



**NORTH AMERICAN DEVELOPMENT BANK AND
BORDER ENVIRONMENT COOPERATION COMMISSION**

QUARTERLY STATUS REPORT

SEPTEMBER 30, 2016

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1. Summary of Financial and Operational Activity

SUMMARY OF PROJECT AND FINANCING OPERATIONS 2012-2016

(US\$ Thousands)

	3rd Qtr.				
	2016	2015	2014	2013	2012
Project Certification					
Total projects certified¹	12	14	16	19	19
Water	4	7	10	8	8
Waste management	5	-	-	-	1
Air quality	1	1	1	1	1
Basic urban infrastructure ²	-	1	1	1	1
Clean and efficient energy	2	5	4	9	8
Lending Operations					
Loans approved	\$ 98,606	\$ 239,177	\$ 323,670	\$ 273,242	\$ 660,123
Loans contracted	148,496	178,262	304,323	349,881	559,120
Loans disbursed	102,651	249,556	254,163	214,964	501,500
Grant Operations					
NADB-funded grants³					
Approved	\$ 2,600	\$ 1,000	\$ 765	\$ 2,183	\$ 450
Contracted	500	1,450	315	2,183	450
Disbursed	348	3,694	1,318	455	1,749
NADB-administered grants⁴					
Approved	12,287	20,274	24,936	6,104	23,296
Contracted	21,231	16,219	12,047	7,658	24,221
Disbursed	7,160	8,698	14,673	17,459	11,736
Technical Assistance⁵					
Funds approved	\$ 1,175	\$ 2,124	\$ 1,320	\$ 1,369	\$ 1,354
Funds expended	544	1,933	1,008	1,123	1,001

¹ Project certification and financing proposals are approved simultaneously by the Board of Directors.

² These projects consist of a mix of works from different sectors, such as water, wastewater, storm drainage, roadway improvements and public lighting.

³ Grants funded from designated retained earnings of the Bank for certified infrastructure projects (excludes technical assistance).

⁴ Grants funded by EPA and administered by NADB through the Border Environment Infrastructure Fund (BEIF).

⁵ Includes project development activities, training seminars and other capacity-building measures and sector studies funded by NADB and BECC.

NADB-BECC QUARTERLY REPORT
SEPTEMBER 30, 2016

NADB FINANCIAL SUMMARY 2012-2016¹

(US\$ Thousands)

	3rd Qtr.				
	2016	2015	2014	2013	2012
Balance Sheet Data					
Cash and investments	\$ 533,755	\$ 504,861	\$ 442,954	\$ 545,525	\$ 388,574
Loans outstanding ²	1,383,197	1,324,777	1,185,514	1,011,212	869,981
Total assets	1,862,778	1,780,599	1,633,369	1,573,076	1,302,304
Borrowings outstanding, gross	1,190,136	1,190,550	1,059,953	1,046,386	730,000
Total liabilities	1,252,262	1,215,017	1,090,683	1,054,422	780,457
Total equity	610,516	565,582	542,686	518,654	521,848
Callable capital	2,361,667	2,295,000	2,295,000	2,295,000	2,295,000
Income Statement Data					
Total interest income	\$ 43,341	\$ 51,246	\$ 43,710	\$ 39,543	\$ 24,321
Loans	38,448	45,892	38,487	35,149	19,344
Investments	4,893	5,354	5,224	4,394	4,977
Interest expense	14,433	15,101	13,548	10,838	5,363
Net interest income	28,908	36,145	30,163	28,705	18,958
Total operating expenses	10,844	18,143	10,816	19,451	8,456
Provision for loan losses	2,072	8,559	2,199	10,544	-
Total non-interest income (expense)	6,397	2,388	(1,093)	(888)	440
Income before program activity	24,462	20,389	18,254	8,366	9,458
Net program expenses ³	843	4,873	2,077	1,145	2,437
Net income	23,619	15,516	16,177	7,221	7,020
Ratios					
Usable equity ⁴ / loans outstanding	41.8%	41.1%	44.2%	50.1%	57.3%
Gross debt / callable capital	50.4%	51.9%	46.2%	45.6%	31.8%
Gross debt / usable equity	205.8%	218.8%	202.3%	206.7%	146.5%
Interest coverage ⁵	2.4x	2.8x	2.6x	2.8x	3.0x
Liquid assets / total assets	25.8%	25.3%	23.8%	31.3%	25.7%
Income before program activity / usable equity	4.2%	3.7%	3.5%	1.7%	1.9%
Income before program activity / average assets	1.3%	1.2%	1.1%	0.6%	0.9%
Credit Ratings					
Moody's Investor Service	Aa1/P-1	Aa1/P-1	Aa1/P-1	Aaa/P-1	Aaa/P-1
FitchRatings	AA/F1+	AA/F1+	AA/F1+	AA/F1+	--
Standard & Poor's	--	--	--	--	A+/A-1

¹ Excludes the U.S. domestic program.

² Before allowance for loan losses, unamortized fees, and effect of foreign exchange adjustments and hedged items.

³ Program expenses include grant financing and technical assistance funded from the Bank's retained earnings.

⁴ Usable equity is defined as the sum of undesignated paid-in capital, undesignated retained earnings, and reserves.

⁵ Interest coverage ratio is defined as interest income minus operating expenses divided by interest expense.

2. Project & Financing Activity

2.1. Loan Program

Lending Activity. During the third quarter of 2016, the Board of Director approved the certification of two projects to receive a total of US\$77.98 million in financing, as follows:

- A US\$50 million revolving line of credit was approved for a Property-Assessed Clean Energy (PACE) funding program for qualified energy efficiency, renewable energy and water conservation improvements in non-residential properties in the United States. This pilot project sponsored by CleanFund Commercial PACE Capital, Inc. will be implemented within the 100-kilometer (62.5 miles) border region of the United States in cities and counties with PACE approved legislation.
- A peso-denominated loan estimated at US\$27.98 million was approved for a second border-wide public transportation project in Mexico sponsored by Mercader Financial S.A. SOFOM, E.R. Building on the success of the pilot project certified in 2014, Mercader is expanding its financing program to support the sale of an additional 250 low-emission buses within the 300-km border region in Mexico.

For the year to date, the Board has approved US\$98.61 million in loans for four projects, including a loan increase for one project certified previously.

During the same three-month period, two loan agreements totaling US\$37.61 million were signed, as follows:

	Project	Loan (US\$ Millions)	Date Signed
1	Loan increase for the Desalination Plant in Ensenada, B.C.	\$ 9.63	20-Sep-16
2	Border-wide Program for the Purchase of Low-Emission Vehicles in Mexico	27.98	22-Sep-16
TOTAL		\$ 37.61	

Consequently, for the year to date, the Bank has contracted loans totaling just under US\$148.50 million to support the implementation of four projects.

With respect to disbursements, during the past quarter, US\$55.54 million in loans was disbursed to support the implementation of three projects, including the initial disbursement for the second low-emission bus purchase program in Mexico. For the year to date, a total of US\$102.65 million in loans has been disbursed to support seven projects.

Principal Payments. For the year to date, the Bank has received just over US\$44.23 million in principal payments, including the prepayment of one loan totaling US\$6.63 million. Excluding the

prepaid loan, principal payments averaged US\$4.18 million a month, while loan disbursements for the same period averaged just under US\$11.41 million a month.

Status of Loan Portfolio. NADB closed the third quarter of 2016 with an outstanding loan balance of US\$1.383 billion, an increase of 4.4% compared to the balance at the end of 2015 (US\$1.324 billion).¹ A breakdown of the current loan portfolio by environmental sector, region and borrower type is shown in the following table.

**Breakdown of Outstanding Loan Portfolio
 As of September 30, 2016**

	No.	Amount (US\$)	%
Public / Private			
Public	40	\$ 290,849,339	21.0%
Private	26	1,001,597,295	72.4%
Public-private	5	90,750,187	6.6%
	71	1,383,196,821	100.0%
Country			
U.S.	20	619,721,929	44.8%
Mexico	51	763,474,893	55.2%
	71	1,383,196,821	100.0%
Project Type			
Air quality	8	104,978,718	7.6%
Basic urban infrastructure*	3	36,469,846	2.6%
Wind energy	11	689,649,083	49.9%
Solar energy	12	290,700,954	21.0%
Other clean energy**	2	4,855,569	0.4%
Public transportation	2	19,104,705	1.4%
Storm drainage	2	56,460,864	4.1%
Water / Wastewater	30	173,581,329	12.5%
Water conservation	1	7,395,753	0.5%
	71	\$ 1,383,196,821	100.0%

* Basic urban infrastructure consists of a mix of works from various sectors, such as street paving, water and sewer lines, storm drainage and public lighting.

** Other clean energy currently includes two biogas projects.

Additionally, the Bank had US\$95.71 million pending disbursement in contracted loans for ten projects, as well as approved loan commitments totaling an estimated US\$159.19 million for eight projects, including five projects for which funding has been partially contracted. Consequently, loans outstanding and loan commitments at the end of September totaled just under US\$1.64 billion, as show in the following table.

¹ These figures do not take into account allowances for loan losses, foreign exchange adjustments, unamortized loan fees and the fair value of hedged items.

LENDING ACTIVITY (US\$ Millions)		
	9/30/2016	12/31/2015
Outstanding balance, beginning of year*	\$ 1,324.78	\$ 1,185.51
Loan disbursements	102.65	249.56
Principal repayments	(44.23)	(110.29)
Outstanding balance, end of year*	\$ 1,383.20	1,324.78
Loans contracted, pending disbursement	\$ 95.71	\$ 51.82
Loans approved, pending contracting	159.19	209.08
Total loan commitments	254.90	260.90
Outstanding loans & loan commitments	\$ 1,638.10	\$ 1,585.68

Outstanding balances, before allowance for loan losses, unamortized fees, and effect of foreign exchange adjustments and hedged items.

* As of September 30, 2016.

Of the 100 loans contracted to date, 99 have been partially or fully disbursed, 25 have been repaid in full, and three have been partially or fully written off. There were no non-performing loans as of September 30, 2016. Detailed information about all NADB loans and approved loan commitments as of the end of the quarter, is provided in the Annex 2.

Project Implementation: In September 2016, the Border-wide Program for the Purchase of Low-Emission Vehicles in Mexico was launched with a total of 132 buses financed through the program by seven public transportation companies. In Monterrey, N.L., three companies obtained 40 compressed natural gas (CNG) buses and 15 diesel buses; in Ciudad Juarez, CHIH, two companies obtained 35 CNG buses and 30 diesel buses; in Hermosillo, SON, a company obtained 10 diesel buses; and in Tijuana, B.C., a company obtained two diesel buses. All seven companies will use the new vehicles to replace part of their existing fleet. Use of new diesel buses that at a minimum comply with EPA 2004 standards will lower nitrogen oxides (NOx) and hydrocarbons (HC) emissions by about 50% and will achieve nearly 24% lower carbon dioxide (CO₂) emissions. The reduction in criteria pollutant emissions is even higher for CNG-fueled vehicles that comply with EPA 2013 emission standards.



Ciudad Juarez, Chihuahua

At the end of the quarter, 32 certified projects partially funded with NADB loans were under construction or pending closeout. Information on the status of these projects as of September 30, 2016, is provided in Annex 2.

Projects in Development: As of the close of third quarter, the Bank had identified 49 projects and had five projects in development. One project for a solar park had been resubmitted to the Board for consideration and was pending a decision.

Based on current information, the loan projects which could potentially be submitted for approval to the Board of Director during the last quarter of 2016 are:

- Fuerza Eólica San Matias wind energy project (30 MW) in Mexicali, Baja California; and
- Vicente Guerrero wind energy project (120 MW) in Güémez, Tamaulipas.

2.2. Grant Programs

2.2.1. Community Assistance Program (CAP)

Through this program, NADB provides grant financing from its retained earnings for critical environmental infrastructure projects in low income-communities. Grants are available for projects in all sectors eligible for NADB financing, with priority given to drinking water, wastewater, water conservation and solid waste infrastructure.

During the past quarter, no new projects were certified to receive a CAP grant. On August 15, 2016, the Bank signed a US\$500,000 grant agreement with the City of Tombstone, Arizona, to partially fund its water system improvement project certified this past June. In addition, during the past three months, the Bank disbursed US\$110,115 in CAP funds for the implementation of three projects. The annual status of the CAP program and grant-funded projects at the end of the period is summarized in the following table.

Community Assistance Program Annual Financing Activity and Program Status (US\$ Millions)				
	2015	2016*	Cumulative	
Retained earnings allocated	\$ -	\$ -	\$ 11.47	
Funds allocated for supervision	0.15	0.03	0.42	
Grants approved	1.00	2.60	6.29	
Grants contracted	1.45	0.50	4.19	
Grants disbursed**	1.44	0.33	2.56	
Cancellations***	(0.26)	-	(0.26)	
Contracted grants, not yet disbursed			\$ 2.02	
Additional approvals, not yet contracted			2.10	
Funding available for future projects			4.77	

* As of September 30, 2016.
 ** Includes project grants and supervision disbursements.
 *** Unused funds deobligated from completed projects and returned to the CAP program for future projects.

Project Implementation. In September 2016, two projects funded with CAP grants completed construction.

Tecate, Baja California



Construction of a new sewer system and extension of the water system to connect unserved households in the Piedra Angular subdivision was completed in July 2016. The project included the installation of approximately 120 residential sewer connections providing first-time wastewater collection and treatment services to the entire neighborhood of approximately 444 residents. Prior to the project, residents used substandard on-site wastewater disposal systems or simply discharged their wastewater directly into the street. Now an estimated 23,448 gallons a day of sewage is being collected and properly treated, reducing the risk of contamination of groundwater resources, including the Tecate River. In addition, 94 septic tanks were decommissioned and 13 households were connected to the water distribution system.

Santiago, Nuevo Leon



In September 2016, work was completed on a storm water project in the community of Los Fierros in the municipality of Santiago, which forms part of the metropolitan area of the Monterrey, Nuevo Leon. A new storm water collection main was constructed along Benito Juarez Street and Tamaulipas Street, in an area experiencing frequent flooding during the rainy season. The new storm water main interconnects with the regional storm water system that channels the storm water flows to natural water bodies, thereby conserving this natural resource and creating opportunities for its beneficial use. More importantly, adequate storm water management will prevent future flooding and unsanitary conditions related to stagnant water, which creates a habitat for disease transmitting insects, such as mosquitos. An estimated 20,000 residents in Los Fierros are benefitting from the project.

Of the 10 projects with CAP funding contracted, seven have been completed and three were in bidding or preparing to begin bidding. Information on the status of certified projects that are currently in the process of being implemented or pending financial closeout as of September 30, 2016, is provided in Annex 2. Additionally, five CAP grant agreements were under development for the solid waste equipment purchase projects certified in June 2016.

Projects in Development: No new applications for CAP grants were received during the quarter. BECC continued to work with six communities to complete development activities related to their water and/or wastewater projects. Based on current information, two of those projects could potentially be submitted for approval to the Board of Director during the fourth quarter of 2016:

- Vista del Este water system replacement project in El Paso County, Texas; and
- Jose Silva Sanchez water system improvements in Soto la Marina, Tamaulipas.

2.2.2. Border Environment Infrastructure Fund (BEIF)

Through this program, NADB administers grant resources provided by the Environmental Protection Agency (EPA) for the implementation of priority water and wastewater infrastructure projects.

During the past quarter, no new projects were certified to receive a BEIF grant from the U.S. Environmental Protection Agency (EPA). On July 22, 2016, the Bank signed a US\$1.90 million grant agreement with the North Alamo Water Supply Corporation, to partially fund its regional

wastewater collection and treatment project to provide first-time service to six *colonias* in Hidalgo County, Texas. At the end of the quarter all approved BEIF grants were fully contracted.

During the past three months, the Bank disbursed US\$2.41 million in BEIF grants for the implementation of seven projects. The annual status of the BEIF program and grant-funded projects at the end of the third quarter of 2016 is summarized in the following table.

Border Environment Infrastructure Fund				
Annual Activity and Program Status				
(US\$ Millions)				
	2015	2016*	Cumulative	
EPA funding allocations:**	\$ 6.97	\$ 9.56	\$	693.14
For projects	6.81	8.62		665.57
For program administration	0.16	0.94		27.57
Grants approved	20.27	12.29		644.21
Grants contracted	16.22	21.23		644.21
Grants disbursed	8.70	7.16		599.79
Cancellations***	(10.64)	-		(65.93)
Contracted grants, not yet disbursed			\$	44.42
Additional approvals, not yet contracted				-
Funding available for projects in development				21.36

* As of September 30, 2016.
 ** In 2016, EPA Region 9 transferred funds from projects to program administration.
 *** Unused funds deobligated from completed or cancelled projects and returned to the BEIF program for projects in development.

Project Implementation. Of the 116 projects funded with BEIF grants, 101 have been completed, ten are in various stages of construction, five are in bidding or preparing to begin bidding.² Information on the status of certified projects that are currently in the process of being implemented or pending financial closeout as of September 30, 2016, is provided in Annex 2.

Projects in Development. At the end of the quarter, there were 14 previously prioritized projects in development: eight in EPA Region 6 and six in EPA Region 9. Based on current information, the BEIF projects which could potentially be submitted for certification by the Board of Director during the fourth quarter of 2016 are:

- Bay Acres Wastewater Collection System and Wastewater Treatment Plan Expansion in Douglas, Arizona;
- Expansion of the Water and Wastewater System to the Southwest Area of Nogales, Sonora; and
- Cuadrilla Wastewater Collection System and Wastewater Treatment Plant Improvement Project, Lower Valley Water District in El Paso, Texas.

² There are 110 certified projects with BEIF funding contracted; however, one of those projects (the Texas Plan) consists of seven individual projects with seven individual grants, for a total of 116 water and wastewater projects.

Two public meetings were held during the quarter for a water quality improvement project to reduce arsenic concentrations in Pomerene, Arizona. The first meeting was held on July 17th and the second on August 10th.

2.2.3. Water Conservation Investment Fund (WCIF)

At the beginning of the year, the last three projects funded through the cancelled Water Conservation Investment Fund (WCIF), were under construction. As of September 30, 2016, two of the three projects had been completed and one was in construction.

In September 2016, the Bank made the final grant disbursement to Engelman Irrigation District No. 6 in Hidalgo County, Texas, for its water conservation improvement project, which was completed in May. The grant agreements for the other two projects total \$2.37 million, of which 61% (or US\$1.45 million) has already been disbursed, leaving approximately US\$0.92 million in contracted grants pending disbursement.

3. Technical Assistance & Capacity Building

3.1. NADB-BECC Joint Technical Assistance Program

To support project sponsors and border communities in the development of sustainable projects for certification and financing, NADB and BECC offer various types of technical assistance in three categories: project development, institutional capacity-building and sector studies to identify needs and generate knowledge about a new sector or technology.

During the third quarter of 2016, the Technical Assistance Committee approved a total of US\$176,000 in technical assistance grants to support the following activities.

BECC-NADB TECHNICAL ASSISTANCE AWARDED					
	Community / Sponsor	TA Type*	Description	NADB (US\$)	BECC (US\$)
1	Vado, NM	PD	Preliminary engineering report and environmental information for expansion of the sewer system	\$ 35,000	\$ 35,000
2	Caborca, SON	PD	Final design for the rehabilitation of the sewer system	17,500	17,500
3	Altar, SON	PD	Final design of storm drainage line	5,000	5,000
4	Trincheras, SON	PD	Final design of storm water system	4,000	4,000
5	Magdalena, SON	PD	Final design for sectorization of the storm water system	26,500	26,500
TOTAL:				\$ 88,000	\$ 88,000

* Technical assistance may be provided in three categories: project development (PD); sector development (SD) to identify needs, promote sound public policy or generate knowledge about a new sector or technology; and institutional strengthening through training or other capacity-building measures (IS).

For the year to date, BECC and NADB have approved technical assistance grants totaling US\$971,676 to support 16 studies or other development activities, including various seminars and forums.

During the past quarter, three studies were completed: updating the water and wastewater master plans for the utilities in Reynosa and Matamoros, Tamaulipas, and an analysis of options for reducing the salinity of the El Morillo Drain in Tamaulipas. The updated master plans define the investment requirements of the utility systems, as well as the actions that should be taken to increase utility revenue. In particular, it is recommended that a comprehensive project be implemented to increase the operational, water and energy efficiency of both utilities in order to maximize energy savings.

In the case of the El Morillo Agricultural Drain, several options were analyzed for reducing the high concentration of total dissolved solids (TDS) in the water that is discharged to the Rio Grande, including diluting it with underground water from wells, treated wastewater from the local utility or surface water from a nearby lake. None of those options were deemed viable mainly due to

the high salinity of the water in the area. The option recommended as the best from a technical and financial standpoint is to build a desalinization plant with the capacity to treat 68 million gallons a day, using a mass-balance approach that incorporates water from the Puertecitos and Huizaches drains, the Rio Grande and effluent from Wastewater Treatment Plant No. 1 in Reynosa. This approach addresses seasonal fluctuations in water flows through the drain and would reduce average salinity to well below the target level of 1,000 parts per million. The study results are currently under review by BECC, NADB and the Mexican Section of the International Boundary and Water Commission (IBWC).

As of September 30, 2016, there were 19 studies in process or under development. The total grant commitment for those studies was US\$2.16 million.

With respect to training activities, BECC and/or NADB hosted three seminars during the past quarter.

Basics of Water Utility Management in Monterrey, Nuevo Leon (August 24-26 and September 21-23). The new five-module, diploma-level course on the basics of water utility management continued with the presentation of the third and fourth modules, covering financial planning and leadership skills, such as negotiation and change management. The sessions developed in collaboration with the Latin American and Caribbean water center, *Centro del Agua para América Latina y el Caribe* (CDA), of the Monterrey Technological Institute (ITESM) were attended by about 20 representatives from the water utilities in Reynosa and Ciudad Victoria, Tamaulipas; Piedras Negras, Coahuila; and Monterrey, Nuevo Leon, as well as from the Mexican National Water Commission (CONAGUA). The final module on public policy for water utilities is scheduled to be held in mid-October.



III Green Infrastructure Forum in Arteaga, Coahuila (September 21 and 22). BECC, in coordination with NADB, EPA and the Government of Coahuila, hosted the forum at the Autonomous University of Coahuila in Arteaga, Coahuila. During the two-day event attended by more than 220 participants, four keynote presentations and four panel discussions led by experts in the field covered such topics as public health and the social benefits of green infrastructure, its economic impacts, the municipal legal framework and public policy, and flood and sediment control, among others. More than one speaker stressed the importance of educating the general public beginning with children so that they may understand and appreciate the need for green infrastructure in urban development, given that community



volunteers are key to its successful implementation. Since 2014, the two institutions have been advancing a green infrastructure initiative designed to break paradigms in border cities and promote public policies for incorporating green infrastructure concepts in urban development plans. These efforts also include dispelling myths and showing governments, organizations, and the community at large, that green infrastructure does not represent a high cost and in many cases is even self-sustaining. The forum concluded with a tour of two city parks where green infrastructure was implemented a year ago with support of technical assistance from BECC and NADB, as well as a visit to a local nursery in Saltillo.

For the year to date, BECC and NADB have organized 14 seminars and forums on various topics attended by 714 participants.

3.2. Project Development Assistance Program (PDAP)

BECC administers this EPA-funded program to assist communities in the development of water and wastewater projects that have been prioritized by EPA to receive BEIF grants. During the third quarter of 2016, US\$72,787 in PDAP grants funded by the U.S. Environmental Protection Agency (EPA) were awarded to support the development of three projects.

	Community / Sponsor	Project Type	Description	PDAP Amount (US\$)
1	Tijuana, B.C.	WW	Additional activities related to the wastewater treatment plant alternatives site study	\$ 6,117
2	Loma Blanca, CHIH	WW	Additional activities related to the field survey for the wastewater collection system	2,452
3	Marathon, TX	WW	Energy audit for rehabilitation of the wastewater collection system	64,218
TOTAL:				\$ 72,787

WW = Wastewater

For the year to date, US\$606,523 in PDAP funds have been awarded to support development of seven water and/or wastewater projects for communities on both sides of the border.

3.3. U.S.-Mexico Border 2020 Program

BECC plays a key partnership role in this program developed by EPA and its Mexican counterpart, *Secretaría de Medio Ambiente y Recursos Naturales* (SEMARNAT), aimed at jointly addressing existing environmental and public health needs along the border.

The following Border 2020 and special grants projects were completed during this period.

No.	Project	Location	Goal*
Region 6 (Texas, Tamaulipas, Nuevo Leon, Coahuila, New Mexico, Chihuahua)			
1	Workshop on Energy Efficiency in Public Lighting Systems	Reynosa, TAMPS	1
2	Comprehensive solid waste management project	Rio Bravo, TAMPS	3
3	Binational emergency simulation exercises	Harlingen, TX and Matamoros, TAMPS	4
4	Comprehensive program to improve air quality basins in northern Chihuahua	State of Chihuahua	1

* Border 2020 Goals: 1. Reduce air pollution; 2. Improve access to clean and safe water; 3. Promote materials management, waste management and clean sites; 4. Enhance joint preparedness for environmental response; 5 Compliance assurance and environmental stewardship; Fundamental strategies (FS).

The following table shows projects under development and the corresponding goal of the Border 2020 Program, to be completed during the third quarter of 2016.

No.	Project	Location	Goal*
Region 6 (Texas, Tamaulipas, Nuevo Leon, Coahuila, New Mexico, Chihuahua)			
1	Determining the ideal bio-swale porous material for South Texas storm water management	Edinburg, TX	2
2	Electronic-waste management project	Ciudad Acuña, Piedras Negras and Guerrero, COAH	3
Region 9 (California, Baja California, Arizona, Sonora)			
1	Baseline study and market analysis for electronic-waste	Mexicali, B.C.	3
2	Ocean friendly restaurants campaign	Tijuana, B.C.	3
3	Pilot HAZMAT Emergency Response Training Program	Nogales, AZ	4
4	Electronic waste management in laboratories	Nogales, SON	3
5	HAZMAT capacity-building in the Arizona-Sonora border region	Nogales, AZ	4
6	Green infrastructure project	Nogales, SON	2

* Border 2020 Goals: 1. Reduce air pollution; 2. Improve access to clean and safe water; 3. Promote materials management, waste management and clean sites; 4. Enhance joint preparedness for environmental response; 5 Compliance assurance and environmental stewardship; Fundamental strategies (FS).

As of September 30, 2016, EPA has authorized approximately \$12.0 million in grant funding for BECC-managed special projects under the Border 2020 Program and other initiatives. To date, a total of 282 projects have been supported under the existing agreements between BECC and EPA Regions 6 and 9, most of which are related to scrap-tire management, water, soil, air, environmental health and education, and emergency preparedness/response. Of these, 234 projects have been completed, 28 cancelled and 20 are under development. Additionally, BECC continues to manage EPA funds to provide logistical support for various groups and committees of the Border 2020 program.

3.4. Funding Partnerships

In carrying out their mission, BECC and NADB pursue partnerships with other public and private organizations in an effort to promote environmental initiatives and projects on the border and identify additional support for their development and implementation.

Mexican National Chamber of the Manufacturing Industry

During the public session of the Board meeting in November, NADB and BECC plan to enter into a cooperative agreement with the Mexican National Chamber of the Manufacturing Industry (*Cámara Nacional de la Industria de Transformación, CANACINTRA*), a non-governmental organization devoted to assisting the Mexican industrial sector with development, sustainability, competitiveness and integration, and the financial institution, *Oportunidades para Emprendedores, S.A.P.I. de C.V. Sofom, E.N.R.* (Emprendedores Financiera), which focuses on assisting entrepreneurs, particularly women, to create viable and profitable businesses. The main objectives of the agreement include working together to identify projects eligible to receive NADB financing from among CANACINTRA's affiliates, designing a joint financing mechanism with *Financieros Emprendedores* to facilitate access to NADB-funded loans for CANACINTRA's affiliates, and facilitate energy efficiency training for CANACINTRA affiliates and Financiera Emprendedores staff.

Mexican National Water Commission (CONAGUA)

NADB and CONAGUA are in the process of reviewing their 2016-2017 Work Program, in which they establish the projects to be developed jointly with loans, grants and technical assistance in the water sector in Mexico. The first project will be the implementation of the new *Sustainable Cost Manual for Water Utilities*, which was developed by CONAGUA and financed by the Inter-American Development Bank (IDB) through the Comprehensive Water Utility Development Program. The manual is intended to serve as a support tool for calculating and controlling all costs related to providing water and wastewater services. It is designed to help utilities improve the management of their water and financial resources, identify and manage everyday costs, bolster rate structures and make provisions for future growth, environmental compliance and infrastructure maintenance and/or replacement. In October, NADB plans to hire a consultant through its technical assistance program to apply the manual on a pilot basis to the water utility in Piedras Negras, Coahuila. Based on the results of the pilot project, IDB will sponsor application of the manual in seven other border utilities, and CONAGUA will launch the manual nationwide.

Inter-American Development Bank (IDB) Emerging Sustainable Cities Initiative

In August 2016, the Emerging and Sustainable Cities (ESC) initiative was launched in Hermosillo, Sonora—the first Mexican border city to adopt this urban sustainability planning tool. During this initial meeting, the general characteristics of the municipality of Hermosillo were presented, including its main problems, challenges and opportunities in various sectors, as well as the plans, programs and projects the City is considering to address these issues. Moreover, the phases, timetables, resources and people responsible for implementing ESC in Hermosillo were defined. The objective is to develop an action plan that can serve as a public policy tool for the City Council of Hermosillo and the basis for defining concrete actions that will help the City achieve sustainability in the medium and long term. The border research institute, *Colegio de la Frontera Norte (COLEF)*, a strategic partner of both IDB and NADB, is applying the methodology for this

project, and once the plan is implemented in Hermosillo, NADB and BECC will work to replicate it in other communities throughout the border region.

This meeting was a follow-up to the NADB-IDB Memorandum of Understanding, signed this past June, for the purpose of identifying, prioritizing and supporting financial structures for actions and projects in the Mexican border region through ESC. This IDB non-reimbursable technical assistance program provides direct support to national and subnational governments in the development and implementation of urban sustainability plans and uses a comprehensive, multidisciplinary approach to identify, organize and prioritize urban actions to tackle the main roadblocks that prevent the sustainable growth of emerging cities in Latin America.

IDB Multilateral Investment Fund (MIF)

In December 2014, BECC signed an agreement with IDB to develop a sustainable e-waste management and recycling system in Mexicali, Baja California. The Massachusetts Institute of Technology (MIT), SEMARNAT, EPA, NADB, the Baja California Ministry of Environmental Protection and the *Universidad Autónoma de Baja California* (UABC) are also collaborating with this initiative, which is intended to promote the safe and efficient recycling of used electronic devices by training around 100 micro-businesses in the e-waste management industry to serve as collection points for workers in the field. The three-year project consists of four components: 1) environmental awareness and public education campaign; 2) training and certifying informal e-waste pickers and recyclers; 3) creation of a new e-waste system; and 4) knowledge management and dissemination. The tasks covered with EPA funds (mainly an information campaign and training events) have already been concluded, and the final report has been approved.

During the third quarter of 2016, MIT concluded several tasks, including defining the baselines, marketing and flow studies, and a proposal for project modeling. Additionally, the University of Baja California was hired to develop a manual for certification in electric-electronic waste recycling. Finally, a group of relevant stakeholders for waste recycling was established.

KfW / GIZ

Under the framework of the US\$50 million line of credit from the German development bank, KfW, to NADB for water and wastewater projects in Mexico, BECC received 1 million euros from KfW for accompanying measures, including program marketing, climate screening of projects and results measurement. The German firm GITEC Consult GmbH was contracted to assist BECC in carrying out these tasks. In addition to tasks such as evaluating project eligibility for financing with KfW funds and preparing various reports as needed, GITEC focused on supporting the development of the energy efficiency network for 14 water and wastewater utilities in the state of Coahuila. During the last quarter, GITEC also began working on the climate screening of the Ensenada Desalination project, for which KfW is expected to provide funding.

These efforts are also being supported with technical assistance from the German corporation GIZ, through a cooperative agreement executed with BECC in 2015. *Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH, México* (GIZ) is a non-profit corporation funded by the German government to provide technical assistance to states and municipalities for activities related to sustainable development and environmental awareness. The agreement also included the Coahuila Water and Wastewater Commission and approximately 14 water utilities from that state. The objective is to assist the participating utilities in setting up an energy efficiency

education network and implementing several measures to reduce the energy costs associated with the operation of their facilities. GIZ developed the learning network model to generate savings in the management and use of natural resources, which it is launching worldwide to foster international cooperation in advancing sustainable development. BECC is acting as moderator for the network.

U.S. Agency for International Development (USAID)

In collaboration with the public-private partnership Green Hub/MDB Advisors LLC and USAID, through its Global Development Alliance, energy audits were completed for water utilities throughout the state of Baja California. BECC and NADB are now working with those utilities, the Baja California state water commission and USAID to promote projects based on the audit recommendations. During the third quarter of 2016, USAID began funding two additional studies in Tijuana and Mexicali aimed at developing a comprehensive plan for energy efficiency measures in their utilities, which could be financed by CONAGUA. Based on this original initiative, BECC and NADB have continued promoting the energy efficiency program to water utilities, including in Tamaulipas, Coahuila and several U.S. border communities. These efforts are supported through synergies with KfW and programs such as Border 2020 and the U.S.-Mexico Border Water Infrastructure Program.

4. Project Closeout & Results Measurement

4.1. Project Closeout Reports

At the beginning of 2016, BECC and NADB jointly defined the project closeout pipelines for the year. The pipeline for NADB-funded projects includes five projects carried over from 2015 to be completed in 2016, along with 13 new projects, for a total of 18 projects targeted for close-out activities during the current year: 14 loan projects and four grant projects. The following table shows the current status of the closeout process for the projects in 2016 pipeline.

LOAN PROJECT CLOSEOUT PIPELINE FOR 2016		
Community / Sponsor	Project	Certification Date
Complete		
Mexicali, B.C.	Wastewater collection (Mexicali IV)	Oct-07
In process		
Global Alternative Fuels, LLC (GAF)	Biodiesel production	Mar-08
Tijuana, B.C.	Paving rehabilitation (white-topping)	Jul-09
Nuevo Laredo, TAMPS	Storm drainage	Jun-06
Nuevo Laredo, TAMPS	Water and wastewater	Jun-04
Nuevo Laredo, TAMPS	Street paving program (PASO)	Dec-08
Nuevo Laredo, TAMPS	Roadway improvements	Jul-09
Nuevo Laredo, TAMPS	Basic urban infrastructure	Jul-12
Astrosol Tech Park	Solar energy project	Jan-12
Nogales, SON	Solid waste equipment	Dec-07
Pending		
Naco, SON	Paving	Oct-07
Naco, SON	Wastewater	Feb-99
Cd. Juarez, CHIH	Air quality and urban mobility	Jul-12
Reynosa, TAMPS (El Porvenir)	El Porvenir wind energy	Feb-12

NADB-FUNDED GRANT PROJECT CLOSEOUT PIPELINE FOR 2016		
Community / Sponsor	Project	Certification Date
Complete		
Brawley, CA (CAP)	Lift station improvements	Mar-13
Sunland Park, NM (CAP)	Water meter replacement	May-13
In process		
Nogales, SON (SWEP)	Landfill/transfer station	Dec-09
Pending		
Naco, SON (SWEP)	Solid waste	Jul-04

In the case of BEIF projects, the close-out pipeline for 2016 includes nine projects in EPA Region 6 and four in EPA Region 9, for a total of 13 BEIF close-out reports under development in 2016. As

of the third quarter, three close-out reports were submitted to EPA and seven more are expected to be submitted prior to year-end.

4.2. Impact Assessment

The results of the regional impact assessment of wastewater projects in the communities of Tijuana, Playas de Rosarito, Tecate and Mexicali, Baja California, were presented to the respective municipal utilities for their comments, which were included in the final report. The updated report was submitted to a peer-review with the Pan-American Health Organization (PAHO), through its offices in Mexico City and Washington, D.C. Its public health specialists found the study to be adequate and its results valid. Their only recommendation is to dig deeper into the social impacts of projects in future studies similar to the one in Baja California. The final report is in the process of being published, but can be accessed on the BECC's website.

The next impact assessment is underway and covers the wastewater collection and treatment infrastructure project certified in 1998 and implemented in 2008 in the communities of Socorro and San Elizario in the Lower Valley region of El Paso County, Texas. The team formed by BECC staff, the Department of Public Health of the University of Texas at El Paso and the Lower Valley Water District (LVWD), is working in close coordination, meeting every two weeks to ensure the conclusion of the study by February 2017.

ANNEX 1

NORTH AMERICAN DEVELOPMENT BANK
CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
(UNAUDITED)

SEPTEMBER 30, 2016

North American Development Bank (NADB)
Consolidated Financial Statements and Supplementary Information (Unaudited)
September 30, 2016

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North American Development Bank
Consolidated Balance Sheets
September 30, 2016 and December 31, 2015

	(Unaudited) September 30, 2016	(Audited) December 31, 2015
Assets		
Cash and cash equivalents:		
Held at other financial institutions in demand deposit accounts	\$ 245,604	\$ 127,078
Held at other financial institutions in interest bearing accounts	36,229,481	31,052,800
Repurchase agreements	141,600,000	83,800,000
	<u>178,075,085</u>	<u>114,979,878</u>
Held-to-maturity investment securities, at amortized cost	53,775,679	53,730,753
Available-for-sale investment securities, at fair value	302,493,355	337,477,241
Loans outstanding	1,383,531,622	1,325,135,449
Allowance for loan losses	(22,013,586)	(19,941,922)
Unamortized loan fees	(10,918,279)	(9,661,632)
Foreign currency exchange rate adjustment	(50,595,446)	(43,446,961)
Hedged items, at fair value	(67,341,383)	(51,606,468)
Net loans outstanding	<u>1,232,662,928</u>	<u>1,200,478,466</u>
Interest receivable	13,689,448	11,226,560
Grant and other receivable	1,307,821	699,125
Furniture, equipment and leasehold improvements, net	479,895	257,012
Other assets	81,190,039	59,103,755
	<u>81,190,039</u>	<u>59,103,755</u>
Total assets	<u>\$ 1,863,674,250</u>	<u>\$ 1,777,952,790</u>
Liabilities and Equity		
Liabilities:		
Accounts payable	\$ 257,924	\$ 1,813,084
Accrued liabilities	402,254	350,020
Accrued interest payable	12,831,128	9,079,465
Undisbursed grant funds	1,008	1,000
Other liabilities	6,269,690	6,210,968
Short-term debt	5,262,000	5,262,000
Long-term debt, net of discount and unamortized debt issuance costs	1,178,448,349	1,177,851,550
Hedged items, at fair value	48,805,492	10,180,086
Net long-term debt	<u>1,227,253,841</u>	<u>1,188,031,636</u>
Total liabilities	<u>1,252,277,845</u>	<u>1,210,748,173</u>
Equity:		
Paid-in capital	415,000,000	405,000,000
General Reserve:		
Allocated paid-in capital	2,483,000	3,027,256
Retained earnings:		
Designated	12,057,638	12,920,792
Reserved	102,646,613	99,671,114
Undesignated	60,702,381	39,394,125
Accumulated other comprehensive income	18,501,102	7,185,567
Non-controlling interest	5,671	5,763
Total equity	<u>611,396,405</u>	<u>567,204,617</u>
Total liabilities and equity	<u>\$ 1,863,674,250</u>	<u>\$ 1,777,952,790</u>

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

North American Development Bank
Consolidated Statements of Income (Unaudited)
For the Nine Months Ended September 30, 2016 and 2015

	<u>For the Nine Months Ended September 30,</u>	
	2016	2015
Interest income:		
Loans	\$ 38,447,762	\$ 33,820,923
Investments	4,894,694	3,917,794
Total interest income	<u>43,342,456</u>	<u>37,738,717</u>
Interest expense	<u>14,433,090</u>	<u>11,066,191</u>
Net interest income	28,909,366	26,672,526
Operating expenses:		
Personnel	6,007,712	4,278,979
General and administrative	1,046,506	1,077,134
Consultants and contractors	1,622,016	1,199,938
Provision for loan losses	2,071,664	7,697,286
Depreciation	96,387	44,431
U.S. Domestic Program	199,366	197,366
Total operating expenses	<u>11,043,651</u>	<u>14,495,134</u>
Net operating income	17,865,715	12,177,392
Non-interest income and expenses:		
Gains on sales of available-for-sale securities	137,284	112,536
Income (expense) from hedging activities, net	6,633,622	9,460,213
Income (expense) from foreign exchange activities, net	(573,513)	(561,871)
Fees and other income	200,000	428,332
Loss on other real estate owned	-	(950,000)
Total non-interest income	<u>6,397,393</u>	<u>8,489,210</u>
Income before program activities	24,263,108	20,666,602
Program activities:		
U.S. Environmental Protection Agency (EPA) grant income	652,304	606,776
EPA grant administration expense	(652,304)	(606,776)
Technical Assistance Program expense	(396,542)	(666,845)
Community Assistance Program expense	(325,249)	(1,263,987)
Water Conservation Investment Fund expense	(120,808)	(1,411,519)
Net program expenses	<u>(842,599)</u>	<u>(3,342,351)</u>
Income before non-controlling interest	23,420,509	17,324,251
Net loss attributable to non-controlling interest	<u>(92)</u>	<u>(114)</u>
Net income attributable to NADB	<u>\$ 23,420,601</u>	<u>\$ 17,324,365</u>

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

North American Development Bank
Consolidated Statements of Comprehensive Income
For the Nine Months Ended September 30, 2016 and Year Ended December 31, 2015

	(Unaudited)	(Audited)
	Nine Months Ended September 30, 2016	Year Ended December 31, 2015
Income before non-controlling interest	\$ 23,420,509	\$ 15,249,882
Net loss attributable to non-controlling interest	(92)	(242)
Net income attributable to NADB	<u>23,420,601</u>	<u>15,250,124</u>
Other comprehensive income (loss):		
Available-for-sale investment securities:		
Change in unrealized gains (losses) during the period, net	2,043,337	(344,579)
Reclassification adjustment for net gains included in net income	<u>(137,284)</u>	<u>(39,995)</u>
Total unrealized gain (loss) on available-for-sale investment securities	1,906,053	(384,574)
Foreign currency translation adjustment	101,890	147,893
Unrealized gains (losses) on hedging activities:		
Foreign currency translation adjustment, net	(7,148,485)	(11,501,378)
Fair value of cross-currency interest rate swaps, net	<u>16,456,077</u>	<u>19,117,644</u>
Total unrealized gain on hedging activities	<u>9,307,592</u>	<u>7,616,266</u>
Total other comprehensive income	<u>11,315,535</u>	<u>7,379,585</u>
Total comprehensive income	<u>\$ 34,736,136</u>	<u>\$ 22,629,709</u>

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

North American Development Bank
Consolidated Statement of Changes in Equity
For the Nine Months Ended September 30, 2016 and Year Ended December 31, 2015

	<u>Paid-In Capital</u>	<u>General Reserve</u>		<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Non-controlling Interest</u>	<u>Total Equity</u>
		<u>Allocated Paid-In Capital</u>	<u>Retained Earnings</u>			
Beginning balance, January 1, 2015	\$ 405,000,000	\$ 4,337,076	\$ 136,735,907	\$ (194,018)	\$ 6,005	\$ 545,884,970
Transfer to Targeted Grant Program of the U.S. Domestic Program	-	(1,309,820)	-	-	-	(1,309,820)
Net income	-	-	15,250,124	-	-	15,250,124
Other comprehensive income	-	-	-	7,379,585	-	7,379,585
Non-controlling interest	-	-	-	-	(242)	(242)
Ending balance, December 31, 2015 (audited)	405,000,000	3,027,256	151,986,031	7,185,567	5,763	567,204,617
Capital contribution	10,000,000	-	-	-	-	10,000,000
Transfer to Targeted Grant Program of the U.S. Domestic Program	-	(544,256)	-	-	-	(544,256)
Net income	-	-	23,420,601	-	-	23,420,601
Other comprehensive income	-	-	-	11,315,535	-	11,315,535
Non-controlling interest	-	-	-	-	(92)	(92)
Ending balance, September 30, 2016 (unaudited)	<u>\$ 415,000,000</u>	<u>\$ 2,483,000</u>	<u>\$ 175,406,632</u>	<u>\$ 18,501,102</u>	<u>\$ 5,671</u>	<u>\$ 611,396,405</u>

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

North American Development Bank
Consolidated Statements of Cash Flows (Unaudited)
For the Nine Months Ended September 30, 2016 and 2015

	For the Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities		
Net income	\$ 23,420,601	\$ 17,324,365
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	96,387	44,431
Amortization of net premiums (discounts) on investments	819,219	1,199,664
Change in fair value of swaps and other non-cash items	50,694,727	36,185,123
Non-controlling interest	(92)	(114)
Gain on sales of available-for-sale investment securities, net	(137,284)	(112,536)
Provision for loan losses	2,071,664	7,701,138
Change in other assets and liabilities:		
Increase in interest receivable	(2,462,888)	(2,556,963)
(Increase) decrease in receivable and other assets	(144,392)	1,310,209
Decrease in accounts payable	(1,555,160)	(974,527)
Increase in accrued liabilities	52,234	212,252
Increase in accrued interest payable	3,751,663	3,097,487
Net cash provided by operating activities	<u>76,606,679</u>	<u>63,430,529</u>
Cash flows from lending, investing, and development activities		
Capital expenditures	(319,656)	(45,081)
Loan principal repayments	44,254,749	96,827,845
Loan disbursements	(102,650,923)	(222,905,501)
Purchase of held-to-maturity investments	(2,261,000)	(1,660,000)
Purchase of available-for-sale investments	(201,164,411)	(212,852,481)
Proceeds from maturities of held-to-maturity investments	2,235,000	2,250,000
Proceeds from sales and maturities of available-for-sale investments	237,353,489	176,590,026
Net cash used in lending, investing, and development activities	<u>(22,552,752)</u>	<u>(161,795,192)</u>
Cash flows from financing activities		
Capital contribution	10,000,000	-
Proceeds from other borrowings	2,216,528	4,521,469
Proceeds from note issuance	-	129,503,444
Principal repayment of other borrowings	(2,631,000)	-
Grant funds from the Environmental Protection Agency (EPA)	7,564,408	6,607,938
Grant disbursements - EPA	(7,564,400)	(6,607,938)
Grant activity - U.S. Domestic Program	(544,256)	(1,236,502)
Net cash provided by financing activities	<u>9,041,280</u>	<u>132,788,411</u>
Net increase in cash and cash equivalents	63,095,207	34,423,748
Cash and cash equivalents at January 1, 2016 and 2015	<u>114,979,878</u>	<u>87,656,071</u>
Cash and cash equivalents at September 30, 2016 and 2015	<u>\$ 178,075,085</u>	<u>\$ 122,079,819</u>
Supplemental cash information		
Cash paid during the year for interest	\$ 21,005,806	\$ 20,679,422
Significant non-cash transactions		
Foreign currency translation adjustment	\$ (7,148,485)	\$ (10,778,424)
Change in fair value of cross-currency interest rate swaps, net	16,456,077	19,785,659
Change in fair value of available-for-sales investments, net	1,906,053	872,656

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

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2016

1. Organization and Purpose

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

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

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

On June 2, 1998, the Board of Directors adopted a resolution authorizing the Bank to establish a limited-purpose financial institution (sociedad financiera de objeto limitado, SOFOL) for the purpose of facilitating Bank lending to the Mexican public sector. In January 1999, the Corporación Financiera de América del Norte, S.A. de C.V. SOFOL (COFIDAN) began operations in Mexico City and, in October 2006, COFIDAN was converted from a SOFOL to a non-regulated, multipurpose financial institution (SOFOM, E.N.R.), and its name was modified to Corporación Financiera de América del Norte, S.A. de C.V. SOFOM E.N.R. As of September 30, 2016, COFIDAN is 99.90% owned by the Bank and 0.10% owned by the Government of Mexico. The accounts of COFIDAN are consolidated with the Bank, and all material intercompany accounts and transactions are eliminated in consolidation. The non-controlling interest reflected in the consolidated balance sheets and consolidated statements of income represents the ownership of the Government of Mexico through the Ministry of Finance and Public Credit (SHCP).

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates in Financial Statements

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

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2016

2. Summary of Significant Accounting Policies

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

Principles of Consolidation

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

Cash and Cash Equivalents

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

Repurchase Agreements

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

Investment Securities

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

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

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.

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2016

2. Summary of Significant Accounting Policies (continued)

The accretion of discounts and the amortization of premiums are computed using the interest method. Realized gains and losses are determined using the specific identification method. Investments in a loss position are reviewed in order to determine whether the unrealized loss, which is considered an impairment, is temporary or other-than-temporary. In the event of other-than-temporary impairment, the cost basis of the investment would be written down to its fair value, and the credit component of the loss would be included in current earnings. The Bank had no securities classified as other-than-temporarily impaired as of September 30, 2016 and December 31, 2015.

Taxation

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

Furniture, Equipment, and Leasehold Improvements

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

General Reserve

The Board of Directors defines the General Reserve as retained earnings plus allocated paid-in capital for the U.S. Domestic Program, as described in Note 8. Retained earnings are classified as either designated for a specific program, reserved, or undesignated. Undesignated retained earnings in excess of one percent (1.0%) of total assets of the International Program are used to fund four reserves in the following order of priority:

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

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

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

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

North American Development Bank
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Loans and Allowance for Loan Losses

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

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

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

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

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

The allowance for loan losses is a valuation account used to reasonably estimate loan losses incurred as of the financial statement date. Determining the appropriate allowance for loan losses involves significant judgment about when a loss has been incurred and the amount of that loss. A specific allowance is established for impaired loans that exhibit a distinct possibility that the Bank may sustain some loss. Impairment of these loans is measured based on the present value of expected future cash flows, discounted at the loan’s effective interest rate or the fair value of the collateral, if the loan is collateral-dependent. In 2013, under the International Program, a general allowance for loans to private-sector borrowers was established based on statistical cumulative default and recovery rates for project finance loans.

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2016

2. Summary of Significant Accounting Policies (continued)

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

Credit Quality

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

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

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

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

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

Program Activities

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

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2016

2. Summary of Significant Accounting Policies (continued)

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

Foreign Currency

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

The lending activities of the Bank include making loans that are denominated in Mexican pesos. For such loans, the Bank enters into cross-currency interest rate swaps that mitigate its exposure to fluctuations in foreign currency exchange rates and interest rates. As of September 30, 2016, the Bank had entered into swap counterparty agreements with Fondo de Apoyo a Estados y Municipios (FOAEM), a fund owned by the Government of Mexico and administered by the federally run development bank, Banco Nacional de Obras y Servicios Publicos, S.N.C. (Banobras); directly with Banobras outside the FOAEM arrangement; and with six other financial institutions. The foreign currency translation adjustment on loans denominated in Mexican pesos as of September 30, 2016 and December 31, 2015 was \$(50,595,446) and \$(43,446,961), respectively. Changes in the foreign currency translation adjustment are reported through other comprehensive income.

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

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2016

2. Summary of Significant Accounting Policies (continued)

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

Fair Value

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

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

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

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

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

Accumulated Other Comprehensive Income

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

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2016

2. Summary of Significant Accounting Policies (continued)

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 September 30, 2016 and December 31, 2015.

	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
September 30, 2016				
Held-to-maturity:				
U.S. agency securities	\$ 3,868,082	\$ 4,610	\$ (1,142)	\$ 3,871,550
Mexican government securities (UMS)	49,907,597	5,667,403	-	55,575,000
Total held-to-maturity investment securities	53,775,679	5,672,013	(1,142)	59,446,550
Available-for-sale:				
U.S. government securities	108,558,221	444,843	(23,970)	108,979,094
U.S. agency securities	65,612,353	493,191	(9,884)	66,095,660
Corporate debt securities	78,222,775	368,393	(54,775)	78,536,393
Other fixed-income securities	36,901,976	5,692	(11,929)	36,895,739
Mexican government securities (UMS)	11,717,839	271,241	(2,615)	11,986,465
Mortgage-backed securities	4	-	-	4
Total available-for-sale investment securities	301,013,168	1,583,360	(103,173)	302,493,355
Total investment securities	\$ 354,788,847	\$ 7,255,373	\$ (104,315)	\$ 361,939,905
December 31, 2015				
Held-to-maturity:				
U.S. agency securities	\$ 3,842,082	\$ 1,188	\$ (6,178)	\$ 3,837,092
Mexican government securities (UMS)	49,888,671	4,611,329	-	54,500,000
Total held-to-maturity investment securities	53,730,753	4,612,517	(6,178)	58,337,092
Available-for-sale:				
U.S. government securities	134,578,402	35,197	(193,458)	134,420,141
U.S. agency securities	71,593,623	109,503	(108,783)	71,594,343
Corporate debt securities	86,571,067	71,599	(228,745)	86,413,921
Other fixed-income securities	31,410,892	19,308	(25,880)	31,404,320
Mexican government securities (UMS)	13,741,982	-	(104,682)	13,637,300
Mortgage-backed securities	7,141	75	-	7,216
Total available-for-sale investment securities	337,903,107	235,682	(661,548)	337,477,241
Total investment securities	\$ 391,633,860	\$ 4,848,199	\$ (667,726)	\$ 395,814,333

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2016

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 September 30, 2016 and December 31, 2015.

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2016						
Held-to-maturity:						
U.S. agency securities	\$ 1,133,543	\$ 1,142	\$ -	\$ -	\$ 1,133,543	\$ 1,142
Available-for-sale:						
U.S. government securities	24,477,521	23,970	-	-	24,477,521	23,970
U.S. agency securities	1,998,380	9,884	-	-	1,998,380	9,884
Corporate debt securities	30,065,055	54,775	-	-	30,065,055	54,775
Other fixed-income securities	11,317,932	11,929	-	-	11,317,932	11,929
Mexican government securities (UMS)	1,063,000	2,615	-	-	1,063,000	2,615
Total available-for-sale investment securities	68,921,888	103,173	-	-	68,921,888	103,173
Total temporarily impaired securities	\$ 70,055,431	\$ 104,315	\$ -	\$ -	\$ 70,055,431	\$ 104,315
December 31, 2015						
Held-to-maturity:						
U.S. agency securities	\$ 1,528,507	\$ 6,178	\$ -	\$ -	\$ 1,528,507	\$ 6,178
Available-for-sale:						
U.S. government securities	120,167,738	193,457	-	-	120,167,738	193,457
U.S. agency securities	44,930,182	108,784	-	-	44,930,182	108,784
Corporate debt securities	56,118,940	228,745	-	-	56,118,940	228,745
Other fixed-income securities	24,132,655	25,880	-	-	24,132,655	25,880
Mexican government securities (UMS)	13,637,300	104,682	-	-	13,637,300	104,682
Total available-for-sale investment securities	258,986,815	661,548	-	-	258,986,815	661,548
Total temporarily impaired securities	\$260,515,322	\$ 667,726	\$ -	\$ -	\$ 260,515,322	\$ 667,726

None of the unrealized losses identified in the preceding table are considered to be other-than-temporary since, as of September 30, 2016, the Bank did not have the intent to sell any of these securities and believed that it was more-likely-than-not that the Bank would not be required to sell any such securities before a recovery of cost.

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2016

3. Investments (continued)

Contractual maturities of investments as of September 30, 2016 and December 31, 2015 are summarized in the following tables.

	Held-to-Maturity Securities		Available-for-Sale Securities	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
September 30, 2016				
Less than 1 year	\$ 974,868	\$ 974,685	\$ 166,019,346	\$ 165,977,474
1–5 years	58,471,682	52,800,994	136,474,005	135,035,690
5–10 years	–	–	–	–
More than 10 years	–	–	–	–
Mortgage-backed securities	–	–	4	4
	\$ 59,446,550	\$ 53,775,679	\$ 302,493,355	\$ 301,013,168
December 31, 2015				
Less than 1 year	\$ 575,057	\$ 575,000	\$ 187,802,072	\$ 187,898,629
1–5 years	57,762,035	53,155,753	147,637,953	147,916,989
5–10 years	–	–	2,030,000	2,080,348
More than 10 years	–	–	–	–
Mortgage-backed securities	–	–	7,216	7,141
	\$ 58,337,092	\$ 53,730,753	\$ 337,477,241	\$ 337,903,107

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

The following table summarizes sale, call, and maturity activity of investment securities for the nine months ended September 30, 2016 and 2015.

	Nine Months Ended September 30,	
	2016	2015
Held-to-maturity investment securities:		
Proceeds from maturities	\$ 2,235,000	\$ 2,250,000
Available-for-sale investment securities:		
Proceeds from sales and maturities	237,353,489	176,590,026
Gross realized gains	137,290	112,776
Gross realized losses	6	240

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2016

3. Investments (continued)

The following table sets forth the net unrealized gains (losses) on securities available-for-sale and the reclassification adjustments required for the nine months ended September 30, 2016 and the year ended December 31, 2015.

	Nine Months Ended September 30, 2016	Year Ended December 31, 2015
Unrealized losses on investment securities available-for-sale, beginning of year	\$ (425,866)	\$ (41,291)
Unrealized gains (losses) on investment securities available-for-sale, arising during the year	2,043,337	(344,580)
Reclassification adjustments for gains on investment securities available-for-sale included in net income	(137,284)	(39,995)
Unrealized gains (losses) on investment securities available-for-sale, end of period	<u>\$ 1,480,187</u>	<u>\$ (425,866)</u>

4. Loans

The following schedule summarizes loans outstanding as of September 30, 2016 and December 31, 2015.

	International Program	U.S. Domestic Program	Total
September 30, 2016			
Loan balance	\$ 1,383,196,821	\$ 334,801	\$ 1,383,531,622
Allowance for loan losses:			
General	(21,990,398)	(23,188)	(22,013,586)
Specific	-	-	-
Unamortized loan fees	(10,918,279)	-	(10,918,279)
Foreign currency exchange rate adjustment	(50,595,446)	-	(50,595,446)
Fair value of hedged items	(67,341,383)	-	(67,341,383)
Net loans outstanding	<u>\$ 1,232,351,315</u>	<u>\$ 311,613</u>	<u>\$ 1,232,662,928</u>
December 31, 2015			
Loan balance	\$ 1,324,777,048	\$ 358,401	\$ 1,325,135,449
Allowance for loan losses:			
General	(19,918,734)	(23,188)	(19,941,922)
Specific	-	-	-
Unamortized loan fees	(9,661,632)	-	(9,661,632)
Foreign currency exchange rate adjustment	(43,446,961)	-	(43,446,961)
Fair value of hedged items	(51,606,468)	-	(51,606,468)
Net loans outstanding	<u>\$ 1,200,143,253</u>	<u>\$ 335,213</u>	<u>\$ 1,200,478,466</u>

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2016

4. Loans (continued)

At September 30, 2016 and December 31, 2015, the International Program had outstanding loan commitments on signed loan agreements totaling \$95,711,027 and \$51,817,048, respectively. At those same dates, the U.S. Domestic Program did not have any outstanding loan commitments on signed loan agreements. The International Program also had loan agreements under development for an additional \$159,191,105 as of September 30, 2016.

The Bank under certain circumstances offered below-market-rate loans. As of September 30, 2016 and December 31, 2015, the Bank had below-market-rate loans outstanding for the International Program of \$40,181,418 and \$43,173,661, respectively. At September 30, 2016 and December 31, 2015, the U.S. Domestic Program did not have any below-market-rate loans.

The following table presents the loan portfolio by sector as of September 30, 2016 and December 31, 2015.

	September 30, 2016	December 31, 2015
International Program:		
Air quality	\$ 104,978,718	\$ 110,702,431
Basic urban infrastructure	36,469,846	36,853,882
Clean energy:		
Solar	290,700,954	302,531,030
Wind	689,649,083	618,587,633
Other	4,855,569	4,225,910
Public transportation	19,104,705	3,687,700
Storm drainage	56,460,864	59,561,462
Water and wastewater	173,581,329	181,210,270
Water conservation	7,395,753	7,416,730
Total International Program	<u>1,383,196,821</u>	<u>1,324,777,048</u>
U.S. Domestic Program	334,801	358,401
	<u>\$ 1,383,531,622</u>	<u>\$ 1,325,135,449</u>

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2016

4. Loans (continued)

The following table presents the loan portfolio by risk category as of September 30, 2016 and December 31, 2015. These risk categories are defined in Note 2, along with additional information on how the Bank evaluates credit quality.

	September 30, 2016	December 31 2015
International Program		
Pass	\$ 1,383,196,821	\$ 1,324,777,048
Special Mention	-	-
Substandard	-	-
Doubtful	-	-
Total International Program	<u>1,383,196,821</u>	<u>1,324,777,048</u>
U.S. Domestic Program		
Pass	-	-
Special Mention	334,801	358,401
Substandard	-	-
Doubtful	-	-
Total U.S. Domestic Program	<u>334,801</u>	<u>358,401</u>
	<u>\$ 1,383,531,622</u>	<u>\$ 1,325,135,449</u>

There were no loans under the International Program on nonaccrual as of September 30, 2016 and December 31, 2015. The average impaired loan balance for the nine months ended September 30, 2016 and the year ended December 31, 2015 totaled \$0 and \$1,974,930, respectively. No interest income was recognized on the impaired loan for the year ended December 31, 2015. As of September 30, 2016 and December 31, 2015, the Bank had collateral from foreclosed loans reported as other assets of \$4,322,085 and \$4,786,389, respectively.

Under the U.S. Domestic Program, there was one loan on non-accrual as of September 30, 2016 with an outstanding balance of \$334,801, and no loans on non-accrual as of December 31, 2015. The average impaired loan balance for the nine months ended September 30, 2016 and the year ended December 31, 2015 total \$346,895 and \$0, respectively. No interest income was recognized on the impaired loan for the nine months ended September 30, 2016.

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2016

4. Loans (continued)

An age analysis of past-due loans, including both accruing and non-accruing loans, as of September 30, 2016 and December 31, 2015, is shown in the following table

	Loans 30–89 Days Past Due	Loans 90 or More Days Past Due	Total Past-due Loans
September 30, 2016			
International Program	\$ –	\$ –	–
U.S. Domestic Program	–	334,801	334,801
	<u>\$ –</u>	<u>\$ 334,801</u>	<u>\$ 334,801</u>
December 31, 2015			
International Program	\$ –	\$ –	–
U.S. Domestic Program	–	358,401	358,401
	<u>\$ –</u>	<u>\$ 358,401</u>	<u>\$ 358,401</u>

The following table summarizes the allowance for loan losses by classification as of September 30, 2016 and December 31, 2015.

	Allowance for Loan Losses			Total Loans Outstanding
	General Allowance	Specific Allowance	Total	
September 30, 2016				
International Program:				
Private:				
Construction	\$ 12,741,766	\$ –	\$ 12,741,766	\$ 343,666,140
Operation	7,340,634	–	7,340,634	657,931,155
Public	1,454,247	–	1,454,247	290,849,339
Public-private	453,751	–	453,751	90,750,187
Total International Program	<u>21,990,398</u>	<u>–</u>	<u>21,990,398</u>	<u>1,383,196,821</u>
U.S. Domestic Program	23,188	–	23,188	334,801
	<u>\$ 22,013,586</u>	<u>\$ –</u>	<u>\$ 22,013,586</u>	<u>\$ 1,383,531,622</u>
December 31, 2015				
International Program:				
Private:				
Construction	\$ 10,300,322	\$ –	\$ 10,300,322	\$ 258,088,762
Operation	9,618,412	–	9,618,412	669,139,482
Public	–	–	–	305,588,205
Public-private	–	–	–	91,960,599
Total International Program	<u>19,918,734</u>	<u>–</u>	<u>19,918,734</u>	<u>1,324,777,048</u>
U.S. Domestic Program	23,188	–	23,188	358,401
	<u>\$ 19,941,922</u>	<u>\$ –</u>	<u>\$ 19,941,922</u>	<u>\$ 1,325,135,449</u>

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

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2016

4. Loans (continued)

The following schedule summarizes the allowance for loan losses for the nine months ended September 30, 2016 and the year ended December 31, 2015.

		Allowance for Loan Losses				
		Beginning Balance	Specific Provisions	General Provisions	Loan (Charge-offs) Recoveries	Ending Balance
September 30, 2016						
International Program:						
Private:						
Construction	\$	10,300,322	\$ -	\$ 2,441,444	\$ -	\$ 12,741,766
Operation		9,618,412	-	(2,277,778)	-	7,340,634
Public		-	-	1,454,247	-	1,454,247
Public-private		-	-	453,751	-	453,751
Total International Program		19,918,734	-	2,071,664	-	21,990,398
U.S. Domestic Program		23,188	-	-	-	23,188
	\$	19,941,922	\$ -	\$ 2,071,664	\$ -	\$ 22,013,586
December 31, 2015						
International Program:						
Private:						
Construction	\$	5,528,110	\$ -	\$ 4,772,212	\$ -	\$ 10,300,322
Operation		5,827,518	-	3,790,894	-	9,618,412
Public		-	-	(3,852)	3,852	-
Public-private		-	-	-	-	-
Total International Program		11,355,628	-	8,559,254	3,852	19,918,734
U.S. Domestic Program		23,188	-	-	-	23,188
	\$	11,378,816	\$ -	\$ 8,559,254	\$ 3,852	\$ 19,941,922

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2016

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 September 30, 2016 and December 31, 2015.

	Gross Amount	Master Netting Arrangements	Net Amount
September 30, 2016			
Other assets			
Cross-currency interest rate swaps	\$ 214,835,160	\$ (51,604,286)	\$ 163,230,874
Interest rate swaps	37,318,984	-	37,318,984
Collateral from swap counterparty	(122,830,000)	-	(122,830,000)
Credit valuation adjustment for swaps	(851,904)	-	(851,904)
Other real estate owned	4,322,085	-	4,322,085
Total other assets	<u>\$ 132,794,325</u>	<u>\$ (51,604,286)</u>	<u>\$ 81,190,039</u>
Other liabilities			
Cross-currency interest rate swaps	\$ -	\$ -	\$ -
Interest rate swaps	6,269,690	-	6,269,690
Total other liabilities	<u>\$ 6,269,690</u>	<u>\$ -</u>	<u>\$ 6,269,690</u>
December 31, 2015			
Other assets			
Cross-currency interest rate swaps	\$ 136,668,543	\$ (29,973,461)	\$ 106,695,082
Interest rate swaps	17,780,265	(2,053,020)	15,727,245
Collateral from swap counterparty	(67,600,000)	-	(67,600,000)
Credit valuation adjustment for swaps	(504,961)	-	(504,961)
Other real estate owned	4,786,389	-	4,786,389
Total other assets	<u>\$ 91,130,236</u>	<u>\$ (32,026,481)</u>	<u>\$ 59,103,755</u>
Other liabilities			
Cross-currency interest rate swaps	\$ 2,395,365	\$ -	\$ 2,395,365
Interest rate swaps	3,815,603	-	3,815,603
Total other liabilities	<u>\$ 6,210,968</u>	<u>\$ -</u>	<u>\$ 6,210,968</u>

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2016

6. Debt

The following table summarizes the notes payable and other borrowings as of September 30, 2016 and December 31, 2015.

			September 30, 2016				
Issue/ Date	Maturity Date	Fixed Rate	Principal Amount	Unamortized Premium/ (Discount)	Unamortized Debt Issuance Costs	Fair Value of Hedged Items	Net Debt
Notes Payable							
<u>USD Issuance</u>							
02/11/10	02/11/20	4.375%	\$ 250,000,000	\$ (219,494)	\$ (543,664)	\$ 16,895,511	\$ 266,132,353
10/26/12	10/26/22	2.400	250,000,000	(522,211)	(903,022)	8,340,899	256,915,666
12/17/12	10/26/22	2.400	180,000,000	(2,297,887)	(571,996)	4,235,106	181,365,223
12/17/12	12/17/30	3.300	50,000,000	-	(245,707)	4,763,249	54,517,542
10/10/13	10/10/18	2.300	300,000,000	(415,341)	(680,834)	3,084,218	301,988,043
<u>CHF Issuance</u>							
04/30/15	04/30/25	0.250	128,706,754	686,386	(713,002)	11,486,509	140,166,647
Total Notes Payable			1,158,706,754	(2,768,547)	(3,658,225)	48,805,492	1,201,085,474
Other Borrowings							
08/15/13	12/30/16	1.900	2,631,000	-	-	-	2,631,000
08/15/13	06/30/17	1.900	2,631,000	-	-	-	2,631,000
08/15/13	12/30/17	1.900	2,631,000	-	-	-	2,631,000
08/15/13	06/30/18	1.900	2,631,000	-	-	-	2,631,000
08/15/13	12/30/18	1.900	600,467	-	-	-	600,467
04/11/14	12/30/18	1.900	2,030,533	-	-	-	2,030,533
04/11/14	06/30/19	1.900	2,631,000	-	-	-	2,631,000
04/11/14	12/30/19	1.900	2,632,000	-	-	-	2,632,000
04/11/14	06/30/20	1.900	526,785	-	-	-	526,785
08/14/14	06/30/20	1.900	2,105,215	-	-	-	2,105,215
08/14/14	12/30/20	1.900	2,632,000	-	-	-	2,632,000
08/14/14	06/30/21	1.900	1,008,985	-	-	-	1,008,985
02/13/15	06/30/21	1.900	1,623,015	-	-	-	1,623,015
02/13/15	12/30/21	1.900	1,470,635	-	-	-	1,470,635
07/29/15	12/30/21	1.900	1,161,365	-	-	-	1,161,365
07/29/15	06/30/22	1.900	266,455	-	-	-	266,455
09/16/16	06/30/22	1.900	2,216,528	-	-	-	2,216,528
Total Other Borrowings			31,428,983	-	-	-	31,428,983
			\$ 1,190,135,737	\$ (2,768,547)	\$ (3,658,225)	\$ 48,805,492	\$ 1,232,514,457

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2016

6. Debt (continued)

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

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.

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2016

6. Debt (continued)

The fair value of the hedges relating to interest rate swaps on a portion of the notes payable was reported at September 30, 2016 as other assets of \$37,318,984 and other liabilities of \$0 and at December 31, 2015 as other assets of \$15,727,245 and other liabilities of \$3,815,603. The fair value of the hedges relating to cross-currency interest rate swaps on notes payable not denominated in U.S. dollars was reported at September 30, 2016 as other assets of \$9,498,516 and at December 31, 2015 as other liabilities of \$2,395,365. For additional information on the fair value of financial instruments and derivatives, see Notes 11 and 12.

Other Borrowings

On November 8, 2012, the Bank signed a loan commitment with another development bank to borrow up to \$50 million to fund eligible projects in Mexico. This loan amortizes semiannually, with the first principal payment paid on December 30, 2015 and final principal payment due on December 30, 2024. As of September 30, 2016, the Bank has borrowed \$36,690,983.

The following table summarizes the maturities of the notes payable and other borrowings as of September 30, 2016 and December 31, 2015.

	September 30, 2016	December 31, 2015
Less than 1 year	\$ 5,262,000	\$ 5,262,000
1–2 years	5,262,000	5,262,000
2–3 years	305,262,000	305,262,000
3–4 years	255,264,000	5,263,000
4–5 years	5,264,000	255,264,000
5–10 years	563,821,737	564,237,209
More than 10 years	50,000,000	50,000,000
Total	<u>\$ 1,190,135,737</u>	<u>\$ 1,190,550,209</u>

The following table summarizes the short-term and long-term debt as of September 30, 2016 and December 31, 2015.

	September 30, 2016	December 31, 2015
Short-term debt:		
Notes payable	\$ –	\$ –
Other borrowings	5,262,000	5,262,000
Total short-term debt	<u>5,262,000</u>	<u>5,262,000</u>
Long-term debt:		
Notes payable	1,158,706,754	1,158,706,754
Other borrowings	26,166,983	26,581,455
Total long-term debt	<u>1,184,873,737</u>	<u>1,185,288,209</u>
Total debt	<u>\$ 1,190,135,737</u>	<u>\$ 1,190,550,209</u>

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2016

7. Equity

Subscribed Capital

At September 30, 2016 and December 31, 2015, the Bank had authorized and subscribed 600,000 and 300,000 shares of capital stock, respectively, with a par value of \$10,000 per share. As defined in the Charter, capital includes unqualified and qualified subscribed shares. Unqualified subscribed shares have either been funded or authorized for purchase by the subscribing country. Capital is further classified as callable or paid-in capital at September 30, 2016 and December 31, 2015 as follows.

	Mexico		United States		Total	
	Shares	Dollars	Shares	Dollars	Shares	Dollars
September 30, 2016						
Subscribed capital	300,000	\$ 3,000,000,000	300,000	\$ 3,000,000,000	600,000	\$ 6,000,000,000
Less:						
Qualified callable capital	(121,833.3333)	(1,218,333,333)	(127,500)	(1,275,000,000)	(249,333.3333)	(2,493,333,333)
Unqualified callable capital	(133,166.6667)	(1,331,666,667)	(127,500)	(1,275,000,000)	(260,666.6667)	(2,606,666,667)
Qualified paid-in capital	(21,500)	(215,000,000)	(22,500)	(225,000,000)	(44,000)	(440,000,000)
Total funded paid-in capital	23,500	235,000,000	22,500	225,000,000	46,000	460,000,000
Less transfer to General Reserve for Domestic Programs	-	(22,500,000)	-	(22,500,000)	-	(45,000,000)
Total paid-in capital	23,500	\$ 212,500,000	22,500	\$ 202,500,000	46,000	\$ 415,000,000

	Mexico		United States		Total	
	Shares	Dollars	Shares	Dollars	Shares	Dollars
December 31, 2015						
Subscribed capital	150,000	\$ 1,500,000,000	150,000	\$ 1,500,000,000	300,000	\$ 3,000,000,000
Less callable capital	(127,500)	(1,275,000,000)	(127,500)	(1,275,000,000)	(255,000)	(2,550,000,000)
Total funded paid-in capital	22,500	225,000,000	22,500	225,000,000	45,000	450,000,000
Less transfer to General Reserve for Domestic Programs	-	(22,500,000)	-	(22,500,000)	-	(45,000,000)
Total paid-in capital	22,500	\$ 202,500,000	22,500	\$ 202,500,000	45,000	\$ 405,000,000

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

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2016

7. Equity (continued)

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

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

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2016

7. Equity (continued)

Retained Earnings

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

	<u>September 30, 2016</u>	<u>December 31, 2015</u>
Designated retained earnings		
International Program:		
Water Conservation Investment Fund (WCIF)	\$ 918,920	\$ 1,039,728
Technical Assistance Program (TAP)	3,835,757	4,055,139
Community Assistance Program (CAP)	8,915,854	9,241,103
Total International Program	<u>13,670,531</u>	<u>14,335,970</u>
U.S. Domestic Program	<u>(1,612,893)</u>	<u>(1,415,178)</u>
Total designated retained earnings	<u>12,057,638</u>	<u>12,920,792</u>
Reserved retained earnings		
International Program:		
Debt Service Reserve	24,609,470	24,609,470
Operating Expenses Reserve	13,372,300	10,396,093
Special Reserve	30,000,000	30,000,000
Capital Preservation Reserve	34,654,799	34,654,799
Total International Program	<u>102,636,569</u>	<u>99,660,362</u>
U.S. Domestic Program:		
Special Reserve	10,044	10,752
Total reserved retained earnings	<u>102,646,613</u>	<u>99,671,114</u>
Undesignated retained earnings		
International Program	<u>60,702,381</u>	39,394,125
Total undesignated retained earnings	<u>60,702,381</u>	<u>39,394,125</u>
Total retained earnings	<u>\$ 175,406,632</u>	<u>\$ 151,986,031</u>
Retained earnings by program		
International Program	\$ 177,009,481	\$ 153,390,457
U.S. Domestic Program	(1,602,849)	(1,404,426)
Total retained earnings	<u>\$ 175,406,632</u>	<u>\$ 151,986,031</u>

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

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2016

7. Equity (continued)

Accumulated Other Comprehensive Income

The following table presents the changes in accumulated other comprehensive income (loss) for nine months ended September 30, 2016 and the year ended December 31, 2015.

	Beginning Balance	Period Activity	Ending Balance
September 30, 2016			
Unrealized gain (loss) on available-for-sale investment securities	\$ (425,865)	\$ 1,906,052	\$ 1,480,187
Foreign currency translation adjustment	214,219	101,890	316,109
Unrealized gain (loss) on hedging activities:			
Foreign currency translation adjustment	(43,446,961)	(7,148,485)	(50,595,446)
Fair value of cross-currency interest rate swaps	50,844,174	16,456,078	67,300,252
Net unrealized gain on hedging activities	7,397,213	9,307,593	16,704,806
Total accumulated other comprehensive income	<u>\$ 7,185,567</u>	<u>\$ 11,315,535</u>	<u>\$ 18,501,102</u>
December 31, 2015			
Unrealized loss on available-for-sale investment securities	\$ (41,291)	\$ (384,574)	\$ (425,865)
Foreign currency translation adjustment	66,326	147,893	214,219
Unrealized gain (loss) on hedging activities:			
Foreign currency translation adjustment	(31,945,583)	(11,501,378)	(43,446,961)
Fair value of cross-currency interest rate swaps	31,726,530	19,117,644	50,844,174
Net unrealized gain (loss) on hedging activities	(219,053)	7,616,266	7,397,213
Total accumulated other comprehensive income (loss)	<u>\$ (194,018)</u>	<u>\$ 7,379,585</u>	<u>\$ 7,185,567</u>

8. Domestic Programs

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

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2016

8. Domestic Programs (continued)

Mexico

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

United States

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

In accordance with the Charter and MOU with the United States, net assets of the Bank in the amounts of \$880,151 and \$1,622,830 were designated for the U.S. Domestic Program at September 30, 2016 and December 31, 2015, respectively. The revenue related to these amounts for the nine months ended September 30, 2016 and 2015 were \$1,462 and \$16,446, respectively. Additionally, expenses directly related to the operation of the U.S. Domestic Program of \$199,885 and \$197,885, are included in the operations of the Bank for the nine months ended September 30, 2016 and 2015, respectively. All expenses and disbursements are paid out of the U.S. Domestic Program funds. Deficit retained earnings on the U.S. Domestic Program capital funds as of September 30, 2016 and December 31, 2015 were \$1,602,849 and \$1,319,681, respectively. Under the U.S. Domestic Program, \$589,315 in cash and cash equivalents was available for disbursement as of September 30, 2016.

In January 2009, the Finance Committee approved a Targeted Grant Program (TGP) to be funded with the remaining balance of the U.S. Domestic Program's allocated paid-in capital. As of September 30, 2016 and December 31, 2015, the U.S. Domestic Program's allocated paid-in capital totaled \$2,483,000 and \$4,174,571, respectively. For the nine months ended September 30, 2016 and 2015, \$544,256 and \$1,236,502, respectively, were disbursed through the TGP. These disbursements were reported as a deduction from allocated paid-in capital.

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2016

9. Program Activities

Program activities are comprised of the following:

	Nine Months Ended September 30,	
	2016	2015
Program income:		
EPA grant	\$ 652,304	\$ 606,776
Total program income	<u>652,304</u>	<u>606,776</u>
Program expenses:		
EPA grant administration	(652,304)	(606,776)
Technical Assistance Program	(396,542)	(666,845)
Community Assistance Program	(325,249)	(1,263,987)
Water Conservation Investment Fund	(120,808)	(1,411,519)
Total program expenses	<u>(1,494,903)</u>	<u>(3,949,127)</u>
Net program expenses	<u>\$ (842,599)</u>	<u>\$ (3,342,351)</u>

EPA Grants

The Bank administers grant funds from EPA through the Border Environment Infrastructure Fund (BEIF). EPA grant awards since the initial grant made in April 1997 to September 30, 2016 total \$692,812,849. Under the terms of the grants, the Bank reviews and submits prospective projects to EPA, which approves the projects. EPA then disburses funds to the Bank, which directs the grant monies to the specified project. The Bank also oversees progress and compliance requirements for EPA and receives an allocation of the EPA grant funds for administrative expenses incurred.

As of September 30, 2016, EPA has approved project funding proposed by the Bank totaling \$644,205,403, of which \$599,789,424 has been disbursed through the Bank. The Bank recognized \$652,304 and \$606,776 as reimbursement of expenses incurred for the nine months ended September 30, 2016 and 2015, respectively. These funds have been recorded as program revenue and expenses in the consolidated statements of income.

Technical Assistance Program (TAP)

The Bank uses a portion of its retained earnings as authorized by the Board of Directors to offer technical assistance and training to project sponsors for the purpose of strengthening their financial performance and ensuring the long-term sustainability of their infrastructure. Through the TAP, assistance is provided in three categories: project development, institutional capacity-building measures, and sector studies to identify needs and generate knowledge about a new sector or technology. For the nine months ended September 30, 2016 and 2015, \$219,382 and \$438,335, respectively, was disbursed under this program. These disbursements were funded with previously designated retained earnings and have been reported as a program expense.

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2016

9. Program Activities (continued)

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 nine months ended September 30, 2016 and 2015, \$177,160 and \$228,510, respectively, was expended under this program.

Water Conservation Investment Fund (WCIF)

In August 2002, the Board of Directors established the WCIF to finance water conservation projects in the U.S.-Mexico border region and designated \$80,000,000 of the Bank's undesignated retained earnings to the program. Of that amount, \$40,000,000 was reserved exclusively for water conservation projects in each country. For the nine months ended September 30, 2016 and 2015, \$120,808 and \$1,411,519 respectively, were disbursed under this fund. As of September 30, 2016, cumulative disbursements total \$38,035,477 for the United States and \$39,990,407 for Mexico. These disbursements were funded with previously designated retained earnings and have been reported as a program expense.

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

Community Assistance Program (CAP)

In February 2011, the Board of Directors approved a grant program to support public projects in all sectors eligible for Bank financing. The CAP program is funded from the Bank's undesignated retained earnings as authorized by the Board. As of September 30, 2016, a cumulative total of \$11,473,415 has been allocated to the CAP. For the nine months ended September 30, 2016 and 2015, \$325,249 and \$1,263,987, respectively, were disbursed under this program. These disbursements were funded with previously designated retained earnings and have been reported as a program expense.

10. 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 nine months ended September 30, 2016 and 2015, the Bank expended \$549,434 and \$464,468, respectively, relating to the plan.

11. Fair Value of Financial Instruments

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

Cash and Cash Equivalents

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

11. Fair Value of Financial Instruments (continued)

Securities Held-to-Maturity

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

Securities Available-for-Sale

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

Loans Receivable and Interest Receivable

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

Hedged Items for Loans

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

Cross-currency Interest Rate Swaps

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

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2016

11. Fair Value of Financial Instruments (continued)

Interest Rate Swaps

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

Other Real Estate Owned

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

Debt and Accrued Interest Payable

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

Hedged Items for Notes Payable

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

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

	September 30, 2016		December 31, 2015	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets				
Cash and cash equivalents	\$ 178,075,085	\$ 178,075,085	\$ 114,979,878	\$ 114,979,878
Held-to-maturity securities	53,775,679	59,446,550	53,730,753	58,337,092
Available-for-sale securities	302,493,355	302,493,355	337,477,241	337,477,241
Loans, net	1,232,662,928	1,304,817,586	1,200,478,466	1,222,140,888
Interest receivable	13,689,448	13,689,448	11,226,560	11,226,560
Cross-currency interest rate swaps	163,230,874	163,230,874	106,695,082	106,695,082
Interest rate swaps	37,318,984	37,318,984	15,727,245	15,727,245
Other real estate owned	4,322,085	4,322,085	4,786,389	4,786,389
Liabilities				
Accrued interest payable	12,831,128	12,831,128	9,079,465	9,079,465
Short-term debt	5,262,000	5,262,000	5,262,000	5,262,000
Cross-currency interest rate swaps	-	-	2,395,365	2,395,365
Interest rate swaps	6,269,690	6,269,690	3,815,603	3,815,603
Long-term debt, net	1,178,448,349	1,183,144,579	1,177,851,550	1,182,058,243

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2016

11. Fair Value of Financial Instruments (continued)

The Bank's financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2016 and December 31, 2015 are summarized in the following table by the valuation level of the inputs used to measure fair value. Additional information on how the Bank measures and classifies the levels of fair-value inputs is provided in Note 2.

	Fair Value Measurements Using			Total Fair Value
	Level 1	Level 2	Level 3	
September 30, 2016				
Assets				
Available-for-sale (AFS) securities:				
U.S. government securities	\$ 108,979,094	\$ -	\$ -	\$ 108,979,094
U.S. agency securities	-	66,095,660	-	66,095,660
Corporate debt securities	-	78,536,393	-	78,536,393
Other fixed-income securities	-	36,895,739	-	36,895,739
Mexican government securities (UMS)	-	11,986,465	-	11,986,465
Mortgage-backed securities	-	4	-	4
Total AFS securities	108,979,094	193,514,261	-	302,493,355
Cross-currency interest rate swaps	-	-	163,230,874	163,230,874
Interest rate swaps	-	-	37,318,984	37,318,984
Hedged items for loans	-	-	(67,341,383)	(67,341,383)
Total assets at fair value	\$ 108,979,094	\$ 193,514,261	\$ 133,208,475	\$ 435,701,830
Liabilities				
Cross-currency interest rate swaps	\$ -	\$ -	\$ -	\$ -
Interest rate swaps	-	-	6,269,690	6,269,690
Hedged item for notes payable	-	-	48,805,492	48,805,492
Total liabilities at fair value	\$ -	\$ -	\$ 55,075,182	\$ 55,075,182
December 31, 2015				
Assets				
Available-for-sale (AFS) securities:				
U.S. government securities	\$ 134,420,141	\$ -	\$ -	\$ 134,420,141
U.S. agency securities	-	71,594,343	-	71,594,343
Corporate debt securities	-	86,413,921	-	86,413,921
Other fixed-income securities	-	31,404,320	-	31,404,320
Mexican government securities (UMS)	-	13,637,300	-	13,637,300
Mortgage-backed securities	-	7,216	-	7,216
Total AFS securities	134,420,141	203,057,100	-	337,477,241
Cross-currency interest rate swaps	-	-	106,695,082	106,695,082
Interest rate swaps	-	-	15,727,245	15,727,245
Hedged items for loans	-	-	(51,606,468)	(51,606,468)
Total assets at fair value	\$ 134,420,141	\$ 203,057,100	\$ 70,815,859	\$ 408,293,100
Liabilities				
Cross-currency interest rate swaps	\$ -	\$ -	\$ 2,395,365	\$ 2,395,365
Interest rate swaps	-	-	3,815,603	3,815,603
Hedged item for notes payable	-	-	10,180,086	10,180,086
Total liabilities at fair value	\$ -	\$ -	\$ 16,391,054	\$ 16,391,054

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2016

11. 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 nine months ended September 30, 2016 and the year ended December 31, 2015. 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, 2016	\$ 106,695,082	\$ 15,727,245	\$ (51,606,468)
Total realized and unrealized gains (losses):			
Included in earnings (expenses)	40,079,715	21,591,739	(15,734,915)
Included in other comprehensive income	16,456,077	-	-
Purchases	-	-	-
Settlements	-	-	-
Transfers in/out of Level 3	-	-	-
Ending balance, September 30, 2016	<u>\$ 163,230,874</u>	<u>\$ 37,318,984</u>	<u>\$ (67,341,383)</u>
Beginning balance, January 1, 2015	\$ 36,938,315	\$ 18,433,614	\$ 1,698,406
Total realized and unrealized gains (losses):			
Included in earnings (expenses)	53,303,097	(2,266,369)	(53,304,874)
Included in other comprehensive income (loss)	19,117,644	-	-
Purchases	-	-	-
Settlements	(2,663,974)	(440,000)	-
Transfers in/out of Level 3	-	-	-
Ending balance, December 31, 2015	<u>\$ 106,695,082</u>	<u>\$ 15,727,245</u>	<u>\$ (51,606,468)</u>
Liabilities			
Beginning balance, January 1, 2016	\$ 2,395,365	\$ 3,815,603	\$ 10,180,086
Total realized and unrealized (gains) losses:			
Included in (earnings) expenses	(2,395,365)	2,454,087	38,625,406
Included in other comprehensive (income) loss	-	-	-
Purchases	-	-	-
Settlements	-	-	-
Transfers in/out of Level 3	-	-	-
Ending balance, September 30, 2016	<u>\$ -</u>	<u>\$ 6,269,690</u>	<u>\$ 48,805,492</u>
Beginning balance, January 1, 2015	\$ -	\$ 20,426,135	\$ 5,047,280
Total realized and unrealized (gains) losses:			
Included in (earnings) expenses	2,395,365	(16,610,532)	5,132,806
Included in other comprehensive (income) loss	-	-	-
Purchases	-	-	-
Settlements	-	-	-
Transfers in/out of Level 3	-	-	-
Ending balance, December 31, 2015	<u>\$ 2,395,365</u>	<u>\$ 3,815,603</u>	<u>\$ 10,180,086</u>

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2016

11. Fair Value of Financial Instruments (continued)

The Bank entered into four (4) cross-currency interest rate swaps and no interest rate swaps during the nine months ended September 30, 2016. Upon issuance, the fair value of the swaps is \$0 and, therefore, is not portrayed in the purchases line item in the preceding table. The change in fair value of these instruments is included within the total gains (losses) line item.

The Bank has no nonfinancial assets or liabilities measured at fair value on a recurring basis. Certain nonfinancial assets and liabilities measured at fair value on a nonrecurring basis include foreclosed assets (upon initial recognition or subsequent impairment) and other nonfinancial long-lived assets measured at fair value for impairment assessment. The fair value of the collateral from foreclosed loans is measured using Level 3 unobservable inputs and is reported in other assets as other real estate owned of \$4,322,085 and \$4,786,389 at September 30, 2016 and December 31, 2015, respectively. For the nine months ended September 30, 2016 and 2015, the Bank did not remeasure any existing real estate owned, and did not record any impairment on long-lived assets.

12. Derivative Financial Instruments

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

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

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

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2016

12. Derivative Financial Instruments (continued)

Under its arrangement with FOAEM, neither the Bank nor the counterparty is required to post collateral to support the outstanding fair value of the swaps. Beginning in July 2009, under counterparty relationships with other financial institutions, collateral may be required to be posted by either the Bank or the counterparty. Cash collateral of \$122,830,000 and \$67,600,000 was posted from counterparties to the Bank as of September 30, 2016 and December 31, 2015, respectively. No collateral was posted by the Bank as of September 30, 2016 and December 31, 2015.

The notional amounts and estimated fair values of the swaps outstanding at September 30, 2016 and December 31, 2015 are presented in the following table. The fair value of these swaps is estimated using internal valuation models with observable market data inputs.

	September 30, 2016		December 31, 2015	
	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
Cross-currency interest rate swaps	\$ 645,882,400	\$ 163,230,874	\$ 645,173,665	\$ 104,299,717
Interest rate swaps	1,454,985,055	31,049,294	1,418,452,744	11,911,642

The referenced exchange rate received for the cross-currency interest rate swaps outstanding at September 30, 2016 and December 31, 2015 was 5.17% and 5.81%, respectively.

Swaps that are no longer deemed effective because of borrower default on the hedged loans are not included in the preceding table. There were no swaps that were considered ineffective due to borrower default as of September 30, 2016 and December 31, 2015.

Gains and Losses on Derivative Cash Flows

Cross-currency Interest Rate Swaps – The effective portion of the gain or loss due to changes in the fair value of cross-currency interest rate swaps designated as cash flow hedges is included in the accompanying consolidated statements of comprehensive income, while the ineffective portion is included in income (expense) from net hedging activities. The accumulated gain (loss) is reclassified into earnings as the hedged cash flows are received to offset the foreign currency gains (losses) that would have been recognized in earnings if the Bank had not been a party to the swaps. The accumulated net gain (loss) related to the swaps included in accumulated other comprehensive income totaled \$16,704,806 and \$7,397,214 at September 30, 2016 and December 31, 2015, respectively.

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2016

12. Derivative Financial Instruments (continued)

Gains or losses due to changes in the fair value of cross-currency interest rate swaps designated as fair value hedges and ineffective swaps are reported in income (expense) from net hedging activities. For the nine months ended September 30, 2016 and 2015, changes in the aforementioned swaps included in the accompanying consolidated statements of income were \$6,586,299 and \$8,464,489, respectively.

Interest Rate Swaps – With regard to the interest rate swaps on outstanding loans and a portion of the long-term notes payable, the changes in the fair value of the swaps offset the changes in the fair value of the loans and debt due to changes in the USD OIS curve, while the ineffective portion is included in income (expense) from net hedging activities. For the nine months ended September 30, 2016 and 2015, changes in the aforementioned swaps included in the accompanying consolidated statements of income were \$394,266 and \$994,978, respectively.

13. Credit Risk Associated with Financial Instruments

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

14. Commitments

In the normal course of business, the Bank has various outstanding commitments, in addition to the loans receivable disclosed in Note 4 and the long-term borrowings disclosed in Note 6. Under agreements with consultants and contractors in effect at September 30, 2016, the Bank has obligations to make payments contingent upon the future performance of the consultants and contractors under the terms of their respective contracts and, therefore, they are not recorded in the financial statements.

15. Accounting Standards Updates

Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606). ASU 2014-09 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2016

15. Accounting Standards Updates (continued)

should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 is effective for the Bank on January 1, 2017. The Bank does not anticipate a significant impact to its consolidated financial statements since the primary source of revenue is interest income from loans and investments.

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

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

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2016

16. Other Significant Event

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

Supplementary Information

North American Development Bank
Combining Balance Sheet by Program (Unaudited)
September 30, 2016

Assets	International Program	U.S. Domestic Program (A)	Eliminations	Total
Cash and cash equivalents:				
Held at other financial institutions in demand deposit accounts	\$ 245,604	\$ -	\$ -	\$ 245,604
Held at other financial institutions in interest bearing accounts	35,940,166	289,315	-	36,229,481
Repurchase agreements	141,300,000	300,000	-	141,600,000
	<u>177,485,770</u>	<u>589,315</u>	<u>-</u>	<u>178,075,085</u>
Held-to-maturity investment securities, at amortized cost	53,775,679	-	-	53,775,679
Available-for-sale investment securities, at fair value	302,493,355	-	-	302,493,355
Loans outstanding	1,383,196,821	334,801	-	1,383,531,622
Allowance for loan losses	(21,990,398)	(23,188)	-	(22,013,586)
Unamortized loan fees	(10,918,279)	-	-	(10,918,279)
Foreign currency exchange rate adjustment	(50,595,446)	-	-	(50,595,446)
Hedged items, at fair value	(67,341,383)	-	-	(67,341,383)
Net loans outstanding	<u>1,232,351,315</u>	<u>311,613</u>	<u>-</u>	<u>1,232,662,928</u>
Interest receivable	13,689,433	15	-	13,689,448
Grant and other receivable	1,307,821	-	-	1,307,821
Due from U.S. Domestic Program	4,683	-	(4,683)	-
Furniture, equipment and leasehold improvements, net	479,722	173	-	479,895
Other assets	81,190,039	-	-	81,190,039
Total assets	<u>\$ 1,862,777,817</u>	<u>\$ 901,116</u>	<u>\$ (4,683)</u>	<u>\$ 1,863,674,250</u>
Liabilities and Equity				
Liabilities:				
Accounts payable	\$ 257,924	\$ -	\$ -	\$ 257,924
Accrued liabilities	385,972	16,282	-	402,254
Due to International Program	-	4,683	(4,683)	-
Accrued interest payable	12,831,128	-	-	12,831,128
Undisbursed grant funds	1,008	-	-	1,008
Other liabilities	6,269,690	-	-	6,269,690
Short-term debt	5,262,000	-	-	5,262,000
Long-term debt, net of discount and unamortized debt issuance costs	1,178,448,349	-	-	1,178,448,349
Hedged items, at fair value	48,805,492	-	-	48,805,492
Net long-term debt	<u>1,227,253,841</u>	<u>-</u>	<u>-</u>	<u>1,227,253,841</u>
Total liabilities	<u>1,252,261,563</u>	<u>20,965</u>	<u>(4,683)</u>	<u>1,252,277,845</u>
Equity:				
Paid-in capital	415,000,000	-	-	415,000,000
General Reserve:				
Allocated paid-in capital	-	2,483,000	-	2,483,000
Retained earnings:				
Designated	13,670,531	(1,612,893)	-	12,057,638
Reserved	102,636,569	10,044	-	102,646,613
Undesignated	60,702,381	-	-	60,702,381
Accumulated other comprehensive loss	18,501,102	-	-	18,501,102
Non-controlling interest	5,671	-	-	5,671
Total equity	<u>610,516,254</u>	<u>880,151</u>	<u>-</u>	<u>611,396,405</u>
Total liabilities and equity	<u>\$ 1,862,777,817</u>	<u>\$ 901,116</u>	<u>\$ (4,683)</u>	<u>\$ 1,863,674,250</u>

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

North American Development Bank
Combining Statement of Income by Program (Unaudited)
For the Nine Months Ended September 30, 2016

	<u>International Program</u>	<u>U.S. Domestic Program (A)</u>	<u>Total</u>
Interest income:			
Loans	\$ 38,447,762	\$ -	\$ 38,447,762
Investments	4,893,232	1,462	4,894,694
Total interest income	<u>43,340,994</u>	<u>1,462</u>	<u>43,342,456</u>
Interest expense	<u>14,433,090</u>	<u>-</u>	<u>14,433,090</u>
Net interest income	<u>28,907,904</u>	<u>1,462</u>	<u>28,909,366</u>
Operating expenses:			
Personnel	6,007,712	-	6,007,712
General and administrative	1,046,506	-	1,046,506
Consultants and contractors	1,622,016	-	1,622,016
Provision for loan losses	2,071,664	-	2,071,664
Depreciation	95,868	519	96,387
U.S. Domestic Program	-	199,366	199,366
Total operating expenses	<u>10,843,766</u>	<u>199,885</u>	<u>11,043,651</u>
Net operating income (loss)	18,064,138	(198,423)	17,865,715
Non-interest income and expenses:			
Gains on sales of available-for-sale securities	137,284	-	137,284
Income (expense) from hedging activities, net	6,633,622	-	6,633,622
Income (expense) from foreign exchange activities, net	(573,513)	-	(573,513)
Fees and other income	200,000	-	200,000
Total non-interest income (expense)	<u>6,397,393</u>	<u>-</u>	<u>6,397,393</u>
Income (loss) before program activities	24,461,531	(198,423)	24,263,108
Program activities:			
EPA grant income	652,304	-	652,304
EPA grant administration	(652,304)	-	(652,304)
TAP	(396,542)	-	(396,542)
CAP	(325,249)	-	(325,249)
WCIF	(120,808)	-	(120,808)
Net program expenses	<u>(842,599)</u>	<u>-</u>	<u>(842,599)</u>
Income (loss) before non-controlling interest	23,618,932	(198,423)	23,420,509
Net loss attributable to non-controlling interest	<u>(92)</u>	<u>-</u>	<u>(92)</u>
Net income (loss)	<u>\$ 23,619,024</u>	<u>\$ (198,423)</u>	<u>\$ 23,420,601</u>
General Reserve, January 1, 2016			
Allocated paid-in capital	\$ -	\$ 3,027,256	\$ 3,027,256
Retained earnings	153,390,457	(1,404,426)	151,986,031
Current Period Activity:			
Net income (loss)	23,619,024	(198,423)	23,420,601
TGP disbursements of the U.S. Domestic Program	<u>-</u>	<u>(544,256)</u>	<u>(544,256)</u>
General Reserve, September 30, 2016			
Allocated paid-in capital	-	2,483,000	2,483,000
Retained earnings	<u>177,009,481</u>	<u>(1,602,849)</u>	<u>175,406,632</u>
	<u>\$ 177,009,481</u>	<u>\$ 880,151</u>	<u>\$ 177,889,632</u>

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

North American Development Bank
Combining Statement of Comprehensive Income by Program (Unaudited)
For the Nine Months Ended September 30, 2016

	<u>International Program</u>	<u>U.S. Domestic Program (A)</u>	<u>Total</u>
Income (loss) before non-controlling interest	\$ 23,618,932	\$ (198,423)	\$ 23,420,509
Net loss attributable to non-controlling interest	(92)	-	(92)
Net income (loss)	<u>23,619,024</u>	<u>(198,423)</u>	<u>23,420,601</u>
Other comprehensive income (loss):			
Available-for-sale investment securities:			
Change in unrealized gain during the period, net	2,043,337	-	2,043,337
Reclassification adjustment for net gain included in net income	(137,284)	-	(137,284)
Total unrealized gain on available-for-sale investment securities	<u>1,906,053</u>	<u>-</u>	<u>1,906,053</u>
Foreign currency translation adjustment	101,890	-	101,890
Unrealized gains (losses) on hedging activities:			
Foreign currency translation adjustment, net	(7,148,485)	-	(7,148,485)
Fair value of cross-currency interest rate swaps, net	16,456,077	-	16,456,077
Total unrealized gain on hedging activities	<u>9,307,592</u>	<u>-</u>	<u>9,307,592</u>
Total other comprehensive income	<u>11,315,535</u>	<u>-</u>	<u>11,315,535</u>
Total comprehensive income (loss)	<u>\$ 34,934,559</u>	<u>\$ (198,423)</u>	<u>\$ 34,736,136</u>

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

North American Development Bank
Combining Statement of Cash Flows by Program (Unaudited)
For the Nine Months Ended September 30, 2016

	<u>International Program</u>	<u>U.S. Domestic Program (A)</u>	<u>Total</u>
Cash flows from operating activities			
Net income (loss)	\$ 23,619,024	(198,423)	\$ 23,420,601
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation	95,868	519	96,387
Amortization of net premium (discount) on investments	819,219	-	819,219
Change in fair value of swaps and other non-cash items	50,694,727	-	50,694,727
Non-controlling interest	(92)	-	(92)
Gain on sales of available-for-sale investment securities, net	(137,284)	-	(137,284)
Provision for loan losses	2,071,664	-	2,071,664
Change in other assets and liabilities:			
(Increase) decrease in interest receivable	(2,464,705)	1,817	(2,462,888)
Increase in receivable and other assets	(144,392)	-	(144,392)
Decrease in due from U.S. Domestic Program and decrease due to International Program	21,191	(21,191)	-
Decrease in accounts payable	(1,555,160)	-	(1,555,160)
Increase in accrued liabilities	52,134	100	52,234
Increase in accrued interest payable	3,751,663	-	3,751,663
Net cash provided by (used in) operating activities	<u>76,823,857</u>	<u>(217,178)</u>	<u>76,606,679</u>
Cash flows from lending, investing, and development activities			
Capital expenditures	(319,656)	-	(319,656)
Loan principal repayments	44,231,149	23,600	44,254,749
Loan disbursements	(102,650,923)	-	(102,650,923)
Purchase of held-to-maturity investments	(2,261,000)	-	(2,261,000)
Purchase of available-for-sale investments	(201,164,411)	-	(201,164,411)
Proceeds from maturities of held-to-maturity investments	2,235,000	-	2,235,000
Proceeds from sales and maturities of available-for-sale investments	237,353,489	-	237,353,489
Net cash provided by (used in) lending, investing, and development activities	<u>(22,576,352)</u>	<u>23,600</u>	<u>(22,552,752)</u>
Cash flows from financing activities			
Capital contribution	10,000,000	-	10,000,000
Proceeds from other borrowings	2,216,528	-	2,216,528
Principal repayment of other borrowings	(2,631,000)	-	(2,631,000)
Grant funds - EPA	7,564,408	-	7,564,408
Grant disbursements - EPA	(7,564,400)	-	(7,564,400)
Grant activity - U.S. Domestic Program	-	(544,256)	(544,256)
Net cash provided by (used in) financing activities	<u>9,585,536</u>	<u>(544,256)</u>	<u>9,041,280</u>
Net increase (decrease) in cash and cash equivalents	63,833,041	(737,834)	63,095,207
Cash and cash equivalents at January 1, 2016	113,652,729	1,327,149	114,979,878
Cash and cash equivalents at September 30, 2016	\$ 177,485,770	\$ 589,315	\$ 178,075,085

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

ANNEX 2

PROJECT AND FINANCING CHART

SEPTEMBER 30, 2016

ANNEX 2

NADB-BECC STATUS REPORT
SEPTEMBER 30, 2016

NORTH AMERICAN DEVELOPMENT BANK

ACTIVE PROJECTS BY STATE

September 30, 2016

Project	Population to Benefit ¹	Certification Date	Total Cost	Total NADB Funding			Construction Phase ²			
				Approved	Contracted	Disbursed	Develop.	Construct.	Complete	
UNITED STATES										
ARIZONA										
1	1 Nogales	W	1,178	14-May-15	0.65	0.50	0.50		1	
2	2 Tombstone	W	1,380	16-Jun-16	0.74	0.50	0.50		1	
3	3 Willcox	WW	3,757	14-May-15	11.33	4.62	4.62		1	
	TOTAL ARIZONA		6,315		12.72	5.62	5.62	0.00	3	0
CALIFORNIA										
4	1 Holtville (WWTP)	WW	6,594	24-Feb-14	14.35	6.89	6.89	4.35	1	
	TOTAL CALIFORNIA		6,594		14.35	6.89	6.89	4.35	0	1
NEW MEXICO										
5	1 Anthony	WW	8,700	6-May-16	2.81	2.81	2.81		1	
6	2 Mesilla	W	1,450	23-Nov-15	0.76	0.70	0.70		1	
7	3 Sunland Park (WWTP)	WW	6,438	23-Apr-15	11.70	8.00	8.00		1	
	TOTAL NEW MEXICO		16,588		15.27	11.51	11.51	0.00	3	0
TEXAS										
8	1 Brownsville	WW	2,630	24-Nov-15	29.74	3.63	3.63		1	
9	2 Cameron ID No. 6	WC		16-Dec-08	1.98	0.99	0.99	0.89		1
10	3 Clint	WW	1,099	10-Dec-09	11.56	2.30	2.30	1.72		1
11	4 El Paso County	SD	742,062	4-Sep-09	67.50	53.00	53.00	53.00	1	
12	5 Engelman ID No. 6	WC		30-Oct-07	1.21	0.48	0.48	0.48		1
13	6 Hidalgo ID No. 16	WC		19-Mar-04	3.52	1.38	1.38	0.55	1	
14	7 North Alamo WSC (Hidalgo County)	WW	1,616	16-Jun-16	11.78	1.90	1.90		1	
15	8 Socorro (Cotton Valley)	WW	288	3-Dec-14	1.29	1.29	1.29		1	
16	9 Tornillo (2)	W/WW	3,500	28-Aug-14	3.75	3.75	3.75	0.10	1	
	TOTAL TEXAS		744,692		132.33	68.71	68.71	56.75	2	4
16	TOTAL U.S.		774,189		174.67	92.73	92.73	61.09	8	5

MEXICO

BAJA CALIFORNIA

1	1 Ensenada	W	96,000	6-Dec-12	55.81	31.65	31.65	22.02	1	
2	2 Mexicali	AQ	59,881	8-Dec-11	46.41	7.29	7.29	7.29	1	
3	3 Mexicali (Col. Loma Linda/Esperanza)	WW	2,230	3-Dec-14	1.36	0.59	0.59	0.26		1
4	4 Playas de Rosarito	BUI	90,688	14-May-15	14.56	13.65	13.65	13.65	1	
5	5 Tecate (Col. Piedra Angular)	WW	644	3-Dec-14	0.45	0.45	0.45	0.13		1

**ANNEX 2
ACTIVE PROJECTS BY STATE**

NADB-BECC STATUS REPORT
SEPTEMBER 30, 2016

Project	Population to Benefit ¹	Certification Date	Total Cost	Total NADB Funding			Construction Phase ²			
				Approved	Contracted	Disbursed	Develop.	Construct.	Complete	
6 Tijuana y Rosarito	W/WW	1,373,931	21-Jul-09	29.75	16.09	16.09	12.50		1	
7 Tec.-La Gloria WWTP	WW	187,036	1-Feb-11	8.23	4.13	4.13			1	
8 Tijuana WW 2014	WW	524,908	3-Dec-14	7.05	4.04	4.04	1.89		1	
TOTAL B.C.		1,622,730		148.34	73.77	73.77	57.75	0	6	2

CHIHUAHUA

9 1 Cd. Juarez (South-South)	WW	180,000	10-Dec-09	42.30	17.37	17.37	15.53		1	
10 2 Cd. Juarez	AQ	1,332,131	17-Jul-12	156.36	30.82	30.82	30.82			1
11 3 Cd. Juarez (cogen)	ENE-B		14-May-15	4.11	3.49	3.49	2.77		1	
12 4 Colonia Esperanza	WW	1,267	28-Sep-07	2.18	0.43	0.43	0.43			1
13-15 5 - 7 El Millón, Jesús Carranza & Tres Jacales	WW	1,656	4-May-10	3.65	1.05	1.05	0.93			3
16 8 Los Santos Solar (Ahumada)	SE	21,016	1-Apr-15	Reserved	18.50	18.50	16.44		1	
17 9 Praxedis	W	3,641	8-Dec-11	1.83	0.55	0.55	0.24			1
18 10 San Agustin	W/WW	1,569	8-Nov-12	2.64	0.79	0.79	0.67			1
TOTAL CHIH.		1,361,280		253.07	73.00	73.00	67.81	0	3	7

COAHUILA

19 1 AHMSA (Monclova)	AQ	216,206	13-Aug-15	Reserved	23.20	18.00			1	
20 2 EDPR Wind (Gral. Cepeda)	WE	384,153	5-Nov-15	Reserved	95.00	92.89	54.79			1
21 3 Piedras Negras (2)	WW	65,000	8-May-14	0.24	0.25	0.25	0.12			1
22 4 Sabinas	WW	3,027	6-Nov-15	0.73	0.50	0.50		1		
TOTAL COAH.		668,386		430.97	118.95	111.64	54.90	2	1	1

NUEVO LEÓN

23 1 Monterrey	WW	3,592,474	21-Jun-06	66.34	27.31	27.31	27.31		1	
24 2 Santiago	SD	20,000	9-May-13	0.44	0.40	0.40	0.34			1
State of Nuevo Leon					76.92	7.62	7.62			
25 3 Monterrey	AQ	112,000	3-Dec-14	62.59					1	
26 4 Don Martin ID #004 (Anahuac)	WC	18,480	3-Dec-14	49.79					1	
27 5 Ventika Wind	WE	256,328	19-Feb-14	Reserved	70.00	70.00	68.92			1
28 6 Ventika II Wind	WE	260,832	19-Feb-14	Reserved	70.00	70.00	68.68			1
TOTAL N.L.		4,148,114		832.36	244.63	175.32	172.86	0	3	3

SONORA

29 1 Hermosillo	WW	784,342	1-Apr-11	86.15	47.82	31.57	31.57		1	
30 2 Hermosillo	AQ	154,400	3-May-11	68.25	19.61	19.61	19.61		1	
31 3 Hermosillo	BUI	784,342	9-May-13	66.29	19.10	19.10	14.36		1	
32 4 Naco	AQ	6,108	30-Oct-07	0.91	0.42	0.42	0.42		1	
33 5 San Luis Rio C.	SW	161,795	16-Oct-01	4.01	1.59	1.59	1.59		1	
34 6 San Luis Rio C. (2)	AQ	178,380	17-Sep-13	14.67	8.60	8.60	8.60		1	
35 7 San Luis Rio C. (4)	WW	16,122	8-May-14	6.91	3.46	3.46	1.85		1	
36 8 Sonoyta	WW	12,439	16-Dec-08	4.10	2.30	2.30	1.61		1	
TOTAL SON.		981,269		251.29	102.88	86.63	79.60	0	8	0

**ANNEX 2
ACTIVE PROJECTS BY STATE**

NADB-BECC STATUS REPORT
SEPTEMBER 30, 2016

Project	Population to Benefit ¹	Certification Date	Total Cost	Total NADB Funding			Construction Phase ²			
				Approved	Contracted	Disbursed	Develop.	Construct.	Complete	
TAMAULIPAS										
37	1	Frontera Ribereña	SW	67,035	16-Dec-08	3.43	1.55	1.55	1.55	1
38	2	La Mesa Wind	WE	91,127	5-Feb-15	Reserved	40.00	40.00	40.00	1
39	3	Matamoros (2)	W / WW	160,879	17-Jul-12	69.73	28.79	28.79	28.31	1
40	4	Miguel Alemán (2)	WW	19,230	17-Jul-12	6.25	1.98	1.98	1.38	1
41	5	Nuevo Laredo	AQ	120,000	16-Dec-08	47.49	36.35	36.35	36.35	1
42	6	Nuevo Laredo	BUI	384,033	17-Jul-12	35.52	9.88	9.88	9.88	1
43	7	Nuevo Laredo	WW	86,869	17-Jul-12	5.01	2.90	2.90	2.50	1
44	8	Reynosa (2)	WW	266,853	6-May-16	15.66	7.08	7.08		1
45	9	Tres Mesas Wind	WE	255,424	25-Jun-14	Reserved	55.00	55.00	55.00	1
46	10	Victoria Wind	WE	92,639	5-Feb-15	Reserved	40.00	40.00	40.00	1
		TOTAL TAMP.		1,317,990		837.99	223.52	223.52	214.96	0 8 2
MEXICAN BORDER REGION										
47	1	Mercader Pilot Program	PT		24-Jun-14	11.40	7.04	7.04	7.17	1
48	2	Mercader Bus Program	PT		13-Sep-16	34.98	27.98	27.98	12.56	1
		TOTAL MX Border				46.38	35.02	35.02	19.73	0 2 0
48		TOTAL MEX.		10,099,769		2,800.39	871.77	778.91	667.61	2 31 15
64		TOTAL NADB		10,873,958		2,975.06	964.50	871.64	728.70	10 36 18

1 Populations benefiting from more than one project are only counted once.

2 Projects in development are either under final design, in preparation for bidding or in bidding. Projects that have completed construction may still be considered active because financing is still in process (pending disbursement or deobligation).

AQ = Air quality; BUI = Basic urban infrastructure; ENE-B = Energy from biogas ID = Irrigation district; PT = Public transportation; SD = Storm drainage; SE = Solar energy; SW = Solid waste; W = Water; WC = Water conservation; WE = Wind energy; WW = Wastewater; WWTP = Wastewater treatment plant