, 118 projects partially funded with BEIF grants have completed construction and begun operations, benefitting an estimated 7.4 million border residents. These projects represent a total investment of US$1.9 billion. Of those projects, 35 also received US$129.1 million in loan funding from NADB.

118 projects in operation	US$636.3 million disbursed	91 communities benefitting
11 water **77** wastewater **30** water and wastewater	▶ 22 water treatment facilities with a combined capacity of **141.5 mgd** ▶ 59 wastewater treatment plants with a combined capacity of **330 mgd** ▶ **1,235 miles** of sewer lines	▶ Safe & reliable water supply sufficient for **1.7 million people** ▶ Wastewater treatment sufficient to serve **6.3 million people** ▶ **184.5 mgd** of wastewater eliminated

mgd = million gallons a day

PDAP

Of the 14 technical assistance activities completed during the year, 11 were funded through PDAP, including final designs for three projects that have already been certified and funded by NADB, water audits for four utilities and an analysis of alternatives for the International Collector in Tijuana, Baja California, among others (page 13). During the year, just over US$1.4 million in PDAP grants were approved to fund 14 studies or other activities to support the development of three drinking water projects and 10 wastewater projects.

"…one of the most annoying problems for Nava residents was the amount of garbage in the containers distributed around the municipal seat. …, we knew that the best solution was to purchase a garbage truck to make more trips, more quickly along the routes and thus collect garbage more efficiently… But the government was in a precarious economic position…

"…thanks to the steps taken with NADB, a side load garbage collection truck was donated… bolstering the work that is being done as part of the cleanup and garbage collection efforts."

– Sergio Zenón Velázquez Vázquez, Mayor of Nava, Coahuila

Solid Waste

Promoting comprehensive waste management systems, including recycling and waste reduction efforts, is another fundamental objective of NADB. Proper waste disposal is crucial for protecting groundwater resources, preventing soil and air pollution and controlling the proliferation of disease-carrying rodents and insects.

In 2020, NADB made the final CAP grant disbursements totaling US$5,763 for two of the projects completed during the year.

2020 Project Results

Over the course of the year, three solid waste equipment projects completed implementation benefitting an estimated 106,307 border residents in Mexico. These projects represent a total investment of US$889,987, of which NADB provided US$837,279 in grants.

3 equipment acquisition projects

- 2 skid steers
- 2 water tank trucks
- 2 flatbed trucks
- 5 garbage collection trucks
- Improved waste management services benefitting 7 communities
- 102 metric tons a day of waste disposed of properly

Community Impact since 1995

	US$22.2 million disbursed	3.5 million people benefitting
26 projects in operation		
Waste disposal	▸ 17 landfills built or expanded ▸ 13 open-air dumpsites closed	▸ Improved waste management services for 39 communities
Equipment	▸ 166 collection and landfill operation vehicles acquired	▸ 3,365 metric tons a day of new waste management capacity

"Thanks to the lease agreement between the company Value Arrendadora SOFOM E.N.R S.A. de C.V. and the Nuevo Leon Institute of Mobility and Accessibility,... the fleet has been expanded with the most modern units in the state, providing service in areas where it was most needed and which are now well-served. ... Significant fuel savings have been achieved, compared to routes using diesel, because the engine of our buses runs on compressed natural gas (CNG).

"During the pandemic, we were able to provide exclusive service for doctors, nurses and medical personnel through the 'Health Route', which took them free of charge to hospitals."

– César Valtierra Lozano
Director of Administration and Finances
Nuevo Leon Institute of Mobility and Accessibility

Air Quality

Supporting efforts to reduce the emission of greenhouse gases and other airborne pollutants produced by industrial processes, motor vehicles and unpaved roadways is essential for a healthy environment. Cleaner and more efficient forms of transportation, paved streets and other roadway improvements are helping achieve this goal.

During 2020, a loan for up to US$24.3 million was approved for a third border-wide public transportation program for the acquisition of low-emission buses in Mexico, of which US$7.0 million was contracted and disbursed prior to year-end. NADB also expended US$47,610 on the development of an impact assessment of the first two low-emission bus programs funded by the Bank, which will be completed in 2021.

2020 Project Results

The first phase of the third border-wide public transportation program was implemented during the year, benefitting residents in Monterrey, Nuevo Leon. The first phase of the project represents a total investment of US$7.8 million, of which NADB provided a loan for US$7.0 million.

1 public transportation project

- 63 compressed natural gas buses
- 110 metric tons/year of carbon dioxide emissions avoided, equivalent to driving 275,849 miles in a car

Community Impact since 1995

18 projects in operation	US$384.2 million disbursed	5.4 million people benefitting
15 roadway improvement projects	▶ **11.8 million square meters of streets** paved or rehabilitated ▶ 1 commercial border crossing built	▶ 14 Mexican communities benefitting ▶ **4,091 metric tons/year** of suspended particulate matter (PM_{10}) avoided
3 public transportation projects	▶ **785 buses** with cleaner technology	▶ 8 Mexican communities benefitting ▶ **4,860 metric tons/year** of emissions avoided, equivalent to driving 12.2 million miles in a car

Don Diego Solar Park in Benjamin Hill, Sonora, with 125 megawatts of generation capacity, began commercial operations in December 2020. The plant can produce electricity equivalent to the annual consumption of 50,149 households, displacing the production of fossil fuel-based energy and thus avoiding the emission of 169,443 million metric tons of carbon dioxide a year, which would be the same as removing 36,850 automobiles a year from the roadway.

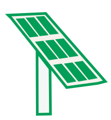
Clean and Efficient Energy

Another way that NADB seeks to improve air quality is by supporting renewable energy projects that generate electricity from sources that do not produce greenhouse gas emissions like those released by hydrocarbon-based plants, as well as efficiency measures aimed at reducing consumption or energy losses.

During 2020, NADB approved loans totaling US$186.8 million for three projects in the United States, including its first energy storage project to increase the operational efficiency and reliability of the power grid, a utility-scale solar park, and a Property-Assessed Clean Energy (PACE) Financing Program for the U.S. border region to support the implementation of qualified energy efficiency, renewable energy, water conservation and resiliency elements in non-residential properties. NADB also disbursed US$245,300 for the energy storage project prior to year-end.

2020 Project Results

Construction of the Don Diego Solar Park in Benjamin Hill, Sonora was completed in June 2020, and commercial operations began in December 2020, benefitting an estimated 186,056 residents. NADB provided a US$100 million loan to support implementation of the project.



1 solar project completed

- 125 megawatts of new generation capacity installed
- Sufficient power for the annual consumption of 50,149 households
- 169,443 metric tons/year of carbon dioxide emissions avoided

Community Impact since 1995

36 projects in operation	US$1.58 billion disbursed	4.2 million people benefitting
19 solar parks	**904 gigawatts** of new generation capacity installed	15 communities benefitting **1.1 million metric tons/year** of carbon dioxide (CO_2) avoided
14 wind farms	**2,092 gigawatts** of new generation capacity installed	12 communities benefitting **3.2 million metric tons/year** of CO_2 avoided
2 biogas systems	**3.2 megawatts** of new generation capacity installed	2 communities benefitting **41.9 metric tons/year** of CO_2 avoided
1 biofuel plant	**15 million gallons per year** of production capacity installed	**8,590 metric tons/year of CO_2** avoided

Basic Urban Infrastructure

These projects consist of a mix of works from various sectors, such as street paving and other roadway improvements, water distribution and sewer lines, storm drainage and public lighting, allowing for a more comprehensive approach to urban development.

At the end of 2020, one project was in implementation in Playas de Rosarito, Baja California, with a US$13.7-million NADB loan.

Community Impact since 1995

3 projects in operation	US$52.1 million disbursed	1.29 million people benefitting
Roadway improvements	▶ **2.3 million square meters** of street paved or rehabilitated	▶ 3 Mexican communities benefitting ▶ **449 metric tons/year** of suspended particulate matter (PM_{10}) avoided
Water distribution	▶ **36 miles** of waterlines installed	▶ **10,597** new water connections
Wastewater collection	▶ **45 miles** of sewer lines installed	▶ **1 mgd** of wastewater eliminated

mgd = million gallons a day

Playas de Rosarito, Baja California

Covid-19 Recovery Program (ProRec)

In response to the effects of the COVID-19 pandemic, the Board of Directors approved a two-year financing program to support projects that have both environmental benefits and direct positive impacts on the economy and well-being of residents in the U.S.-Mexico border region.

Under ProRec, the Board may consider the approval of loan proposals for refinancing existing debt on environmental infrastructure (public and private projects) or for public entities, such as water utilities, whose mandate is aligned with the NADB mission, as well as projects that have a recognizable environmental benefit but are focused on delivering significant social, health or economic benefits to border communities. Examples of these benefits may be job creation or preservation, the betterment of health and/or health services or improvement of technological connectivity and access to information.

2020 Project Results

Prior to year-end, three projects were approved and executed to refinance US$32.1 million in existing public debt for two local governments and a water utility in Texas. The projects are benefitting an estimated 92,280 border residents, as the savings on debt service payments lessen the potential need to increase taxes or water rates to support ongoing public services.

3 refinancing projects

- US$6.5 million in savings on debt service payments over the life of the loans
- Freeing up cash flows that can be redirected to support the maintenance and operation of existing public services and infrastructure

2020 Technical Support

One of the aforesaid refinancing projects also received a ProRec technical assistance grant for US$50,000 to help cover financial costs related to the debt refinancing.

U.S.-Mexico Border 2020 Program

NADB provides technical and administrative support for this binational program developed by EPA and the Mexican Ministry of Environment and Natural Resources (SEMARNAT) to improve the environment and protect the health of residents within 100 kilometers of both sides of the border. With grants from EPA, the program funds projects and workshops focused on five key goals related to clean air, access to safe drinking water, waste management, joint emergency preparedness and environmental stewardship.

Eight initiatives under three of the five goals were completed during the year, representing a total investment of US$753,596, with Border 2020 covering approximately half of the cost. In addition, EPA authorized US$870,379 in grant funding to support 14 new initiatives. At year-end, there were 16 Border 2020 initiatives in process with a total grant commitment of US$849,338.

2020 marked the end of this eight-year binational program; however, work immediately began to develop a successor program to continue joint efforts to address environmental and health issues along the border. Building on the success of the previous 2012 and 2020 programs and on the input provided by interested stakeholders in various virtual meetings and workshops during the year, EPA and SEMARNAT developed the framework for the Border 2025 Program, which is expected to be finalized and launched in the summer of 2021. More information about Border 2020 activities and the new Border 2025 Program is available on the EPA website at www.epa.gov/border2020.

Border 2020 Cumulative Results 2013 – 2020

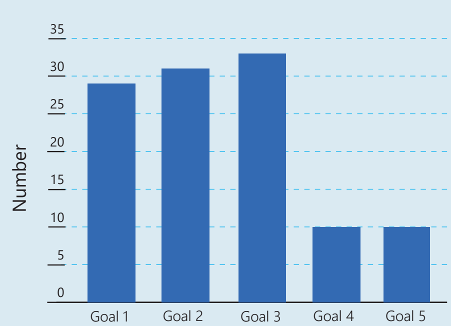
113 projects funded for a total investment of US$8.4 million

- 97 projects completed
- 16 projects ongoing

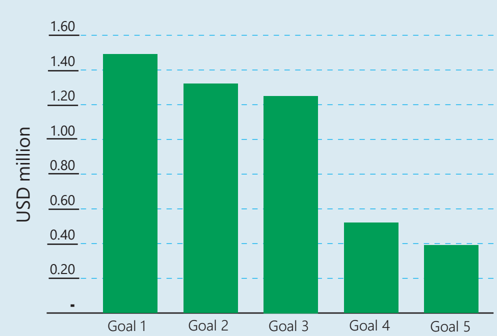
US$5.0 million in grants provided

- US$2.6 million for 53 projects in the U.S.
- US$2.4 million for 60 projects in Mexico

Projects by Goal



Funding by Goal

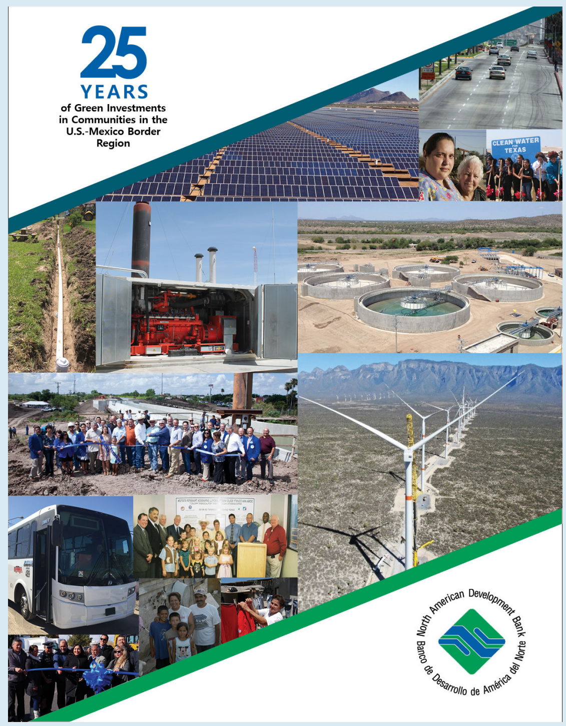


Goals: 1. Reduce air pollution; 2. Improve access to clean and safe water; 3. Promote material management, waste management and clean sites; 4. Enhance joint preparedness for environmental response; 5 Compliance assurance and environmental stewardship

25 Years of Green Investments in Communities in the U.S.-Mexico Border Region

To mark its 25th anniversary, NADB conducted a general evaluation to document and analyze its performance for the years 1994-2019. By the end of that period NADB had leveraged its capital to complete 236 environmental infrastructure projects resulting in a total investment of US$9.5 billion for the benefit of the border region.

The report provides detailed information on the projects financed and their impact on water resources, air quality and waste management in the border region, as well as on the quality of life of border residents. The evaluation was undertaken from two perspectives: (i) a quantitative approach based on relevant indicators in the environmental and infrastructure sectors that NADB serves within its jurisdiction and (ii) a qualitative approach that helped document how NADB and its activities are perceived by border residents and key border stakeholders.



Published on November 9, 2020.

As a binational institution, NADB has been able to bring together and work with local authorities, state agencies and other entities from both sides of the border to create synergies that foster the development of environmentally sustainable and resilient border communities. With the strong support of its partners in both countries, significant progress is being made towards improving the quality of life for millions of residents in the region.

Management Discussion & Analysis of Financial Results

Executive Summary

NADB made important progress during 2020. It received the full contribution of the United States to its general capital increase. Excluding administered grants, it disbursed US$53.4 million for 16 infrastructure projects and nine technical assistance initiatives. It concluded an asset-liability management exercise, easily accessing global capital markets at the beginning of the pandemic-related lockdowns. The NADB Board approved 16 new projects, including six for BEIF grants, as well as the ProRec program.

For the year ended December 31, 2020, NADB delivered solid operational results despite the challenges of the COVID-19 pandemic and the impact of low interest rates.

Disbursements and commitments of US$53.4 million and US$51.0 million, respectively, were smaller than in prior years, reflecting the impact of the pandemic on the border region.

The following tables show the trend of loans, grants and technical assistance funded by NADB for the last five years. The total outstanding balance of loans decreased US$175 million to US$1.1 billion by the end of 2020.

Table 3: Disbursements

(USD thousand)

	2016	2017	2018	2019	2020
Loans					
Water	$ -	$ 10,970	$ -	$ -	$ 11,867
Solid waste	-	-	-	2,845	-
Air quality	29,362	4,971	15,010	16,570	6,953
Clean energy	106,891	84,096	151,648	144,879	245
Basic urban infrastructure	-	1,389	351	-	-
ProRec	-	-	-	-	32,095
Total loans	$ 136,252	$ 101,426	$ 167,009	$ 164,294	$ 51,160
Technical Assistance					
Water	$ 395	$ 409	$ 85	$ 230	$ 421
Solid waste	-	-	-	-	-
Air quality	14	46	159	32	48
Clean energy	129	326	7	-	112
Basic urban infrastructure	-	-	-	-	-
ProRec	-	-	-	-	50
Total technical assistance	$ 538	$ 781	$ 251	$ 262	$ 631
Grants					
Water	$ 438	$ 945	$ 669	$ 105	$ 1,646
Solid waste	-	238	1,535	77	6
Air quality	-	-	-	-	-
Clean energy	-	-	-	-	-
Basic urban infrastructure	-	-	-	-	-
ProRec	-	-	-	-	-
Total grants	$ 438	$ 1,183	$ 2,204	$ 182	$ 1,652
By Country					
Mexico	$ 136,977	$ 66,638	$ 162,700	$ 161,623	$ 13,700
United States	251	36,752	6,764	3,114	39,743
Total by country	$ 137,228	$ 103,390	$ 169,464	$ 164,737	$ 53,443

Table 4: Funding Contracted

(USD thousand)

	2016	2017	2018	2019	2020
Loans					
Water	$ 9,626	$ -	$ 36,610	$ 11,226	$ 5,545
Solid waste	-	-	-	2,845	-
Air quality	44,250	-	20,127	-	6,953
Clean energy	92,891	229,536	65,992	132,000	5,000
Basic urban infrastructure	-	-	-	-	-
ProRec	-	-	-	-	32,095
Total loans	$ 146,767	$ 229,536	$ 122,729	$ 146,071	$ 49,593
Technical Assistance					
Water	$ 210	$ 229	$ 474	$ 330	$ 346
Solid waste	-	-	-	-	-
Air quality	-	-	-	-	-
Clean energy	-	-	-	161	-
Basic urban infrastructure	-	-	-	-	-
ProRec	-	-	-	-	50
Total technical assistance	$ 210	$ 229	$ 474	$ 491	$ 396
Grants					
Water	$ 500	$ 500	$ 500	$ 700	$ 1,000
Solid waste	1,100	1,000	-	67	-
Air quality	-	-	-	-	-
Clean energy	-	-	-	-	-
Basic urban infrastructure	-	-	-	-	-
ProRec	-	-	-	-	-
Total grants	$ 1,600	$ 1,500	$ 500	$ 767	$ 1,000
By Country					
Mexico	$ 148,077	$ 162,079	$ 123,203	$ 143,597	$ 8,270
United States	500	69,186	500	3,732	42,719
Total by country	$ 148,577	$ 231,265	$ 123,703	$ 147,329	$ 50,989

In addition to the loans, technical assistance and grants funded internally, the Bank also administers third-party funds to advance its mission. The BEIF program is funded by EPA for the implementation of water and wastewater infrastructure projects. Additionally, since the end of 2017, the Bank has administered two technical assistance programs funded by EPA: PDAP, which supports the development of water and wastewater projects; and the Border 2020 Program. Table 5 highlights the funds administered by the Bank over the past five years.

Table 5: Disbursement of Third-party Administered Funds
(USD thousand)

	2016	2017	2018	2019	2020
By Program					
BEIF	$ 10,228	$ 11,278	$ 24,959	$ 10,723	$ 8,097
PDAP	–	192	617	977	1,101
Border 2020	–	56	412	542	406
Total by program	$ 10,228	$ 11,526	$ 25,988	$ 12,242	$ 9,604
By Country					
Mexico	$ 4,504	$ 3,972	$ 4,318	$ 6,044	$ 5,133
United States	5,724	7,553	21,670	6,198	4,471
Total by country	$ 10,228	$ 11,526	$ 25,988	$ 12,242	$ 9,604

Overall Financial Results

Operating income for 2020 was US$20.6 million, a 1% increase from US$20.5 million in 2019, mainly due to lower interest income from loans and investments that was offset by lower interest expense and operating expenses.

NADB loan commitments during 2020 totaled US$49.6 million (US$146.1 million in 2019). The decrease in loan commitments was primarily due to slower development of new projects as a result of the COVID-19 pandemic. Total loan disbursements in 2020 was US$51.2 million (US$164.3 million in 2019). The decrease in disbursements is attributable to smaller loans, as well as delays in the implementation of projects in the pipeline.

As of December 31, 2020, outstanding loans totaled US$1,126.3 million, a decrease of US$175.4 million from 2019, due to project prepayments enabled by the low-interest rate environment.

Investments: Liquid investments increased by 34% from US$753.5 million at the end of 2019 to US$1,008.1 million as of December 31, 2020. The Bank's minimum liquidity requirement was US$483 million at the beginning of 2020 and US$233 million at year-end. During 2020, return on investments was 0.86% (2.42% in 2019).

External funding: NADB continued to mobilize external funding to support lending operations. During 2020, NADB issued US$351.9 million in two issues maturing in 2028 and 2033. Concurrently, NADB tendered US$280.0 million of debt maturing in 2022. For 2020, the cost of borrowings was 1.7% (2.2% in 2019), reflecting the decrease in interest rates globally.
Net income allocation: In accordance with the retained earnings policy, NADB had allocated

undesignated retained earnings in the amount of US$157.6 million to: debt service reserve (US$28.6 million), operating expense reserve (US$22.7 million), special reserve (US$30.0 million) and capital preservation reserve (US$76.3 million).

Lending capacity: As of December 31, 2020, the lending capacity of the Bank was US$2,546 million.

Table 6: Select Financial Data for the Years Ended December 31, 2016-2020

(USD million)

	2016	2017	2018	2019	2020
Balance Sheet Data					
Total assets	$ 1,812.9	$ 2,145.8	$ 1,959.0	$ 2,007.5	$ 2,177.2
of which					
Gross loans outstanding	1,411.3	1,293.8	1,284.5	1,301.7	1,126.3
Cash & investments	511.5	955.0	799.2	753.5	1,008.1
Total liabilities	1,208.8	1,511.4	1,306.0	1,324.5	1,413.4
of which					
Gross debt outstanding	1,187.5	1,493.4	1,314.6	1,309.3	1,126.0
Deferred U.S. capital contribution	-	-	-	-	165.0
Total equity	604.0	634.3	653.0	683.0	763.8
of which					
Paid-in capital	415.0	415.0	415.0	415.0	475.0
Retained earnings and reserves	173.1	207.5	228.9	258.6	273.5
Income Statement Data					
Interest income	$ 59.0	$ 68.6	$ 78.9	$ 84.3	$ 57.0
Interest expense	20.0	31.6	47.2	44.6	21.2
Operating expense	17.9	8.4	15.6	19.1	15.1
Operating income	21.1	28.5	16.1	20.5	20.7
Net income	19.7	29.5	21.4	29.7	14.9
Ratios					
Loans / Equity (%)	233.6	204.0	196.7	190.6	147.5
Assets / Equity (%)	300.1	338.3	300.0	293.9	285.1
Gross debt / Callable capital (%)	45.6	57.3	50.4	50.2	39.3
Liquid Assets / Short-term debt (%)	9,721.5	312.8	15,184.5	295.2	19,151.1
Net income / Equity (%)	3.4	4.8	3.3	4.4	2.1
Operating income / Equity (%)	6.1	4.6	2.5	3.1	2.9
Non-accrual loans / Loans outstanding (%)	-	1.1	1.1	1.1	1.2
Operating expenses per $1 M outstanding loans ($)	12,708	6,529	12,159	14,711	13,411

Institutional Overview

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

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

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

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

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

Ratings

During 2020, both Moody's Investors Service and Fitch Ratings affirmed NADB's credit rating at Aa1 and AA, respectively, reflecting the strength and stability of its finances, the prudent management of credit, its sound capital and liquidity position, as well as its strong risk management practices and continuous support from shareholders. Preserving a strong credit profile remains a strategic priority for NADB management since it serves as the basis of its low cost of funding and active lending.

Table 7: NADB Credit Ratings

	2016	2017	2018	2019	2020
Fitch	AA	AA	AA	AA	AA
Moody's	Aa1	Aa1	Aa1	Aa1	Aa1

FitchRatings

"The ratings of NADB are driven by both its intrinsic features, with solvency and liquidity assessed at 'aa+' and 'aaa' respectively, as well as shareholder support."

– Fitch, March 17, 2021

Moody's Investors Service

"The credit profile of the North American Development Bank (NADB) reflects the bank's high capital adequacy and liquidity, and strong support from the US (Aaa stable) and Mexico (Baa1 negative)."

– Moody's, October 7, 2020

Shareholder Support

In 2015, the Bank's shareholders approved a general capital increase of US$3 billion. As of December 31, 2020, the Bank had US$6 billion in subscribed capital, of which US$5.1 billion is callable capital and US$475 million is paid-in capital.

During 2020, the Bank received US$225 million in paid-in capital from the United States—its entire contribution to the general capital increase. A portion of this contribution (US$165 million) is restricted from commitment until matching subscription payments are received from Mexico as scheduled.

Table 8: NADB Capital
(USD thousand)

	2016	2017	2018	2019	2020
Total subscribed capital[1]	$ 6,000	$ 6,000	$ 6,000	$ 6,000	$ 6,000
of which					
Callable capital[2]	5,100	5,100	5,100	5,100	5,100
Qualified	2,493	2,493	2,493	2,493	2,238
Unqualified	2,607	2,607	2,607	2,607	2,862
Paid-in capital	415	415	415	415	475

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

As of December 31, 2020, total equity was US$763.8 million, an increase of 12% or US$80.8 million compared to US$683 million at the close of 2019. The increase was primarily due to US$60 million in additional paid-in capital and US$14.9 million in 2020 net income.

External Funding

In 2020, NADB completed two benchmark green bond issues in global capital markets for an approximate amount of US$352 million maturing in 2028 and 2033. The size and quality of the order books reflected the Bank's ample access to financial markets, as the issuances took place just as lockdowns were set in place globally.

The new green bonds were issued under the NADB Green Bond Program and Green Bond Framework. As of December 31, 2020, 53% of the proceeds from those two bonds had been allocated to eligible projects.

"...the North American Development Bank Green Bond Framework is robust, transparent, and in alignment with the four core components of the Green Bond Principles 2018."

– Sustainalytics Second-party Opinion, May 2020

The NADB Green Bond Framework is in line with the 2018 Green Bond Principles of the International Capital Market Association (ICMA) and has been reviewed and certified by an independent third party. All NADB green bond issues meet the objectives of those principles, namely: climate change mitigation, climate change adaptation, natural resource conservation, biodiversity conservation and pollution prevention and control. The framework covers four core components: (i) use of proceeds; (ii) project evaluation and selection; (iii) management of proceeds; and (iv) reporting. Further detail about the NADB Green Bond Program and its allocations is available on the Bank website (2020 Green Bond Impact Report).

Concurrently with its international issues, the Bank concluded a tender offer for a portion of its US$430 million bond maturing in 2022—a liability management operation that allowed it to smooth its amortization profile for the coming years. In addition, during 2020, the Bank paid off a maturing US$250 million bond.

With these operations, as of December 31, 2020, total gross debt was US$1,126 million, a decrease of 14% (US$183.3 million) compared to US$1,309.3 million at the close of 2019. The Bank's debt maturity schedule prior to and following the tender offer is shown in Figure 2.

Figure 2: Debt Profile

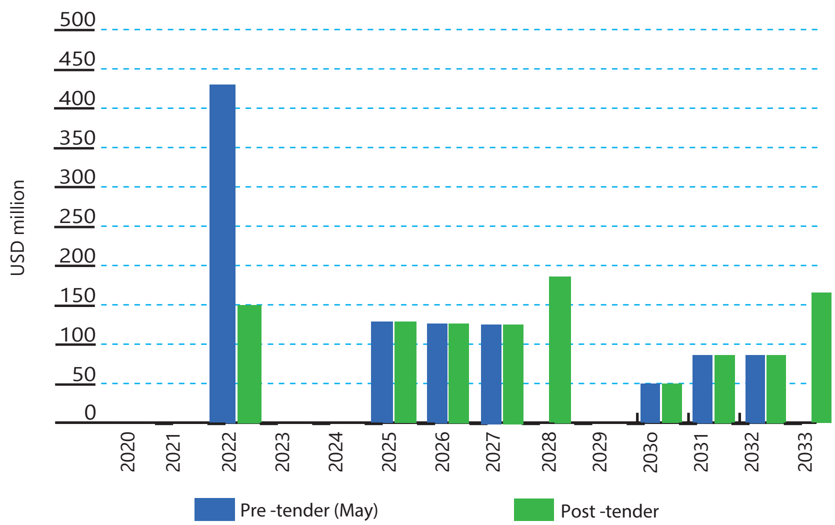


Table 9 shows gross outstanding debt by currency. NADB hedges the foreign exchange risk of debt that is not denominated in U.S. dollars.

In accordance with the NADB debt limit policy, total debt outstanding may not exceed at any time the callable portion of the subscribed capital shares, plus the minimum liquidity level required under the liquidity policy. With US$2,606.7 million in subscribed callable capital and a minimum liquidity level of US$233 million, the maximum debt limit in 2020 was US$2,839.7 million, comparable to the US$2,841.7 million maximum limit in 2019.[2] At the close of 2020, total debt outstanding (US$ 1,126 million) was 40% of the debt limit.

Table 9: Gross Debt by Currency
(USD million)

		2019		2020
USD	$	756.3	$	221.1
CHF		379.6		731.5
NOK		173.4		173.4
Total	$	1,309.3	$	1,126.0

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

Loan Portfolio

In 2020, nine loans were approved totaling US$248.2 million. Of those loans, seven totaling US$49.6 million were signed and executed. A total of US$ 51.2 million was disbursed for eight projects.

During 2020, NADB received a total of US$226.6 million in payments, of which US$78.7 million were repayments and US$147.9 million were prepayments. The principal prepayments included seven solar loans totaling US$113.2 million and the transfer of a portion of the loan for the Puerto Libertad solar project (US$32.1 million) to PMIC LATAM, an investment vehicle issued on the Mexican Stock Exchange, funded by Mexican pension funds and managed by Fondo de Fondos (ticker FFBANCK).

As a result of this activity, NADB closed the year with an outstanding loan balance of US$1,126 million, a decrease of 13.5% compared to the balance at the end of 2019 (US$1,302 million).

Table 10: Outstanding Loan Portfolio

(USD million)

	2016	2017	2018	2019	2020
Water	$ 235.8	$ 213.8	$ 162.4	$ 121.3	$ 121.1
Solid waste	-	-	-	2.8	2.3
Air quality	135.6	126.8	125.2	120.5	106.5
Clean energy	1,003.5	916.1	960.9	1,022.6	831.4
Basic urban infrastructure	36.4	37.1	36.0	34.5	32.9
ProRec	-	-	-	-	32.1
Total	$ 1,411.3	$ 1,293.8	$ 1,284.5	$ 1,301.7	$ 1,126.3

Additionally, at the end of the year, the Bank had US$107.8 million in loans contracted pending disbursement for 10 projects, as well as up to US$227.4 million in approved loans pending contracting for seven projects. Consequently, as of December 31, 2020, loans outstanding and pending disbursement and commitment totaled almost US$1.5 billion.

Loan Quality

The Bank rates its loan portfolio internally based on various risk methodologies that are tailored to the characteristics of each loan and project sector using both quantitative and qualitative variables to address both project and borrower risks. For each loan, the probability of default is estimated using its corresponding methodology and mapped to the NADB rating scale.

Table 11 shows the loan portfolio by NADB internal ratings. For 2020, the portfolio reflected an improvement in loans in the A-1 through A-3 category. Specifically, loans rated A-1 through A-3 represented 83% of loans outstanding in 2020 as compared to 77% for 2019.

Table 11: Internal Rating of Loan Portfolio

(USD million)

	2019	2020
A-1	$ 34.6	$ 30.7
A-2	355.9	291.6
A-3	610.2	616.1
B-1	276.5	171.4
B-2	9.5	–
B-3	0.9	–
C	–	2.9
D	14.1	13.8
E	–	–
Total	$ 1,301.7	$ 1,126.3

Allowances

The Bank maintains a general and a specific allowance for loan losses. A general allowance is calculated based on the internal loan ratings assigned to loans that are current, the probability of default and the 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.

The allowance for loans losses is maintained at a level considered appropriate by management to provide for probable and estimable losses inherent in the loan portfolio. Table 12 presents the loans and related allowance for loan losses for the years 2016-2020. As of December 31, 2020 and 2019, loans on non-accrual represented 1.2% and 1.1% of the loan portfolio, respectively.

Table 12: Gross Loans and Allowances for Loan Losses
(USD million)

	2016	2017	2018	2019	2020
Gross loans, accruing	$ 1,411.3	$ 1,279.4	$ 1,269.8	$ 1,287.6	$ 1,112.5
Gross loan, non-accruing	-	14.4	14.6	14.1	13.8
Total	$ 1,411.3	$ 1,293.8	$ 1,284.5	$ 1,301.7	$1,126.3
General allowance	$ 25.1	$ 18.4	$ 16.8	$ 16.8	$ 16.8
Specific allowance	-	2.7	2.3	2.4	2.4
Total allowance	$ 25.1	$ 21.1	$ 19.2	$ 19.2	$ 19.2
% general allowance to accruing loans	1.8	1.4	1.3	1.3	1.5
% specific allowance to non-accruing loan	-	18.6	15.9	16.9	17.4
% total allowance to total loans	1.8	1.6	1.5	1.5	1.7
% non-accruing to total loans outstanding	-	1.1	1.1	1.1	1.2

Investment Portfolio

As of December 31, 2020, the investment portfolio totaled US$1,008.1 million, up from US$753.5 million at year end 2019. The portfolio increased by US$254.6 million (34%) as a result of the paid-in capital contribution from the U.S., as well as principal and interest payments from the existing loan portfolio.

The NADB investment policy limits the investment portfolio in order to maintain sufficient liquidity to meet all operating expenses, fund loan disbursements, meet debt service obligations and ensure proper liquidity ratios to maintain the credit rating of the Bank.

Permissible securities under the NADB investment policy consist of highly rated, liquid fixed-income securities with the primary objective of capital preservation. Table 13 shows the allocation of the Bank's investment portfolio as of December 31, 2020.

Table 13: 2020 Investment Portfolio

Type	Limits % of total[1]	%
Cash and cash equivalents	-	6.3
U.S. Treasury securities	25	47.2
U.S. agency securities	45	20.7
United Mexican States securities	30	1.5
Corporate debt securities	25	19.4
Other fixed-income securities	35	4.9
Total		100

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

The duration of the investment portfolio safeguards the total investment portfolio. The current target duration of the investment portfolio is under three years, which allows for diversification of investment maturities, while also providing flexibility to liquidate investments without incurring losses.

A portion of the investment portfolio is managed internally with a focus on short-term liquidity needs. The rest of the investment portfolio is managed externally with a longer maturity range to enhance return and spread opportunities.

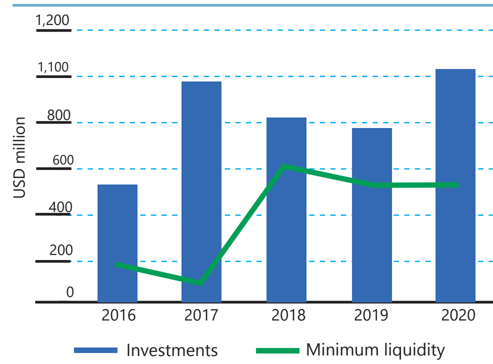
The majority of the investment portfolio in 2020 and 2019 was in highly liquid assets (cash and cash equivalents and U.S. Treasuries and agencies) which represented 74% and 83% of the total portfolio, respectively. The Bank increased its position in liquid and highly creditworthy corporate securities to increase investment portfolio yield.

As of December 31, 2020, the Bank's investment portfolio represented 46% of total assets (US$2,177 million) and 90% of total gross debt (US$1,126 million).

Table 14: Liquid Assets
(USD million)

Type	2019	2020
Cash and cash equivalents	$ 121.6	$ 63.5
U.S. Treasury securities	436.0	475.8
U.S. agency securities	65.6	209.1
United Mexican States securities	14.3	15.2
Corporate debt securities	90.0	195.1
Other fixed-income securities	26.0	49.4
Total liquid assets	$ 753.5	$ 1,008.1

Figure 3: Cash and Investments



Net Interest Income

Net interest income in 2020 was US$35.8 million, a 10% decrease compared to the previous year. Interest income from loans and investments decreased to US$57.0 million from US$84.3 million, but the decrease was significantly offset by a 52% decline in interest expense.

Interest Income from Loans

Interest income from loans came to US$49.8 million for the year ended December 31, 2020, a 24% decrease compared to US$65.6 million for 2019. The decrease was primarily due to the decline in market interest rates and to US$113 million in loan prepayments during the year, facilitated by the low-interest rate environment.

Table 15: Interest Income
(USD million)

	2019	2020
Loans	$ 65.6	$ 49.8
Investments	18.7	7.2
Total interest income	84.3	57.0
Interest expense	44.6	21.2
Net interest income	$ 39.7	$ 35.8

Interest Income from Investments

Interest income from investments totaled US$7.2 million for the year ended December 31, 2020, a 61% decrease compared to US$18.7 million for 2019. The decrease was primarily due to lower market interest rates.

Interest Expense

Interest expense decreased to US$21.2 million in 2020 compared to US$44.6 million in 2019 due to: (i) a lower interest rate environment and (ii) a reduction in the Bank's total outstanding debt after the repayment of a maturing US$250 million bond and its asset-liability management operation, which resulted in paying down a portion of the debt maturing in 2022.

Operating Expenses

In 2020, operating expenses reversed a rising trend. Operating expenses for the year totaled US$15.1 million, a 21% decrease compared to US$19.1 million in 2019.

Operating expenses were reduced by control of personnel and general and administrative expenses, plus an increase in indirect cost reimbursements for administered grants, which is included in other expenses (income).

Table 16: Operating Expenses
(USD million)

	2019	2020
Personnel	$ 14.8	$ 13.2
General and administrative	2.3	1.7
Consultants and contractors	1.8	1.7
Provision for loan losses	0.1	–
Other	–	(1.6)
Depreciation	0.1	0.1
Total operating expenses	$ 19.1	$ 15.1

Hedging Activities

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

Currently, all loans provided in Mexican pesos are hedged through cross-currency swaps. Likewise, the Bank has purchased derivative instruments to hedge its debt issued in Swiss francs and Norwegian kroner. Hedges are tailored to match the terms of the underlying loans and debt.

Additionally, to match the loans and cost of funding, NADB may enter into interest rate swaps for U.S.-dollar denominated fixed-rate loans and debt, converting both to floating rates, thereby mitigating interest rate risk.

Table 17: 2020 Hedged Exposure

Type	% Hedged
Fixed-rate debt in USD	90.5
Debt in foreign currency	100.0
Fixed-rate loans provided in USD	39.4
Loans provided in MXN	100.0

Disclosure in Accordance with the Recommendations of the Task Force on Climate-related Financial Disclosures

NADB was founded 25 years ago with a specific mandate to finance environmental infrastructure projects. As one of the first green banks, NADB is constantly seeking opportunities to better achieve its mandate and update its strategy, internal operations and procedures as the global environmental agenda evolves. It requires a keen understanding of the potential environmental impacts and risks of projects the Bank finances and an internal decision-making process that takes them into consideration in all facets of the Bank's operations.

In November 2019, the Financial Stability Board's Task Force on Climate-related Disclosures (TCFD) published a series of recommendations that organizations may use to gauge and disclose the risks and opportunities of climate change on their investments and operations.

Understanding the increasing global importance of climate change risk and accountability, NADB has pledged to follow the recommendations set forth by the TCFD. As a result of its initial efforts, NADB now presents its first climate-related disclosure for 2020 with a firm commitment to further implement the disclosure framework, which will allow NADB to better serve its stakeholders and provide the necessary transparency concerning climate change issues.

Governance

The NADB Board of Directors is the ultimate decision-making body of the organization and approves each environmental infrastructure project based on pre-established technical, environmental and financial certification criteria. The internal management structure of the Bank consists of a Managing Director, a Deputy Managing Director and a Chief Environmental Officer (CEVO). Management conducts the business of the Bank under the direction of the Board, and the CEVO is tasked with ensuring the environmental integrity of its operations, including endorsing projects for Board approval based on their environmental merit.

All projects are submitted to a Technical and Environmental Committee, chaired by the CEVO, which verifies the environmental and human health benefit of a project, as well as compliance with applicable environmental regulations and public access to information. After approval, project implementation and operation are overseen by the Project and Loan Administration Department, which monitors compliance with all loan covenants and measures the actual outcome of the projects. The Risk Management and Control Department, in turn, assesses and controls loan portfolio risks.

In 2020, NADB incorporated into its risk management framework the assessment of the environmental, social and governance (ESG) risks associated with its loan portfolio. This assessment, supported by a team of technical personnel dedicated to project oversight, provides valuable information on the environmental risks and other aspects of each project, and results in ESG scores for each loan that improve the institution's knowledge of its environmental impact.

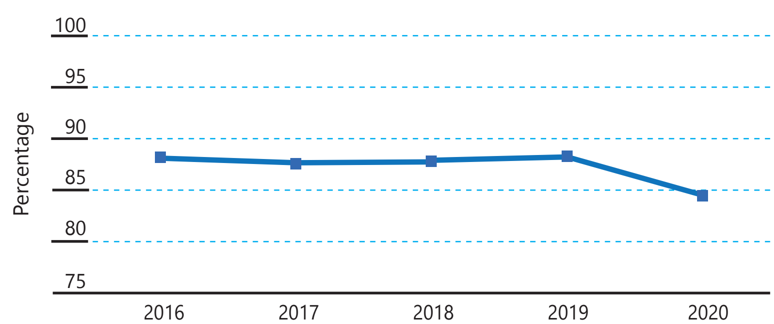
At this time, a comprehensive assessment of climate-related risks is not part of the risk management framework of the Bank. However, Management has established the objective of developing and launching this process in 2021. NADB will expand the scope of the analysis conducted during the evaluation, approval and supervision of a project, its strategic planning process and all internal operations, to include climate-related risk considerations.

Strategy

True to its mandate, NADB has always considered environmental issues a primary concern when guiding its strategy and operations. On the one hand, climate change creates potential financial risks for the Bank that must be understood, assessed and mitigated. On the other hand, the urgency to address the climate crisis creates investment opportunities for the Bank with significant environmental, social and economic development impacts.

All projects funded by the Bank have an environmental benefit. Most of these projects also have a climate benefit, either in terms of mitigation (e.g., renewable energy generation) or adaptation (e.g., improved water supply or stormwater management). NADB has determined that its investments in water, solar energy and wind energy, all provide climate-related benefits. Figure 4 shows the percentage of the total loan portfolio providing climate-related benefits. It should also be noted that, in addition to these loans, as of the end of 2020, NADB had disbursed close to US$658 million in grants through its Border Environment Infrastructure Fund, which is exclusively dedicated to water and wastewater infrastructure projects.

Figure 4: Percentage of Portfolio Providing Climate-related Benefits



The Bank sees future climate-related opportunities in those traditional project types, as well as in others not historically financed by the Bank but that clearly fall within its mandate, such as energy storage, the mobility of goods and people, sustainable buildings and agriculture and green manufacturing.

Starting in 2021 NADB will evaluate climate-related risks and opportunities across the organization and will establish a climate-related framework with clear goals, objectives and time horizons to incorporate these topics into its activities. Once implemented, the framework will also result in individual metrics at the project level, which will allow the Bank to quantify and report on climate-specific outcomes and risks. Although different climate-related scenarios are not being considered at this stage, NADB will evaluate the feasibility of incorporating climate-related scenarios in the near future.

Risk Management

NADB identifies and manages risks through a risk management framework overseen by the Risk Management and Control Department. Environmental risks are assessed prior to project approval, including the identification of mitigation measures. The findings and observations of the assessments become an important component of all project approval decisions. Furthermore, compliance with the mitigation measures is incorporated, as appropriate, into financing agreements and loan monitoring documents. During project implementation, the Bank performs diligent project oversight, including application of the ESG framework, which allows the Bank to properly monitor and mitigate its exposure to environmental, social and governance risks.

While the current processes of the Bank are well tested and have proven to be effective in ensuring its financial sustainability, climate-risk analysis is not yet being conducted systematically for all projects. In 2021, NADB will define a more comprehensive climate-risk assessment framework to include: i) a project risk analysis prior to approval to evaluate physical and transitional climate risks for all projects, and ii) a portfolio analysis to assess the impact of climate risk on the loan portfolio.

Metrics and Targets

NADB has implemented a results measurement system that includes the development of a results matrix in which the target or anticipated environmental benefits of a project are documented and incorporated as part of the project proposal submitted to the Board for approval. The results matrix is based on a catalogue of environmental indicators. Upon initiating operations, the actual outcomes of a project are periodically monitored and compared against the impact targets established in the results matrix. The results are compiled into publicly available reports that disclose the overall impact of the operations of the Bank.

For the explicit purpose of assessing its climate-related risks and opportunities, NADB will update its catalogue of indicators to include climate and climate-related risk metrics and incorporate them as part of the results measurement system and the risk management process. This action will allow the Bank to adequately monitor and measure climate-related impacts and risks throughout its operations.

Basis of Financial Reporting

The consolidated financial statements of the Bank are prepared in conformity with generally accepted accounting principles (GAAP) in the United States.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

North American Development Bank

Consolidated Financial Statements (and supplementary information)

As of December 31, 2020 and 2019

Independent Auditor's Report

To the Board of Directors
North American Development Bank
San Antonio, Texas

Opinion

We have audited the consolidated financial statements of North American Development Bank (the "Bank"), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank’s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Bank’s ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

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

February 12, 2021

BDO USA, LLP

Consolidated Financial Statements

Consolidated Balance Sheets

December 31,	2020	2019
Assets		
Cash and cash equivalents:		
Held at other financial institutions in demand deposit accounts	**$ 2,706,628**	$ 406,916
Held at other financial institutions in interest bearing accounts	**35,958,564**	45,890,923
Repurchase agreements	**24,800,000**	75,300,000
Cash and cash equivalents	**63,465,192**	121,597,839
Held-to-maturity investment securities, at amortized cost	**3,473,904**	4,038,722
Available-for-sale investment securities, at fair value	**941,141,640**	627,900,720
Loans outstanding	**1,126,330,083**	1,301,746,523
Allowance for loan losses	**(19,235,482)**	(19,216,845)
Unamortized loan fees	**(9,529,630)**	(12,284,799)
Foreign currency exchange rate adjustment	**(46,483,700)**	(33,301,924)
Hedged items, at fair value	**(33,183,106)**	(62,856,585)
Net loans outstanding	**1,017,898,165**	1,174,086,370
Interest receivable	**12,349,446**	15,987,916
Grant and other receivable	**2,320,787**	1,310,349
Furniture, equipment and leasehold improvements, net	**105,122**	167,711
Other assets	**136,404,727**	62,393,502
Total Assets	**$ 2,177,158,983**	$ 2,007,483,129

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

Consolidated Balance Sheets

December 31,	2020	2019
Liabilities and Equity		
Current Liabilities		
Accounts payable	**$ 767,182**	$ 814,012
Accrued liabilities	**2,178,264**	1,921,177
Accrued interest payable	**9,482,523**	17,487,066
Undisbursed grant funds	**16,239**	9,880
Other liabilities	**17,671,493**	1,466,112
Short-term debt, net of discounts and unamortized debt issuance costs	**5,264,000**	255,238,795
Hedged item, at fair value	**-**	357,621
Net short-term debt	**5,264,000**	255,596,416
Total Current Liabilities	**35,379,701**	277,294,663
Long-term Liabilities		
Long-term post-retirement benefits payable	**2,779,674**	2,481,519
Deferred U.S. capital contribution	**165,000,000**	-
Long-term debt, net of discounts and unamoritized debt issuance costs	**1,117,510,817**	1,050,594,907
Foreign currency exchange rate adjustment	**32,163,548**	-
Hedged items, at fair value	**60,574,814**	(5,851,918)
Net long-term debt	**1,210,249,179**	1,044,742,989
Total Long-term Liabilitites	**1,378,028,853**	1,047,224,508
Total Liabilities	**1,413,408,554**	1,324,519,171
Equity		
Paid-in capital	**475,000,000**	415,000,000
General Reserve:		
Retained earnings:		
Designated	**8,142,355**	10,613,305
Reserved	**157,615,047**	159,763,504
Undesignated	**107,724,164**	88,221,692
Accumulated other comprehensive income	**15,263,820**	9,360,292
Non-controlling interest	**5,043**	5,165
Total Equity	**763,750,429**	682,963,958
Total Liabilities and Equity	**$ 2,177,158,983**	$ 2,007,483,129

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

Consolidated Statements of Income

Years Ended December 31,		2020		2019
Interest Income				
Loans	**$**	**49,753,582**	$	65,635,241
Investments		**7,230,820**		18,667,228
Total Interest Income		**56,984,402**		84,302,469
Interest expense		**21,217,829**		44,647,559
Net Interest Income		**35,766,573**		39,654,910
Operating Expenses (Income)				
Personnel		**13,198,493**		14,846,765
General and administrative		**1,680,801**		2,285,686
Consultants and contractors		**1,651,701**		1,834,600
Provision for loan losses		**18,637**		62,338
Other		**(1,558,490)**		(9,572)
Depreciation		**114,315**		129,862
Total Operating Expenses		**15,105,457**		19,149,679
Net Operating Income		**20,661,116**		20,505,231
Non-interest income and Non-operating Income (Expenses)				
Gains on securities		**309,044**		90,325
Income (expenses) from hedging activities, net		**(5,790,605)**		4,437,134
Fees and other income (expenses), net		**262,296**		645,378
Swap and debt settlements, net		**(2,623,578)**		–
Total Non-interest and Non-operating Income (Expenses)		**(7,842,843)**		5,172,837
Income before Programs		**12,818,273**		25,678,068
Program Activities				
Program income		**8,859,282**		8,056,545
Program expenses:				
Operating expenses		**2,708,810**		2,000,501
Grant disbursements		**4,085,802**		2,033,128
Total program expenses		**6,794,612**		4,033,629
Net Program Income		**2,064,670**		4,022,916
Net Income		**14,882,943**		29,700,984
Non-controlling interest in net loss		**(122)**		(137)
Controlling Interest in Net Income	**$**	**14,883,065**	$	29,701,121

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

Consolidated Statements of Comprehensive Income

Years Ended December 31,	2020	2019
Net income	**$ 14,882,943**	$ 29,700,984
Non-controlling interest in net loss	**(122)**	(137)
Controlling interest in net income	**14,883,065**	29,701,121
Other Comprehensive Income (Loss)		
Available-for-sale investment securities:		
Change in unrealized gains (losses) during the period, net	**3,952,846**	4,336,628
Reclassification adjustment for net gains included in net income	**(314,017)**	(87,852)
Total unrealized gain in available-for-sale investment securities	**3,638,829**	4,248,776
Foreign currency translation adjustment	**36,706**	(32,997)
Unrealized gains (losses) on hedging activities:		
Foreign currency translation adjustment, net	**(15,679,290)**	7,214,641
Fair value of cross-currency, interest rate swaps and options, net	**17,907,283**	(11,194,142)
Total unrealized gain (loss) on hedging activities	**2,227,993**	(3,979,501)
Total Other Comprehensive Income	**5,903,528**	236,278
Total Comprehensive Income	**$ 20,786,593**	$ 29,937,399

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

Consolidated Statement of Changes in Equity

	Paid-in Capital	General Reserve Retained Earnings	Accumulated Other Comprehensive Income	Non-controlling Interest	Total Equity
Beginning balance, January 1, 2019	$ 415,000,000	$ 228,897,380	$ 9,124,014	$ 5,302	$ 653,026,696
Net income	–	29,701,121	–	–	29,701,121
Other comprehensive income	–	–	236,278	–	236,278
Non-controlling interest	–	–	–	(137)	(137)
Ending balance, December 31, 2019	415,000,000	258,598,501	9,360,292	5,165	682,963,958
Capital Contribution	**60,000,000**	**–**	**–**	**–**	**60,000,000**
Net income	**–**	**14,883,065**	**–**	**–**	**14,883,065**
Other comprehensive income	**–**	**–**	**5,903,528**	**–**	**5,903,528**
Non-controlling interest	**–**	**–**	**–**	**(122)**	**(122)**
Ending balance, December 31, 2020	**$ 475,000,000**	**$ 273,481,566**	**$ 15,263,820**	**$ 5,043**	**$ 763,750,429**

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

Consolidated Statements of Cash Flows

Years Ended December 31,	2020	2019
Cash Flows from Operating Activities		
Net income	**$ 14,883,065**	$ 29,701,121
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	**114,315**	129,862
Amortization of net premiums (discounts) on investments	**(495,810)**	(4,590,154)
Change in fair value of swaps, options, hedged items and other non-cash items	**23,717,410**	(58,143,283)
Non-controlling interest	**(122)**	(137)
Gains on securities, net	**(314,017)**	(87,852)
Provision for loan losses	**18,637**	62,338
Long-term post-retirement benefits payable	**298,155**	2,481,519
Change in other assets and liabilities:		
(Increase) decrease in interest receivable	**3,638,470**	(46,295)
(Increase) decrease in receivable and other assets	**(1,010,438)**	188,795
Increase (decrease) in accounts payable	**(46,830)**	(250,663)
Increase (decrease) in accrued liabilities	**257,087**	(639,233)
Increase (decrease) in accrued interest payable	**(8,004,543)**	(880,595)
Net cash provided by (used in) operating activities	**33,055,379**	(32,074,577)
Cash Flows from Lending, Investing, and Development Activities		
Capital expenditures	**(51,821)**	(45,791)
Loan principal repayments	**226,576,545**	147,024,725
Loan disbursements	**(51,160,105)**	(164,293,344)
Purchase of held-to-maturity investments	**(2,957,250)**	(2,969,362)
Purchase of available-for-sale investments	**(2,306,861,324)**	(459,209,582)
Proceeds from maturities of held-to-maturity investments	**3,522,068**	2,266,000
Proceeds from sales and maturities of available-for-sale investments	**1,998,069,060**	461,059,479
Net cash used in lending, investing, and development activities	**(132,862,827)**	(16,167,875)
Cash Flows from Financing Activities		
Capital contributions	**60,000,000**	-
U.S. capital contribution paid-in advance	**165,000,000**	-
Proceeds from note issuances	**351,930,442**	-
Principal repayment of other borrowings	**(5,264,000)**	(5,263,000)
Principal repayment of notes payable	**(529,998,000)**	-
Grant funds from the Environmental Protection Agency (EPA)	**9,334,649**	11,607,674
Grant funds from other sources	**6,356**	119,708
Grant disbursements - EPA	**(9,334,646)**	(11,607,674)
Grant disbursements from other sources	**-**	(110,830)
Net cash provided by (used in) financing activities	**41,674,801**	(5,254,122)
Net Decrease in Cash and Cash Equivalents	**(58,132,647)**	(53,496,574)
Cash and Cash Equivalents, Beginning of Year	**121,597,839**	175,094,413
Cash and Cash Equivalents, End of Year	**$ 63,465,192**	$ 121,597,839
Supplemental Cash Information		
Cash paid during the year for interest	**$ 20,093,599**	$ 28,707,051
Significant Non-cash Transactions		
Foreign currency translation adjustment	**$ (15,679,290)**	$ 7,214,641
Change in fair value of cross-currency interest rate swaps, net	**17,907,283**	(11,194,142)
Change in fair value of available-for-sale investments, net	**3,638,829**	4,248,776

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

Notes to Consolidated Financial Statements

1. Organization and Purpose

The North American Development Bank (NADB or the Bank) was established on January 1, 1994 by an agreement between the Governments of the United States of America (the United States or U.S.) and the United Mexican States (Mexico) that was signed by their respective Presidents on November 16 and 18, 1993 (the Charter). The Bank was created to finance environmental infrastructure projects in the U.S.-Mexico border region (the International Program) and 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 December 31, 2020, 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 GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. These estimates include the valuation of investments, allowance for loan losses, the fair value of derivative instruments 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.

2. Summary of Significant Accounting Policies (Continued)

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.

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.

The accretion of discounts and the amortization of premiums are computed using the interest method. Realized gains and losses are determined using the specific identification method. Investments in a loss position are reviewed to determine whether the unrealized loss, which is considered an impairment, is temporary or other-than-temporary. In the event of other-than-temporary impairment, the cost basis of the investment would be written down to its fair value, and the credit component of the loss would be included in current earnings. The Bank had no securities classified as other-than-temporarily impaired at December 31, 2020 and 2019.

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 from all customs duties.

2. Summary of Significant Accounting Policies (Continued)

Furniture, Equipment, and Leasehold Improvements

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

Retained Earnings

Retained earnings are classified as 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 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

2. Summary of Significant Accounting Policies (Continued)

unrecovered prior charge-off associated with it, payments are recognized as interest income. Nonaccrual loans may be returned to accrual status when contractual principal and interest are current, prior charge-offs have been recovered, and the ability of the borrower to fulfill the contractual repayment terms is fully expected. All three of these conditions must be met in order to return a loan to accrual status. If previously unrecognized interest income exists upon reinstatement of a nonaccrual loan to accrual status, interest income will only be recognized upon receipt of cash payments applied to the loan.

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

The allowance for loan losses is a valuation account used to reasonably estimate loan losses incurred as of the 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. In 2019 the Bank modified the way in which it calculates the general allowance by estimating probability of default for each loan using internal credit risk methodologies, 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

The internal portfolio risk methodologies are tailored to the characteristics of each transaction and project sector and were developed using both quantitative and qualitative variables to address both project and borrower risks. The analysis includes all financial and operating metrics relevant to the overall performance of the project, as well as any relevant credit risk mitigating measures. The variables are well defined and consistently applied to each individual loan. For each loan, the probability of default is estimated using the corresponding methodology and mapped onto the credit risk rating scale.

Rating Scale

Borrower Rating	Scale	Risk Grade
1		A-1
2	A	A-2
3		A-3
4		B-1
5	B	B-2
6		B-3
7	C	C
8	D	D
9	E	E

2. Summary of Significant Accounting Policies (Continued)

Government Contributions

The Bank receives contributions from the federal governments through the U.S. Department of State and the Mexican Ministry of Environment and Natural Resources (SEMARNAT), which are reflected in the consolidated statement of income.

Program Activities

Grant income from the U.S. Environmental Protection Agency (EPA) associated with the Border Environment Infrastructure Fund (BEIF) represents reimbursed administrative expenses. Such amounts are earned and recognized as grant income in the accompanying consolidated statements of income as the associated expenses are incurred. In addition, the Bank may receive and administer grants from other entities under cooperative agreements for the financing of joint projects. Reimbursed administrative expenses are recognized as grant income in the accompanying consolidated statements of income as the associated expenses are incurred.

Grant income from EPA and other sources associated with technical assistance activities represent reimbursed administrative expenses and technical assistance grant disbursements funded by those entities. Such amounts are earned and recognized as grant income in the accompanying consolidated statements of income as the associated expenses are incurred.

Program expenses also represent the disbursement of Bank-funded grants through the Community Assistance Program (CAP), Water Conservation Investment Fund (WCIF), 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. Additional information on grant programs is provided in Note 8.

EPA-funded BEIF 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 EPA. The Bank's role is to administer these funds.

Foreign Currency

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

The lending activities of the Bank include making loans that are denominated in Mexican pesos. For such loans, the Bank enters into cross-currency interest rate swaps that mitigate its exposure to fluctuations in foreign currency exchange rates and interest rates. As of December 31, 2020, the Bank had entered into counterparty agreements with 11 counterparties, two (2) of which are backed by the federal government of Mexico and the other nine (9) are commercial financial institutions. The foreign currency translation adjustment on loans denominated in Mexican pesos as of December 31, 2020 and 2019 was $(46,483,700) and $(33,301,924), 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 and are reclassified to earnings at

2. Summary of Significant Accounting Policies (Continued)

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

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

Derivatives executed with all 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.

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

2. Summary of Significant Accounting Policies (Continued)

Accumulated Other Comprehensive Income

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

Reclassifications

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

3. Investments

All investments held by the Bank are classified as either held-to-maturity or available-for-sale securities. The following schedule summarizes investments as of December 31, 2020 and 2019:

December 31, 2020	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Held-to-maturity:				
U.S. government securities	**$ 3,473,904**	**$ 17,722**	**$ –**	**$ 3,491,626**
U.S. agency securities	**–**	**–**	**–**	**–**
Total held-to-maturity investment securities	**3,473,904**	**17,722**	**–**	**3,491,626**
Available-for-sale:				
U.S. government securities	**470,074,586**	**2,233,696**	**(23,073)**	**472,285,209**
U.S. agency securities	**199,953,973**	**523,486**	**(15,432)**	**200,462,027**
Corporate debt securities	**193,648,912**	**1,552,832**	**(58,487)**	**195,143,257**
Other fixed-income securities	**49,001,718**	**411,131**	**(1,540)**	**49,411,309**
Mexican government securities (UMS)	**14,313,957**	**906,543**	**–**	**15,220,500**
Mortgage-backed securities	**8,590,235**	**32,129**	**(3,026)**	**8,619,338**
Total available-for-sale investment securities	**935,583,381**	**5,659,817**	**(101,558)**	**941,141,640**
Total investment securities	**$ 939,057,285**	**$ 5,677,539**	**$ (101,558)**	**$ 944,633,266**

December 31, 2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity:				
U.S. government securities	$ 3,575,722	$ 15,800	$ (5,670)	$ 3,585,852
U.S. agency securities	463,000	–	(32)	462,968
Total held-to-maturity investment securities	4,038,722	15,800	(5,702)	4,048,820
Available-for-sale:				
U.S. government securities	431,399,709	1,070,888	(57,102)	432,413,495
U.S. agency securities	65,065,747	89,882	(32,206)	65,123,423
Corporate debt securities	89,491,507	559,199	(8,410)	90,042,296
Other fixed-income securities	25,931,037	77,166	(13,054)	25,995,149
Mexican government securities (UMS)	14,093,290	251,701	(18,634)	14,326,357
Total available-for-sale investment securities	625,981,290	2,048,836	(129,406)	627,900,720
Total investment securities	$ 630,020,012	$ 2,064,636	$ (135,108)	$ 631,949,540

3. Investments (continued)

The following schedule summarizes unrealized losses and the fair value of investments aggregated by category and the length of time individual securities have been in a continuous unrealized loss position as of December 31, 2020 and 2019:

	Less Than 12 Months		12 Months or More		Total	
December 31, 2020	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Held-to-maturity:						
U.S. government securities	$ –	$ –	$ –	$ –	$ –	$ –
U.S. agency securities	–	–	–	–	–	–
Total held-to-maturity securities	–	–	–	–	–	–
Available-for-sale:						
U.S. government securities	**30,168,844**	**23,073**	–	–	**30,168,844**	**23,073**
U.S. agency securities	**17,413,203**	**15,432**	–	–	**17,413,203**	**15,432**
Corporate debt securities	**71,500,056**	**58,487**	–	–	**71,500,056**	**58,487**
Other fixed-income securities	**998,460**	**1,540**	–	–	**998,460**	**1,540**
Mortgage-backed securities	**1,360,079**	**3,026**	–	–	**1,360,079**	**3,026**
Total available-for-sale investment securities	**121,440,642**	**101,558**	–	–	**121,440,642**	**101,558**
Total temporarily impaired securities	**$ 121,440,642**	**$ 101,558**	**$ –**	**$ –**	**$ 121,440,642**	**$ 101,558**

	Less Than 12 Months		12 Months or More		Total	
December 31, 2019	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Held-to-maturity:						
U.S government securities	$ 1,763,893	$ 5,670	$ –	$ –	$ 1,763,893	$ 5,670
U.S. agency securities	462,968	32	–	–	462,968	32
Total held-to-maturity securities	2,226,861	5,702	–	–	2,226,861	5,702
Available-for-sale:						
U.S. government securities	3,822,874	245	21,249,428	56,857	25,072,302	57,102
U.S. agency securities	–	–	8,765,302	32,206	8,765,302	32,206
Corporate debt securities	3,122,705	1,186	4,992,000	7,224	8,114,705	8,410
Other fixed-income securities	2,664,488	1,339	3,754,812	11,715	6,419,300	13,054
Mexican government securities (UMS)	3,605,000	18,634	–	–	3,605,000	18,634
Total available-for-sale investment securities	13,215,067	21,404	38,761,542	108,002	51,976,609	129,406
Total temporarily impaired securities	$ 15,441,928	$ 27,106	$ 38,761,542	$ 108,002	$ 54,203,470	$ 135,108

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 December 31, 2020. 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 December 31, 2020 and 2019 are summarized in the following table:

	Held-to-Maturity Securities				Available-for-Sale Securities			
December 31, 2020		**Fair Value**		**Amortized Cost**		**Fair Value**		**Amortized Cost**
Less than 1 year	**$**	**1,188,427**	**$**	**1,171,776**	**$**	**295,822,791**	**$**	**295,588,528**
1–5 years		**2,303,199**		**2,302,128**		**614,278,423**		**609,021,651**
5–10 years		**–**		**–**		**22,421,088**		**22,382,967**
More than 10 years		**–**		**–**		**–**		**–**
Mortgage-backed securities		**–**		**–**		**8,619,338**		**8,590,235**
	$	**3,491,626**	**$**	**3,473,904**	**$**	**941,141,640**	**$**	**935,583,381**

	Held-to-Maturity Securities				Available-for-Sale Securities			
December 31, 2019		Fair Value		Amortized Cost		Fair Value		Amortized Cost
Less than 1 year	$	1,729,878	$	1,718,471	$	512,521,292	$	512,218,478
1–5 years		2,318,942		2,320,251		115,379,428		113,762,812
5–10 years		–		–		–		–
More than 10 years		–		–		–		–
	$	4,048,820	$	4,038,722	$	627,900,720	$	625,981,290

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 years ended December 31, 2020 and 2019:

Year Ended December 31,		**2020**		**2019**
Held-to-maturity investment securities:				
Proceeds from maturities	**$**	**3,522,068**	$	2,266,000
Available-for-sale investment securities:				
Proceeds from sales and maturities		**1,998,069,060**		461,059,479
Gross realized gains		**326,948**		102,627
Gross realized losses		**12,931**		14,775

The following table sets forth the net unrealized gains (losses) on securities available-for-sale and the reclassification adjustments required for the years December 31, 2020 and 2019:

Year Ended December 31,		**2020**		**2019**
Net unrealized gains (losses) on investment securities available-for-sale, beginning of year	**$**	**1,919,430**	$	(2,329,346)
Net unrealized gains on investment securities available-for-sale, arising during the year		**3,952,846**		4,336,628
Reclassification adjustments for net gains on investment securities available-for-sale included in net income		**(314,017)**		(87,852)
Net unrealized gains on investment securities available-for-sale, end of year	**$**	**5,558,259**	$	1,919,430

4. Loans

The following schedule summarizes loans outstanding as of December 31, 2020 and 2019:

December 31,		2020		2019
Loan balance	$	**1,126,330,083**	$	1,301,746,523
Allowance for loan losses:				
General		**(16,834,062)**		(16,834,062)
Specific		**(2,401,420)**		(2,382,783)
Unamortized loan fees		**(9,529,630)**		(12,284,799)
Foreign currency exchange rate adjustment		**(46,483,700)**		(33,301,924)
Fair value of hedged items		**(33,183,106)**		(62,856,585)
Net loans outstanding	$	**1,017,898,165**	$	1,174,086,370

At December 31, 2020 and 2019, outstanding unfunded loan commitments on signed loan agreements totaled $107,830,319 and $99,857,959, respectively. As of December 31, 2020, the Bank had loan agreements under development for an additional $227,439,046.

The Bank under certain circumstances offered below-market-rate loans under its Low Interest Rate Lending Facility (LIRF) program, which was terminated in May 2013. As of December 31, 2020 and 2019, the Bank had LIRF loans outstanding of $23,929,910 and $27,438,337, respectively.

The following table presents the loan portfolio by sector as of December 31, 2020 and 2019:

December 31,		2020		2019
Water and wastewater	$	**111,640,646**	$	110,547,849
Storm drainage		**9,453,086**		10,713,740
Solid waste		**2,330,000**		2,845,000
Air quality		**69,918,844**		78,483,962
Public transportation		**36,618,749**		42,004,524
Wind energy		**552,146,957**		590,585,436
Solar energy		**277,208,413**		429,095,367
Energy efficiency		**245,300**		–
Other clean energy		**1,759,011**		2,945,529
Basic urban infrastructure		**32,914,164**		34,525,116
ProRec[1]		**32,094,913**		–
	$	**1,126,330,083**	$	1,301,746,523

[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 December 31, 2020 and 2019:

December 31,		2020		2019
Private	$	**866,219,419**	$	1,062,617,460
Public		**198,931,343**		180,595,606
Public-private		**61,179,321**		58,533,457
	$	**1,126,330,083**	$	1,301,746,523

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 December 31, 2020 and 2019. These risk categories are defined in Note 2, along with additional information on how the Bank evaluates credit quality:

December 31,	2020	2019
A-1	**$ 30,689,556**	$ 34,593,756
A-2	**291,552,675**	355,904,478
A-3	**616,064,228**	610,206,818
B-1	**171,371,972**	276,452,024
B-2	**–**	9,529,283
B-3	**–**	932,135
C	**2,850,000**	–
D	**13,801,652**	14,128,029
E	**–**	–
	$ 1,126,330,083	$ 1,301,746,523

The Bank has one non-accrual loan that was restructured and, as of December 31, 2020 and 2019, had an outstanding balance of $13,801,652 and $14,128,029, 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 and $2,382,783 as of December 31, 2020 and 2019, respectively.

No loans were restructured during the years ended December 31, 2020 and 2019. The average impaired loan balance for the years December 31, 2020 and 2019 totaled $14,013,327 and $14,300,091, respectively.

An age analysis of past-due loans, including both accruing and non-accruing loans, as of December 31, 2020 and 2019, is shown in the following table:

	Loans 30–89 Days Past Due	Loans 90 or More Days Past Due	Total Past-due Loans
December 31, 2020	**$ –**	**$ –**	**$ –**
December 31, 2019	–	–	–

There were no loans past due 90 or more days accruing interest as of December 31, 2020 and 2019.

The following table summarizes the allowance for loan losses by classification as of December 31, 2020 and 2019:

	Allowance for Loan Losses			
December 31, 2020	**General Allowance**	**Specific Allowance**	**Total**	**Total Loans Outstanding**
Mexico:				
Construction	**$ 1,504,980**	**$ –**	**$ 1,504,980**	**$ 100,000,000**
Operation	**11,682,988**	**2,401,420**	**14,084,408**	**798,678,063**
Total Mexico	**13,187,968**	**2,401,420**	**15,589,388**	**898,678,063**
United States:				
Construction	**5,831**	**–**	**5,831**	**245,300**
Operation	**3,640,263**	**–**	**3,640,263**	**227,406,720**
Total United States	**3,646,094**	**–**	**3,646,094**	**227,652,020**
	$ 16,834,062	**$ 2,401,420**	**$ 19,235,482**	**$ 1,126,330,083**

4. Loans (Continued)

December 31, 2019	Allowance for Loan Losses: General Allowance	Specific Allowance	Total	Total Loans Outstanding
Mexico:				
Construction	$ 4,877,573	$ –	$ 4,877,573	$ 282,303,028
Operation	8,032,616	2,382,783	10,415,399	692,724,906
Total Mexico	12,910,189	2,382,783	15,292,972	975,027,934
United States:				
Construction	47,926	–	47,926	2,845,000
Operation	3,875,947	–	3,875,947	323,873,589
Total United States	3,923,873	–	3,923,873	326,718,589
	$ 16,834,062	$ 2,382,783	$ 19,216,845	$ 1,301,746,523

The following schedule summarizes the changes in the allowance for loan losses for the years ended December 31, 2020 and 2019:

December 31, 2020	**Beginning Balance**	**Change in Allowance for Loan Losses: Specific Provisions**	**General Provisions**	**Loan (Charge-offs) Recoveries**	**Ending Balance**
Mexico:					
Construction	**$ 4,877,573**	**$ –**	**$ (3,372,593)**	**$ –**	**$ 1,504,980**
Operation	**10,415,399**	**18,637**	**3,650,372**	**–**	**14,084,408**
Total Mexico	**15,292,972**	**18,637**	**277,779**	**–**	**15,589,388**
United States:					
Construction	**47,926**	**–**	**(42,095)**	**–**	**5,831**
Operation	**3,875,947**	**–**	**(235,684)**	**–**	**3,640,263**
Total United States	**3,923,873**	**–**	**(277,779)**	**–**	**3,646,094**
	$ 19,216,845	**$ 18,637**	**$ –**	**$ –**	**$ 19,235,482**

December 31, 2019	Beginning Balance	Change in Allowance for Loan Losses: Specific Provisions	General Provisions	Loan (Charge-offs) Recoveries	Ending Balance
Mexico:					
Construction	$ 6,240,336	$ –	$ (1,362,763)	$ –	$ 4,877,573
Operation	9,440,443	55,682	919,274	–	10,415,399
Total Mexico	15,680,779	55,682	(443,489)	–	15,292,972
United States:					
Construction	251,799	–	(203,873)	–	47,926
Operation	3,221,929	–	654,018	–	3,875,947
Total United States	3,473,728	–	450,145	–	3,923,873
	$ 19,154,507	$ 55,682	$ 6,656	$ –	$ 19,216,845

5. Other Assets and Other Liabilities

The following table presents the gross and net balances of other assets and other liabilities, including the result of master netting arrangements for derivatives with certain swap counterparties, at December 31, 2020 and 2019:

December 31, 2020	**Gross Amount**	**Master Netting Arrangements**	**Net Amount**
Assets			
Cross-currency interest rate swaps	**$ 183,664,718**	**$ (20,142,887)**	**$ 163,521,831**
Interest rate swaps	**10,798,809**	**–**	**10,798,809**
Options	**12,253,253**	**–**	**12,253,253**
Collateral from counterparty	**(48,020,000)**	**–**	**(48,020,000)**
Credit valuation adjustment for swaps	**(2,149,166)**	**–**	**(2,149,166)**
Total other assets	**$ 156,547,614**	**$ (20,142,887)**	**$ 136,404,727**
Liabilities			
Cross-currency interest rate swaps	**$ 6,953,255**	**$ –**	**$ 6,953,255**
Interest rate swaps	**10,718,238**	**–**	**10,718,238**
Total other liabilities	**$ 17,671,493**	**$ –**	**$ 17,671,493**

December 31, 2019	Gross Amount	Master Netting Arrangements	Net Amount
Assets			
Cross-currency interest rate swaps	$ 146,184,534	$ (41,851,728)	$ 104,332,806
Interest rate swaps	3,168,171	(249,065)	2,919,106
Collateral from counterparty	(43,950,000)	–	(43,950,000)
Credit valuation adjustment for swaps	(908,410)	–	(908,410)
Total other assets	$ 104,494,295	$ (42,100,793)	$ 62,393,502
Liabilities			
Cross-currency interest rate swaps	$ 1,000,876	$ –	$ 1,000,876
Interest rate swaps	465,236	–	465,236
Total other liabilities	$ 1,466,112	$ –	$ 1,466,112

6. Debt

The following tables summarize the notes payable and other borrowings as of December 31, 2020 and 2019:

			December 31, 2020					
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**	$ **(573,779)**	$ **(142,826)**	$ **–**	$ **3,953,433**	$ **153,238,828**
12/17/12	12/17/30	3.30	**50,000,000**	**–**	**(171,245)**	**–**	**6,845,376**	**56,674,131**
CHF Issuance								
04/30/15	04/30/25	0.25	**128,706,754**	**378,775**	**(359,961)**	**–**	**14,706,973**	**143,432,541**
04/26/17	10/26/27	0.20	**124,443,117**	**297,148**	**(487,925)**	**–**	**16,924,151**	**141,176,491**
07/24/18	07/24/26	0.30	**126,415,858**	**115,888**	**(566,597)**	**–**	**19,317,004**	**145,282,153**
05/28/20	11/28/28	0.20	**186,316,116**	**20,811**	**(997,535)**	**17,027,761**	**–**	**202,367,153**
05/28/20	05/27/33	0.55	**165,614,326**	**705,615**	**(1,011,565)**	**15,135,787**	**–**	**180,444,163**
NOK Issuance								
03/10/17	03/10/31	2.47	**86,724,283**	**–**	**(214,688)**	**–**	**(526,273)**	**85,983,322**
03/10/17	03/10/32	2.47	**86,724,283**	**–**	**(220,036)**	**–**	**(645,850)**	**85,858,397**
Total notes payable			**1,104,946,737**	**944,458**	**(4,172,378)**	**32,163,548**	**60,574,814**	**1,194,457,179**
Other Borrowings								
08/14/14	06/30/21	1.90	**1,008,985**	**–**	**–**	**–**	**–**	**1,008,985**
02/13/15	06/30/21	1.90	**1,623,015**	**–**	**–**	**–**	**–**	**1,623,015**
02/13/15	12/30/21	1.90	**1,470,635**	**–**	**–**	**–**	**–**	**1,470,635**
07/29/15	12/30/21	1.90	**1,161,365**	**–**	**–**	**–**	**–**	**1,161,365**
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			**21,056,000**	**–**	**–**	**–**	**–**	**21,056,000**
			$1,126,002,737	$ **944,458**	**$ (4,172,378)**	**$ 32,163,548**	**$ 60,574,814**	**$1,215,513,179**

6. Debt (Continued)

			December 31, 2019				
Issue Date	Maturity Date	Fixed Rate	Principal Amount	Unamortized Premium/ (Discount)	Unamortized Debt Issuance Costs	Fair Value of Hedged Items	Net Debt
Notes Payable							
USD Issuance							
02/11/10	02/11/20	4.375%	$ 250,000,000	$ (7,250)	$ (17,955)	$ 357,621	$ 250,332,416
10/26/12	10/26/22	2.400	250,000,000	(242,472)	(419,289)	794,892	250,133,131
12/17/12	10/26/22	2.400	180,000,000	(1,066,952)	(265,588)	(249,065)	178,418,395
12/17/12	12/17/30	3.300	50,000,000	–	(188,411)	2,015,659	51,827,248
CHF Issuance							
04/30/15	04/30/25	0.250	128,706,754	437,476	(443,029)	1,857,340	130,558,541
04/26/17	10/26/27	0.200	124,443,117	301,186	(559,473)	2,644,695	126,829,525
07/24/18	07/24/26	0.300	126,415,858	122,647	(668,432)	6,293,435	132,163,508
NOK Issuance							
03/10/17	03/10/32	2.470	173,448,566	–	(483,051)	(19,208,874)	153,756,641
Total notes payable			1,283,014,295	(455,365)	(3,045,228)	(5,494,297)	1,274,019,405
Other Borrowings							
04/11/14	06/30/20	1.900	526,785	–	–	–	526,785
08/14/14	06/30/20	1.900	2,105,215	–	–	–	2,105,215
08/14/14	12/30/20	1.900	2,632,000	–	–	–	2,632,000
08/14/14	06/30/21	1.900	1,008,985	–	–	–	1,008,985
02/13/15	06/30/21	1.900	1,623,015	–	–	–	1,623,015
02/13/15	12/30/21	1.900	1,470,635	–	–	–	1,470,635
07/29/15	12/30/21	1.900	1,161,365	–	–	–	1,161,365
07/29/15	06/30/22	1.900	266,455	–	–	–	266,455
09/16/16	06/30/22	1.900	2,216,528	–	–	–	2,216,528
03/17/17	06/30/22	1.900	149,017	–	–	–	149,017
03/17/17	12/30/22	1.900	2,632,000	–	–	–	2,632,000
03/17/17	06/30/23	1.900	2,632,000	–	–	–	2,632,000
03/17/17	12/30/23	1.900	2,632,000	–	–	–	2,632,000
03/17/17	06/30/24	1.900	2,632,000	–	–	–	2,632,000
03/17/17	12/30/24	1.900	2,170,720	–	–	–	2,170,720
11/13/17	12/30/24	1.900	461,280	–	–	–	461,280
Total other borrowings			26,320,000	–	–	–	26,320,000
			$ 1,309,334,295	$ (455,365)	$ (3,045,228)	$ (5,494,297)	$ 1,300,339,405

6. Debt (Continued)

Notes Payable

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

The fair value of the hedges relating to interest rate swaps on notes payable denominated in U.S. dollars was reported at December 31, 2020 and 2019 as other assets of $10,798,809 and $2,919,106, respectively. The fair value of the hedges relating to cross-currency interest rate swaps on notes payable not denominated in U.S. dollars was reported at December 31, 2020 and 2019 as other assets of $72,134,055 and $(3,394,273), respectively. The fair value of hedges relating to options on notes payable not denominated in U.S. dollars was reported at December 31, 2020 as other assets of $12,253,253. 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. As of December 31, 2020 and 2019, the outstanding balance was $21,056,000 and $26,320,000, respectively.

The following table summarizes the maturities of the notes payable and other borrowings as of December 31, 2020 and 2019:

December 31,	**2020**	2019
Less than 1 year	**$ 5,264,000**	$ 255,264,000
1–2 years	**155,266,000**	5,264,000
2–3 years	**5,264,000**	435,264,000
3–4 years	**5,264,000**	5,264,000
4–5 years	**128,706,754**	5,264,000
5–10 years	**487,175,091**	379,565,729
More than 10 years	**339,062,892**	223,448,566
Total	**$ 1,126,002,737**	$ 1,309,334,295

The following table summarizes short-term and long-term debt as of December 31, 2020 and 2019:

December 31,	**2020**	2019
Short-term debt:		
Notes payable	**$ –**	$ 250,000,000
Other borrowings	**5,264,000**	5,264,000
Total short-term debt	**5,264,000**	255,264,000
Long-term debt:		
Notes payable	**1,104,946,737**	1,033,014,295
Other borrowings	**15,792,000**	21,056,000
Total long-term debt	**1,120,738,737**	1,054,070,295
Total debt	**$ 1,126,002,737**	$ 1,309,334,295

7. Equity

Subscribed Capital

At December 31, 2020 and 2019, 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 December 31, 2020 and 2019 as shown in the following tables.

	Mexico		United States		Total	
December 31, 2020	**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**
Less:						
Qualified callable capital	**(121,833)**	**(1,218,330)**	**(102,000)**	**(1,020,000)**	**(223,833)**	**(2,238,330)**
Unqualified callable capital	**(133,167)**	**(1,331,670)**	**(153,000)**	**(1,530,000)**	**(286,167)**	**(2,861,670)**
Qualified paid-in capital	**(21,500)**	**(215,000)**	**–**	**–**	**(21,500)**	**(215,000)**
Total funded paid-in capital	**23,500**	**235,000**	**45,000**	**450,000**	**68,500**	**685,000**
Less restricted from commitments	**–**	**–**	**–**	**(165,000)**	**–**	**(165,000)**
Less transfer for Domestic Programs	**–**	**(22,500)**	**–**	**(22,500)**	**–**	**(45,000)**
Total paid-in capital	**23,500**	**$ 212,500**	**45,000**	**$ 262,500**	**68,500**	**$ 475,000**

	Mexico		United States		Total	
December 31, 2019	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
Less:						
Qualified callable capital	(121,833)	(1,218,330)	(127,500)	(1,275,000)	(249,333)	(2,493,330)
Unqualified callable capital	(133,167)	(1,331,670)	(127,500)	(1,275,000)	(260,667)	(2,606,670)
Qualified paid-in capital	(21,500)	(215,000)	(22,500)	(225,000)	(44,000)	(440,000)
Total funded paid-in capital	23,500	235,000	22,500	225,000	46,000	460,000
Less transfer for Domestic Programs	–	(22,500)	–	(22,500)	–	(45,000)
Total paid-in capital	23,500	$ 212,500	22,500	$ 202,500	46,000	$ 415,000

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 or $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.

7. Equity (Continued)

The Charter allows up to 10% each country's initial 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 equal to 10% of the initial paid-in capital of $450 million to these programs. As of June 29, 1999, the paid-in capital of the Mexican Domestic Program was fully transferred to Mexico. As of December 31, 2018, the paid-in capital of the U.S. Domestic Program was fully disbursed by the Finance Committee appointed by the U.S. Government for this program

In 2015, Mexico and the United States each agreed to subscribe 150,000 additional shares. With this General Capital Increase (GCI), each government has subscribed 300,000 shares of capital with a par value of $10,000 per share or $3,000,000,000 for a total of $6,000,000,000 as of December 31, 2020 and 2019.

On May 6, 2016, Mexico submitted its letter of subscription to conditionally subscribe to 150,000 additional shares of capital stock with a par value of $10,000 per share, subject to the necessary legal requirements and availability of budget allocations. The capital stock was classified as 22,500 qualified paid-in capital shares or $225,000,000 and 127,500 qualified callable shares or $1,275,000,000.

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

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

On January 29, 2020, the U.S. Government signed into law the United States-Mexico-Canada Agreement (USMCA). Within this legislation, the U.S. authorized 22,500 shares of paid in capital with a par value of $10,000 per share or $225,000,000 and appropriations of $215,000,000.

On April 23, 2020, the United States made its first GCI contribution of additional paid-in capital of $10,000,000 or 1,000 shares. On April 25, 2020, the United States unqualified $10,000,000 or 1,000 shares of paid-in capital and unqualified $56,670,000 or 5,667 shares of callable capital shares.

On August 6, 2020, the United States completed its paid-in capital commitment under the GCI by unqualifying its subscription to 21,500 paid-in capital shares and making a corresponding payment of $215,000,000. Of this amount, $165,000,000 is restricted from commitment, in accordance with Chapter II, Article II, Section 3(c) of the Charter, until matching subscription payments are received from Mexico, 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 callable capital shares with a value of $198,330,000.

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.

7. Equity (Continued)

Retained Earnings

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

December 31,	2020	2019
Designated retained earnings		
Water Conservation Investment Fund (WCIF)	**$ –**	$ 95,594
Technical Assistance Program (TAP)	**2,279,897**	2,802,305
Community Assistance Program (CAP)	**5,862,458**	7,715,406
Total designated retained earnings	**8,142,355**	10,613,305
Reserved retained earnings		
Debt Service Reserve	**28,613,000**	38,290,000
Operating Expenses Reserve	**22,682,824**	21,812,376
Special Reserve	**30,000,000**	30,000,000
Capital Preservation Reserve	**76,319,223**	69,661,128
Total reserved retained earnings	**157,615,047**	159,763,504
Undesignated retained earnings		
Operations	**106,277,039**	81,145,125
Mark-to-market hedge valuations	**1,447,125**	7,076,567
Total undesignated retained earnings	**107,724,164**	88,221,692
Total retained earnings	**$ 273,481,566**	$ 258,598,501

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

Accumulated Other Comprehensive Income

The following table presents the changes in accumulated other comprehensive income for the years ended December 31, 2020 and 2019:

December 31, 2020	Beginning Balance	Period Activity	Ending Balance
Net unrealized gain on available-for-sale investment securities	**$ 1,919,430**	**$ 3,638,829**	**$ 5,558,259**
Foreign currency translation adjustment	**304,250**	**36,706**	**340,956**
Unrealized gain (loss) on hedging activities:			
Foreign currency translation adjustment	**(33,301,924)**	**(15,679,290)**	**(48,981,214)**
Fair value of cross-currency interest rate swaps	**40,438,536**	**17,907,283**	**58,345,819**
Net unrealized gain on hedging activities	**7,136,612**	**2,227,993**	**9,364,605**
Total accumulated other comprehensive income	**$ 9,360,292**	**$ 5,903,528**	**$ 15,263,820**

7. Equity (Continued)

December 31, 2019	Beginning Balance	Period Activity	Ending Balance
Net unrealized gain (loss) on available-for-sale investment securities	$ (2,329,346)	$ 4,248,776	$ 1,919,430
Foreign currency translation adjustment	337,247	(32,997)	304,250
Unrealized gain (loss) on hedging activities:			
Foreign currency translation adjustment	(40,516,565)	7,214,641	(33,301,924)
Fair value of cross-currency interest rate swaps	51,632,678	(11,194,142)	40,438,536
Net unrealized gain (loss) on hedging activities	11,116,113	(3,979,501)	7,136,612
Total accumulated other comprehensive income	$ 9,124,014	$ 236,278	$ 9,360,292

8. Program Activities

Program activities are comprised of the following:

Year Ended December 31,	2020	2019
Program Income		
Non-program specific contribution:		
U.S. Department of State	**$ 2,902,000**	$ 2,902,000
Ministry of Environment and Natural Resources (SEMARNAT)	**1,793,750**	1,793,750
Program-specific expense reimbursements and grant income:		
Border Environment Infrastructure Fund (BEIF)	**1,489,776**	997,312
Project Development Assistance Program (PDAP)	**2,082,106**	1,652,132
U.S. Mexico Border 2020 Program (Border 2020)	**590,679**	678,664
Other grant income	**971**	32,687
Total program income	**8,859,282**	8,056,545
Program Expenses		
Operating expenses:		
BEIF	**1,489,776**	997,312
PDAP	**981,502**	675,438
Border 2020	**236,561**	295,064
Other	**971**	32,687
Total operating expenses	**2,708,810**	2,000,501
Grant disbursements:		
PDAP	**1,100,604**	976,694
Border 2020	**405,572**	542,426
Community Assistance Program (CAP)	**1,852,948**	252,438
Water Conservation Investment Fund (WCIF)	**95,594**	–
COVID-19 Recovery Program (ProRec)	**50,000**	–
Technical Assistance Program (TAP)	**522,408**	122,478
Utility Management Institute (UMI)	**58,676**	139,092
Total grant disbursements	**4,085,802**	2,033,128
Total program expenses	**6,794,612**	4,033,629
Net program income	**$ 2,064,670**	$ 4,022,916

8. Program Activities (Continued)

Border Environment Infrastructure Fund (BEIF)

The Bank administers grant funds from EPA through the BEIF. EPA grant awards since the initial grant made in April 1997 to December 31, 2020, total $743,741,258. Under the terms of the grants, the Bank reviews and submits prospective projects to EPA. EPA approves the projects and they 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 December 31, 2020, EPA has approved project funding proposed by the Bank totaling $691,778,990, of which $657,914,595 has been disbursed through the Bank. The Bank recognized $1,489,776 and $997,312 as reimbursement of expenses incurred for the years ended December 31, 2020 and 2019, respectively. These funds have been recorded as program revenue and expenses in the consolidated statements of income.

Water Conservation Investment Fund (WCIF)

In August 2002, the Board of Directors established the WCIF to finance water conservation projects in the U.S.-Mexico border region and designated $80,000,000 of the Bank's undesignated retained earnings to the program. Of that amount, $40,000,000 was reserved exclusively for water conservation projects in each country. For the years ended December 31, 2020 and 2019, $95,594 and $0, respectively, were disbursed under this program. As of December 31, 2020 and 2019, cumulative disbursements for the United States totaled $38,334,972 and $38,239,378, respectively. As of December 31, 2020 and 2019, cumulative disbursements for Mexico totaled $39,990,407. These disbursements were reported as a program expense.

In May 2013, the Board agreed to close out the WCIF and transfer any uncommitted funds to the CAP program. A cumulative total of $1,674,621 in uncommitted WCIF funds was transferred to the CAP program.

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 December 31, 2020, a cumulative total of $14,092,840 has been allocated to the CAP. For the years ended December 31, 2020 and 2019, $1,852,948 and $252,438, respectively, were disbursed under this program. These disbursements have been reported as a program expense.

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 years ended December 31, 2020 and 2019, $522,408 and $122,478, respectively, was disbursed under this program. These disbursements have been reported as a program expense.

As part of its technical assistance program, the Utility Management Institute (UMI) provides water utility managers and their staff with an opportunity for ongoing professional development aimed at enhancing their managerial and financial skills. For the years ended December 31, 2020 and 2019, $58,676 and $139,092, respectively were expended under this program.

8. Program Activities (Continued)

Additionally, the Bank administers grant funds for technical assistance provided by other entities as follows:

Project Development Assistance Program (PDAP). The Bank administers grants from EPA, on a reimbursement basis, to assist communities in the development of water and wastewater projects that have been prioritized by EPA to receive BEIF grants. For the years ended December 31, 2020 and 2019, the Bank recognized $1,100,604 and $976,694, respectively, in technical assistance expenses, as well as $981,502 and $675,438 in grant administrative expenses, respectively. These funds have been recorded as program revenue and expenses in the consolidated statements of income.

Border 2020: U.S.-Mexico Environmental Program. The Bank administers grants from EPA, on a reimbursement basis, to support 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 projects and workshops funded under the program. For the years ended December 31, 2020 and 2019, the Bank recognized $405,572 and $542,426, respectively, in technical assistance expenses, as well as $236,561 and $295,064 in grant administrative expenses, respectively. These funds have been recorded as program revenue and expenses in the consolidated statements of income.

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 year ended December 31, 2020, $50,000 in grants was disbursed under this program. These disbursements have been reported as a program expense.

9. Employee Benefits

401(a) Retirement Plan

The Bank has a 401(a) Retirement Plan for its employees. This plan provides for employee and nondiscretionary employer contributions. For the years ended December 31, 2020 and 2019, the Bank expended $1,186,880 and $1,141,074 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. During 2019, an actuarial study of the plan was performed by a certified third party to estimate the prior, current and long-term benefit obligation as of December 31, 2019. The plan is funded by the Bank as benefits are paid. The Bank paid benefits of $25,845 and $16,481 for the years ended December 31, 2020 and 2019. As of December 31, 2020, the unfunded portion of the plan totaled $2,840,674 and is reflected in the consolidated balance sheet as a component of accrued liability and long-term liability of $61,000 and $2,779,674, respectively. As of December 31, 2019, the unfunded portion of the plan totaled $2,518,519 and is reflected in the consolidated balance sheet as a component of accrued liability and long-term liability of $37,000 and $2,481,519, respectively.

9. Employee Benefits (Continued)

The following table presents the change in benefit obligations as of December 31, 2020 and 2019:

December 31,		2020		2019
Beginning balance	$	**2,518,519**	$	–
Prior service expense		-		2,448,000
Current period service expense		**267,000**		67,000
Interest expense		**81,000**		20,000
Net benefits paid		**(25,845)**		(16,481)
Ending balance	$	**2,840,674**	$	2,518,519

The change in post-retirement health plan assets as of December 31, 2020 and 2019 is presented in the following table:

December 31,		2020		2019
Beginning balance	$	**–**	$	–
Employer contributions		**25,845**		16,481
Net benefits paid		**(25,845)**		(16,481)
Ending balance	$	**–**	$	–

The following table presents post-retirement health plan liabilities as of December 31 2020 and 2019:

December 31,		2020		2019
Current liabilities	$	**61,000**	$	37,000
Non-current liabilities		**2,779,674**		2,481,519
Total	$	**2,840,674**	$	2,518,519

The net periodic benefit cost of the post-retirement health plan for the years ended December 31, 2020 and 2019 is presented in the following table:

Year Ended December 31,		2020		2019
Service expense	$	**267,000**	$	67,000
Interest expense		**81,000**		20,000
		348,000		87,000
Prior service expense		**–**		2,082,306
Total	$	**348,000**	$	2,169,306

Service expenses are reflected in the consolidated statements 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 statements of income.

The assumptions used to determine the benefit obligations and net periodic post-retirement benefit costs of the plan as of December 31, 2020 and 2019 are presented below.

Discount rate	3.22%
Current healthcare cost trend rate	6.30%
Ultimate healthcare trend rate	5.00%
Year in which ultimate trend rate is reached	2028

9. Employee Benefits (Continued)

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

Year ending December 31,		
2021	$	61,000
2022		68,000
2023		82,000
2024		117,000
2025		152,000
2026 - 2030		1,105,000

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.

Securities Held-to-Maturity

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.

Securities Available-for-Sale

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.

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

10. Fair Value of Financial Instruments (Continued)

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.

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 the 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.

10. Fair Value of Financial Instruments (Continued)

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

	December 31, 2020		December 31, 2019	
	Carrying Amount	**Estimated Fair Value**	Carrying Amount	Estimated Fair Value
Assets				
Cash and cash equivalents	**$ 63,465,192**	**$ 63,465,192**	$ 121,597,839	$ 121,597,839
Held-to-maturity securities	**3,473,904**	**3,491,626**	4,038,722	4,048,820
Available-for-sale securities	**941,141,640**	**941,141,640**	627,900,720	627,900,720
Loans, net	**1,017,898,165**	**1,089,205,130**	1,174,086,370	1,239,969,203
Interest receivable	**12,349,446**	**12,349,446**	15,987,916	15,987,916
Cross-currency interest rate swaps	**163,521,831**	**163,521,831**	104,332,806	104,332,806
Interest rate swaps	**10,798,809**	**10,798,809**	2,919,106	2,919,106
Options	**12,253,253**	**12,253,253**	–	–
Liabilities				
Accrued interest payable	**9,482,523**	**9,482,523**	17,487,066	17,487,066
Short-term debt, net	**5,264,000**	**5,264,000**	255,238,795	255,238,888
Long-term debt, net	**1,117,510,817**	**1,118,044,838**	1,050,594,907	1,050,357,445
Long-term post-retirement benefits payable	**2,779,674**	**2,779,674**	2,481,519	2,481,519
Cross-currency interest rate swaps	**6,953,255**	**6,953,255**	1,000,876	1,000,876
Interest rate swaps	**10,718,238**	**10,718,238**	465,236	465,236

10. Fair Value of Financial Instruments (Continued)

The Bank's financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2020 and 2019 are summarized in the following table by the valuation level of the inputs used to measure fair value. Additional information on how the Bank measures and classifies the levels of fair-value inputs is provided in Note 2.

	Fair Value Measurements Using			
December 31, 2020	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets				
Available-for-sale (AFS) securities:				
U.S. government securities	**$ 472,285,209**	**$ –**	**$ –**	**$ 472,285,209**
U.S. agency securities	**200,462,027**	**–**	**–**	**200,462,027**
Corporate debt securities	**195,143,257**	**–**	**–**	**195,143,257**
Other fixed-income securities	**49,411,309**	**–**	**–**	**49,411,309**
Mexican government securities (UMS)	**15,220,500**	**–**	**–**	**15,220,500**
Mortage-backed securities	**8,619,338**	**–**	**–**	**8,619,338**
Total AFS securities	**941,141,640**	**–**	**–**	**941,141,640**
Cross-currency interest rate swaps	**–**	**163,521,831**	**–**	**163,521,831**
Interest rate swaps	**–**	**10,798,809**	**–**	**10,798,809**
Options	**–**	**12,253,253**	**–**	**12,253,253**
Hedged items for loans	**–**	**–**	**(33,183,106)**	**(33,183,106)**
Total assets at fair value	**$ 941,141,640**	**$ 186,573,893**	**$ (33,183,106)**	**$ 1,094,532,427**
Liabilities				
Cross-currency interest rate swaps	**$ –**	**$ 6,953,255**	**$ –**	**$ 6,953,255**
Interest rate swaps	**–**	**10,718,238**	**–**	**10,718,238**
Hedged items for notes payable	**–**	**–**	**60,574,814**	**60,574,814**
Total liabilities at fair value	**$ –**	**$ 17,671,493**	**$ 60,574,814**	**$ 78,246,307**

	Fair Value Measurements Using			
December 31, 2019	Level 1	Level 2	Level 3	Total Fair Value
Assets				
Available-for-sale (AFS) securities:				
U.S. government securities	$ 432,413,495	$ –	$ –	$ 432,413,495
U.S. agency securities	65,123,423	–	–	65,123,423
Corporate debt securities	90,042,296	–	–	90,042,296
Other fixed-income securities	25,995,149	–	–	25,995,149
Mexican government securities (UMS)	14,326,357	–	–	14,326,357
Total AFS securities	627,900,720	–	–	627,900,720
Cross-currency interest rate swaps	–	104,332,806	–	104,332,806
Interest rate swaps	–	2,919,106	–	2,919,106
Hedged items for loans	–	–	(62,856,585)	(62,856,585)
Total assets at fair value	$ 627,900,720	$ 107,251,912	$ (62,856,585)	$ 672,296,047
Liabilities				
Cross-currency interest rate swaps	$ –	$ 1,000,876	$ –	$ 1,000,876
Interest rate swaps	–	465,236	–	465,236
Hedged items for notes payable	–	–	(5,494,297)	(5,494,297)
Total liabilities at fair value	$ –	$ 1,466,112	$ (5,494,297)	$ (4,028,185)

10. Fair Value of Financial Instruments (Continued)

The following table summarizes the changes to the financial assets and liabilities measured at fair value on a recurring basis using unobservable inputs (Level 3) during the years ended December 31, 2020 and 2019. Additional information on how the Bank measures fair value is provided in Note 2.

	Fair Value of Level 3 Instruments		
	Cross-currency Interest Rate Swaps	Interest Rate Swaps	Hedged Items
Assets			
Beginning balance, January 1, 2020	**$ –**	**$ –**	**$ (62,856,585)**
Total realized and unrealized gains (losses):			
Included in earnings (expenses)	**–**	**–**	**21,605,100**
Included in other comprehensive income (loss)	**–**	**–**	**–**
Purchases	**–**	**–**	**–**
Settlements	**–**	**–**	**8,068,379**
Transfers in/out of Level 3	**–**	**–**	**–**
Ending balance, December 31, 2020	**$ –**	**$ –**	**$ (33,183,106)**
Beginning balance, January 1, 2019	$ 187,560,968	$ –	$ (155,900,516)
Total realized and unrealized gains (losses):			
Included in earnings (expenses)	(69,989,016)	2,919,106	93,043,931
Included in other comprehensive income (loss)	(11,194,142)	–	–
Purchases	–	–	–
Settlements	(2,045,004)	–	–
Transfers in/out of Level 3	(104,332,806)	(2,919,106)	–
Ending balance, December 31, 2019	$ –	$ –	$ (62,856,585)
Liabilities			
Beginning balance, January 1, 2020	**$ –**	**$ –**	**$ (5,494,297)**
Total realized and unrealized (gains) losses:			
Included in (earnings) expenses	**–**	**–**	**75,893,191**
Included in other comprehensive income	**–**	**–**	**–**
Purchases	**–**	**–**	**–**
Settlements	**–**	**–**	**(9,824,080)**
Transfers in/out of Level 3	**–**	**–**	**–**
Ending balance, December 31, 2020	**$ –**	**$ –**	**$ 60,574,814**
Beginning balance, January 1, 2019	$ –	$ 7,257,372	$ (33,204,590)
Total realized and unrealized (gains) losses:			
Included in (earnings) expenses	1,000,876	(6,792,136)	27,710,293
Included in other comprehensive income	–	–	–
Purchases	–	–	–
Settlements	–	–	–
Transfers in/out of Level 3	(1,000,876)	(465,236)	–
Ending balance, December 31, 2019	$ –	$ –	$ (5,494,297)

The Bank has no nonfinancial assets or liabilities measured at fair value on a recurring or non-recurring basis as of December 31, 2020 and 2019.

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 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 $48,020,000 and $43,950,000 was posted from counterparties to the Bank as of December 31, 2020 and 2019, 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 December 31, 2020 and 2019 are presented in the following table. The fair value of these swaps is estimated using internal valuation models with observable market data inputs.

	December 31, 2020		December 31, 2019	
	Notional Amount	**Estimated Fair Value**	**Notional Amount**	**Estimated Fair Value**
Cross-currency interest rate swaps	**$ 1,165,457,937**	**$ 156,568,576**	$ 1,018,903,740	$ 103,331,930
Interest rate swaps	**391,724,886**	**80,571**	951,401,589	2,453,870
Options	**175,965,221**	**12,253,253**	–	–

Swaps that are no longer deemed effective because of borrower default on the hedged loans are not included in the preceding table. There were no swaps that were considered ineffective due to borrower default as of December 31, 2020 and 2019.

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 gain (loss) is reclassified into earnings as the hedged cash

11. Derivative Financial Instruments (Continued)

flows are received to offset the foreign currency gains (losses) that would have been recognized in earnings if the Bank had not been a party to the swaps and options. The accumulated net gain (loss) related to the swaps and options included in accumulated other comprehensive income totaled $9,364,605 and $7,136,612 at December 31, 2020 and 2019, 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 years ended December 31, 2020 and 2019, changes in the aforementioned swaps and options included in the accompanying consolidated statements of income were $(4,549,849) and $4,035,953, 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 years ended December 31, 2020 and 2019, changes in the aforementioned swaps included in the accompanying consolidated statements of income were $0 and $(725), respectively.

12. Credit Risk Associated with Financial Instruments

The Bank is subject to certain credit risk. Financial instruments that potentially subject the Bank to significant concentrations of credit risk consist principally of cash 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 and Contingencies

In the normal course of business, the Bank has various outstanding commitments, in addition to the loans receivable disclosed in Note 4 and the long-term borrowings disclosed in Note 6. Under agreements with consultants and contractors in effect at December 31, 2020, 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.

Lease Commitments

The Bank rents office space for its headquarters in San Antonio, Texas, under an operating lease that expires on February 28, 2026. The Bank also rents office space for its Juarez Office under an operating lease that expires on April 3, 2021. Rent expense totaled $267,059 and $251,196 for the years ended December 31, 2020 and 2019, respectively. The following schedule summarizes the minimum future expenses for the forgoing leases.

13. Commitments and Contingencies (Continued)

Lease Commitments (Continued)

Year Ending December 31,		
2021	$	235,230
2022		229,712
2023		232,493
2024		239,436
2025		240,732
Thereafter		40,121
	$	1,217,724

COVID - 19

The COVID-19 outbreak continues to evolve as of the date of this report. As such, the full impact that the COVID-19 outbreak could have on the Bank's financial condition, liquidity, and future results of operations is uncertain. Management is actively monitoring the potential impact on liquidity, operations, suppliers, industry, and workforce.

The length or gravity of the COVID-19 outbreak cannot be estimated, so management cannot approximate its impact on the Bank's results. Management believes the Bank's underwriting standards, low counterparty risk concentration, and that most of the Bank's loans are project finance, with repayment cash flows generated by infrastructure facilities or guaranteed by Mexican Federal government transfers may lower the portfolio's risk of economic deterioration. Moreover, debtors give preference to supranational lenders versus other creditors in their choices of debt repayment, as supported by Fitch Ratings' "Evidence of supranationals' preferred creditor status" (Special Report, March 16, 2020). The Bank's capitalization structure and liquidity are expected to mitigate potential adverse effects to the Bank, as discussed in Note 7.

14. Accounting Standards Updates

Accounting Standards Update (ASU) 2016-02, Leases (Topic 842). ASU 2016-02, among other things, requires lessees to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis, and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. ASU 2016-02 does not significantly change lease accounting requirements applicable to lessors; however, certain changes were made to align, where necessary, lessor accounting with the lessee accounting model and ASC Topic 606: Revenue from Contracts with Customers. ASU 2016-02 will be effective for the Bank on January 1, 2022 and will require a transition using a modified retrospective approach for leases existing at or entered into after the beginning of the earliest comparative period presented in the financial statements.

Notwithstanding the foregoing, in January 2018, the Financial Accounting Standards Board issued a proposal to provide an additional transition method that would allow entities not to apply the guidance in ASU 2016-02 in the comparative periods presented in the financial statements and instead recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Bank is evaluating the potential impact of ASU 2016-02 to its consolidated financial statements and disclosures.

ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the

14. Accounting Standards Updates (Continued)

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.

ASU 2017-12, Derivatives and Hedging (Topic 815) – Targeted Improvements to Accounting for Hedging Activities. ASU 2017-12 amends the hedge accounting recognition and presentation requirements in ASC 815 to improve the transparency and understandability of information conveyed to financial statement users about an entity’s risk management activities to better align the entity’s financial reporting for hedging relationships with those risk management activities and to reduce the complexity of and simplify the application of hedge accounting. ASU 2017-12 is effective for the Bank on January 1, 2021. The Bank evaluated the impact of implementing ASU 2017-12 and determined that the standard will not have a material effect on its consolidated financial statements.

ASU 2018-14, Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework Changes to the Disclosure Requirements for Defined Benefit Plans, made minor changes to the disclosure requirements for employers that sponsor defined benefit pension and/or other post-retirement benefit plans. The new guidance eliminates requirements for certain disclosures that are no longer considered cost beneficial and requires new ones that the FASB considers pertinent. ASU 2018-14 will be effective for the Bank on January 1, 2022. The Bank is evaluating the potential impact of ASU 2018-14 to its consolidated financial statements.

15. Subsequent Events

The Bank has evaluated the events subsequent to December 31, 2020 and through February 12, 2021, the date the consolidated financial statements were available to be issued.

Supplementary Information

Statements of Income by Program

Year Ended December 31, 2020	CAP	TAP	UMI	WCIF	ProRec	BEIF	PDAP	Border 2020	Other	Total
Program Income										
Non-program specific contribution:										
SEMARNAT	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,793,750	$ 1,793,750
U.S. Department of State	-	-	-	-	-	-	-	-	2,902,000	2,902,000
Program specific expense reimbursements and grant income:										
EPA	-	-	-	-	-	1,489,776	2,082,106	590,679	-	4,162,561
Other	-	-	-	-	-	-	-	-	971	971
Total Program Income	-	-	-	-	-	1,489,776	2,082,106	590,679	4,696,721	8,859,282
Program Expenses										
Operating expenses	-	-	-	-	-	1,489,776	981,502	236,561	971	2,708,810
Grant disbursements	1,852,948	522,408	58,676	95,594	50,000	-	1,100,604	405,572	-	4,085,802
Total Program Expenses	1,852,948	522,408	58,676	95,594	50,000	1,489,776	2,082,106	642,133	971	6,794,612
Net Program Income (Loss)	$ (1,852,948)	$ (522,408)	$ (58,676)	$ (95,594)	$ (50,000)	$ -	$ -	$ (51,454)	$ 4,695,750	$ 2,064,670

Year Ended December 31, 2019	CAP	TAP	UMI	WCIF	ProRec	BEIF	PDAP	Border 2020	Other	Total
Program Income										
Non-program specific contribution:										
SEMARNAT	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,793,750	$ 1,793,750
U.S. Department of State	-	-	-	-	-	-	-	-	2,902,000	2,902,000
Program specific expense reimbursements and grant income:										
EPA	-	-	-	-	-	997,312	1,652,132	678,664	-	3,328,108
Other	-	-	-	-	-	-	-	-	32,687	32,687
Total Program Income	-	-	-	-	-	997,312	1,652,132	678,664	4,728,437	8,056,545
Program Expenses										
Operating expenses	-	-	-	-	-	997,312	675,438	295,064	32,687	2,000,501
Grant disbursements	252,438	122,478	139,092	-	-	-	976,694	542,426	-	2,033,128
Total Program Expenses	252,438	122,478	139,092	-	-	997,312	1,652,132	837,490	32,687	4,033,629
Net Program Income (Loss)	$ (252,438)	$ (122,478)	$ (139,092)	$ -	$ -	$ -	$ -	$ (158,826)	$ 4,695,750	$ 4,022,916

Looking ahead

Pursuing its mission to improve the quality of life for millions of U.S. and Mexican citizens in the border region, NADB is working to pioneer innovative financing tools and bring together diverse stakeholders to help communities tackle emerging environmental challenges in the transition to a greener, more sustainable economy.

Appendix

Governance

Board of Directors

United States

- Secretary of the Treasury*
- Secretary of State
- Administrator of the Environmental Protection Agency (EPA)
- Border state representative
- Border resident representative

Mexico

- Secretary of Finance and Public Credit (SHCP)
- Secretary of Foreign Relations (SRE)
- Secretary of Environment and Natural Resources (SEMARNAT)
- Border state representative
- Border resident representative

* Board chair, 2020

Bank Organization as of December 31, 2020

Management

Managing Director	Calixto Mateos Hanel
Chief Environmental Officer	Salvador López Córdova

Directors

Chief Financial Officer	Julio R. Zamora
General Counsel	Lisa A. Roberts
Director of Risk Management and Control	Bernardo Salas
Director of Infrastructure Financing and Financial Services	Carlos Carranza
Director of Project and Loan Administration	Michael Ratliff
Director of Grant Financing	Renata Manning-Gbogbo
Director of Technical Assistance	Mario Vázquez
Director of Public Affairs	Jesse J. Hereford
Director of Administration	Eduardo Macías

Credits

Offices Responsible for Publication

Finance and Public Affairs Departments

Photography

Page 14 - Ricardo Muñoz, Junta Municipal de Agua y Saneamiento de Juárez, Chihuahua (Juarez water utility)

Page 16 - City of Nava, Coahuila

Page 18 - Instituto de Movilidad y Accesabilidad del Gobierno de Nuevo León (Nuevo Leon Institute of Mobility and Accessibility)

Page 92- Ramón Zamora

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