

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

MARCH 31, 2020

North American Development Bank (NADB)
Consolidated Financial Statements and Supplementary Information (Unaudited)
March 31, 2020

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North American Development Bank
Consolidated Balance Sheets
As of March 31, 2020 and December 31, 2019

	(Unaudited) March 31, 2020	(Audited) December 31, 2019
Assets		
Cash and cash equivalents:		
Held at other financial institutions in demand deposit accounts	\$ 6,078,443	\$ 406,916
Held at other financial institutions in interest bearing accounts	16,594,920	45,890,923
Repurchase agreements	295,400,000	75,300,000
	<u>318,073,363</u>	<u>121,597,839</u>
Held-to-maturity investment securities, at amortized cost	4,038,722	4,038,722
Available-for-sale investment securities, at fair value	351,716,409	627,900,720
Loans outstanding	1,174,867,152	1,301,746,523
Allowance for loan losses	(19,235,482)	(19,216,845)
Unamortized loan fees	(11,397,441)	(12,284,799)
Foreign currency exchange rate adjustment	(43,257,140)	(33,301,924)
Hedged items, at fair value	(118,145,561)	(62,856,585)
Net loans outstanding	<u>982,831,528</u>	<u>1,174,086,370</u>
Interest receivable	11,272,298	15,987,916
Grant and other receivable	9,240,979	1,310,349
Furniture, equipment and leasehold improvements, net	139,071	167,710
Other assets	105,658,341	62,393,503
Total assets	<u>\$ 1,782,970,711</u>	<u>\$ 2,007,483,129</u>
Liabilities and Equity		
Liabilities:		
Current Liabilities:		
Accounts payable	\$ 1,444,419	\$ 814,012
Accrued liabilities	1,901,374	1,921,177
Accrued interest payable	9,619,357	17,487,066
Undisbursed grant funds	8,932	9,880
Other liabilities	3,772,076	1,466,112
Short-term debt, net of discounts and unamortized debt issuance costs	5,264,000	255,238,795
Hedged item, at fair value	-	357,621
Net short-term debt	<u>5,264,000</u>	<u>255,596,416</u>
Total current liabilities	<u>22,010,158</u>	<u>277,294,663</u>
Long-term Liabilities:		
Long-term post-retirement benefits payable	2,568,519	2,481,519
Long-term debt, net of discounts and unamortized debt issuance costs	1,050,816,104	1,050,594,907
Hedged items, at fair value	11,295,107	(5,851,918)
Net long-term debt	<u>1,062,111,211</u>	<u>1,044,742,989</u>
Total long-term liabilities	<u>1,064,679,730</u>	<u>1,047,224,508</u>
Total liabilities	<u>1,086,689,888</u>	<u>1,324,519,171</u>
Equity:		
Paid-in capital	415,000,000	415,000,000
Retained earnings:		
Designated	9,578,314	10,613,305
Reserved	160,775,452	159,763,504
Undesignated	94,440,384	88,221,692
Accumulated other comprehensive income	16,481,538	9,360,292
Non-controlling interest	5,135	5,165
Total equity	<u>696,280,823</u>	<u>682,963,958</u>
Total liabilities and equity	<u>\$ 1,782,970,711</u>	<u>\$ 2,007,483,129</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 Three Months Ended March 31, 2020 and 2019

	For the Three Months Ended	
	3/31/2020	3/31/2019
Interest income:		
Loans	\$ 15,327,585	\$ 17,204,146
Investments	2,803,432	4,781,370
Total interest income	<u>18,131,017</u>	<u>21,985,516</u>
Interest expense	<u>7,935,035</u>	<u>12,025,811</u>
Net interest income	10,195,982	9,959,705
Operating expenses (income):		
Personnel	3,113,531	3,057,193
General and administrative	493,138	527,376
Consultants and contractors	255,011	87,264
Provision for loan losses	18,637	(715,551)
Other	39,238	(22,426)
Depreciation	28,380	36,011
Total operating expenses	<u>3,947,935</u>	<u>2,969,867</u>
Net operating income	6,248,047	6,989,838
Non-interest and non-operating income (expenses):		
Gain on securities	13,225	6,376
Income (expenses) from hedging activities, net	1,030,195	1,497,778
Fees and other income (expenses), net	(1,086)	14,579
Total non-interest and non-operating income	<u>1,042,334</u>	<u>1,518,733</u>
Income before program activities	7,290,381	8,508,571
Program activities:		
Program income:		
U.S. Environmental Protection Agency (EPA)	754,432	513,233
Other	950	6,016
Total program income	<u>755,382</u>	<u>519,249</u>
Program expenses:		
Operating expenses:		
EPA	488,238	410,803
Other	950	6,016
Grant disbursements	1,360,956	175,384
Total program expenses	<u>1,850,144</u>	<u>592,203</u>
Net program expenses	<u>(1,094,762)</u>	<u>(72,954)</u>
Net income	6,195,619	8,435,617
Non-controlling interest net loss	<u>(30)</u>	<u>(43)</u>
Controlling interest net income	<u>\$ 6,195,649</u>	<u>\$ 8,435,660</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 Three Months Ended March 31, 2020 and Year Ended December 31, 2019

	(Unaudited) Three Months Ended March 31, 2020	(Audited) Year Ended December 31, 2019
Net income	\$ 6,195,619	\$ 29,700,984
Non-controlling interest in net loss	(30)	(137)
Controlling interest in net income	<u>6,195,649</u>	<u>29,701,121</u>
Other comprehensive income (loss):		
Available-for-sale investment securities:		
Change in unrealized gains (losses) during the period, net	1,830,402	4,336,628
Reclassification adjustment for net gains included	(18,198)	(87,852)
Total unrealized gain on available-for-sale investment securities	<u>1,812,204</u>	<u>4,248,776</u>
Foreign currency translation adjustment	(2,199)	(32,997)
Unrealized gains (losses) on hedging activities:		
Foreign currency translation adjustment, net	(9,955,216)	7,214,641
Fair value of cross-currency interest rate swaps, net	15,266,457	(11,194,142)
Total unrealized gain (loss) on hedging activities	<u>5,311,241</u>	<u>(3,979,501)</u>
Total other comprehensive income	<u>7,121,246</u>	<u>236,278</u>
Total comprehensive income	<u>\$ 13,316,895</u>	<u>\$ 29,937,399</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 Three Months Ended March 31, 2020 and Year Ended December 31, 2019

	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest	Total Equity
Beginning balance, January 1, 2019	\$ 415,000,000	\$ 228,897,380	\$ 9,124,014	\$ 5,302	\$ 653,026,696
Net income	-	29,701,121	-	-	29,701,121
Other comprehensive income	-	-	236,278	-	236,278
Non-controlling interest	-	-	-	(137)	(137)
Ending balance, December 31, 2019 (audited)	415,000,000	258,598,501	9,360,292	5,165	682,963,958
Net income	-	6,195,649	-	-	6,195,649
Other comprehensive income	-	-	7,121,246	-	7,121,246
Non-controlling interest	-	-	-	(30)	(30)
Ending balance, March 31, 2020 (unaudited)	<u>\$ 415,000,000</u>	<u>\$ 264,794,150</u>	<u>\$ 16,481,538</u>	<u>\$ 5,135</u>	<u>\$ 696,280,823</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 Three Months Ended March 31, 2020 and 2019

	For the Three Months Ended	
	3/31/2020	3/31/2019
Cash flows from operating activities		
Net income	\$ 6,195,649	\$ 8,435,660
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	28,380	36,011
Amortization of net premiums (discounts) on investments	(941,005)	(1,240,229)
Change in fair value of swaps, hedged items and other non-cash items	45,743,067	(20,543,946)
Non-controlling interest	(30)	(43)
Gains on securities, net	(18,198)	(1,368)
Provision for loan losses	18,637	(715,551)
Long-term postretirement benefits payable	87,000	-
Change in other assets and liabilities:		
(Increase) decrease in interest receivable	4,715,618	(12,027,240)
Increase in receivable and other assets	(7,930,630)	(4,564,863)
Increase in accounts payable	630,407	6,446,236
Decrease in accrued liabilities	(19,803)	(335,640)
Increase (decrease) in accrued interest payable	(7,867,709)	3,832,815
Net cash provided by (used in) operating activities	<u>40,641,383</u>	<u>(20,678,158)</u>
Cash flows from lending, investing, and development activities		
Capital expenditures	-	(13,184)
Loan principal repayments	127,042,259	7,644,763
Loan disbursements	(162,888)	(21,961,813)
Purchase of held-to-maturity investments	-	(650,000)
Purchase of available-for-sale investments	(262,846,134)	(58,468,158)
Proceeds from maturities of held-to-maturity investments	-	543,000
Proceeds from sales and maturities of available-for-sale investments	<u>541,801,852</u>	<u>55,074,121</u>
Net cash provided by (used in) lending, investing, and development activities	<u>405,835,089</u>	<u>(17,831,271)</u>
Cash flows from financing activities		
Principal repayment of notes payable	(250,000,000)	-
Grant funds from the Environmental Protection Agency (EPA)	1,786,030	2,141,516
Grant funds from other sources	-	50,049
Grant disbursements - EPA	(1,786,028)	(2,141,511)
Grant disbursements from other sources	(950)	(6,480)
Net cash provided by (used in) financing activities	<u>(250,000,948)</u>	<u>43,574</u>
Net increase (decrease) in cash and cash equivalents	<u>196,475,524</u>	<u>(38,465,855)</u>
Cash and cash equivalents, beginning of period	<u>121,597,839</u>	<u>175,094,413</u>
Cash and cash equivalents, end of period	<u>\$ 318,073,363</u>	<u>\$ 136,628,558</u>
Supplemental cash information		
Cash paid during the year for interest	\$ 9,188,862	\$ 9,760,348
Significant non-cash transactions		
Foreign currency translation adjustment	\$ (9,955,216)	\$ 1,715,600
Change in fair value of cross-currency interest rate swaps, net	15,266,457	(3,547,396)
Change in fair value of available-for-sales investments, net	1,812,204	2,281,727

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

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
March 31, 2020

1. Organization and Purpose

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

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

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

On June 2, 1998, the Board of Directors adopted a resolution authorizing the Bank to establish a limited-purpose financial institution (*sociedad financiera de objeto limitado*, SOFOL) for the purpose of facilitating Bank lending to the Mexican public sector. In January 1999, the Corporación Financiera de América del Norte, S.A. de C.V. SOFOL (COFIDAN) began operations in Mexico City and, in October 2006, COFIDAN was converted from a SOFOL to a non-regulated, multipurpose financial institution (SOFOM, E.N.R.), and its name was modified to Corporación Financiera de América del Norte, S.A. de C.V. SOFOM E.N.R. As of March 31, 2020, COFIDAN is 99.90% owned by the Bank and 0.10% owned by the Government of Mexico. The accounts of COFIDAN are consolidated with the Bank, and all material intercompany accounts and transactions are eliminated in the consolidation. The non-controlling interest reflected in the consolidated balance sheets and consolidated statements of income represents the ownership of the Government of Mexico through the Ministry of Finance and Public Credit (SHCP).

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates in Financial Statements

The financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) and are presented in a manner consistent with that of an international organization. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
March 31, 2020

2. Summary of Significant Accounting Policies (continued)

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

Principles of Consolidation

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

Cash and Cash Equivalents

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

Repurchase Agreements

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

Investment Securities

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

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

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

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

The accretion of discounts and the amortization of premiums are computed using the interest method. Realized gains and losses are determined using the specific identification method. Investments in a loss position are reviewed to determine whether the unrealized loss, which is considered an impairment, is temporary or other-than-temporary. In the

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
March 31, 2020

2. Summary of Significant Accounting Policies (continued)

event of other-than-temporary impairment, the cost basis of the investment would be written down to its fair value, and the credit component of the loss would be included in current earnings. The Bank had no securities classified as other-than-temporarily impaired at March 31, 2020 and December 31, 2019.

Taxation

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

Furniture, Equipment, and Leasehold Improvements

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

Retained Earnings

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

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

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

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

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

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

Loans and Allowance for Loan Losses

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

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
March 31, 2020

2. Summary of Significant Accounting Policies (continued)

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

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

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

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

The allowance for loan losses is a valuation account used to reasonably estimate loan losses incurred as of the financial statement date. Determining the appropriate allowance for loan losses involves significant judgment about when a loss has been incurred and the amount of that loss. A general allowance is established for all loans. In 2019 the Bank modified the way in which it calculates the general allowance by estimating default rates for each loan using internal credit risk methodologies, along with statistical cumulative recovery rates for each sector.

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

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

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
March 31, 2020

2. Summary of Significant Accounting Policies (continued)

Loan Portfolio Risk Rating

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

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

Government Contributions

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

Program Activities

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

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

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
March 31, 2020

2. Summary of Significant Accounting Policies (continued)

Program expenses also represent grant disbursements funded with previously designated retained earnings of the Bank through its Community Assistance Program (CAP), Water Conservation Investment Fund (WCIF) and Technical Assistance Program (TAP). 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-funded BEIF grant receipts and disbursements reflected in the consolidated statements of cash flows are not reflected in the accompanying consolidated statements of income, as these grants are approved and funded by EPA. The Bank's role is to administer these funds.

Additional information on retained earnings of the Bank is provided in Note 8.

Foreign Currency

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

The lending activities of the Bank include making loans that are denominated in Mexican pesos. For such loans, the Bank enters into cross-currency interest rate swaps that mitigate its exposure to fluctuations in foreign currency exchange rates and interest rates. As of March 31, 2020, 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 Públicos, S.N.C. (Banobras); directly with Banobras outside the FOAEM arrangement; and with nine (9) other financial institutions. The foreign currency translation adjustment on loans denominated in Mexican pesos as of March 31, 2020 and December 31, 2019 was \$(43,257,140) and \$(33,301,924), respectively. Changes in the foreign currency translation adjustment are reported through other comprehensive income.

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

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

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
March 31, 2020

2. Summary of Significant Accounting Policies (continued)

the period, and any fair value adjustments included in other comprehensive income will be recognized in the consolidated statements of income over the remaining life of the loan. If it is probable that the hedged loan repayments will not occur, gains and losses accumulated in other comprehensive income (loss) are recognized immediately in earnings.

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

Fair Value

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

Level 1 – Quoted prices in active markets for identical assets or liabilities, which the reporting entity has the ability to access at the measurement date. This category generally includes U.S. government securities, U.S. agency securities, corporate debt securities, other fixed income securities, and Mexican government securities (UMS).

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. This category generally includes cross-currency interest rate swaps and interest rate swaps.

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

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

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
March 31, 2020

2. Summary of Significant Accounting Policies (continued)

Accumulated Other Comprehensive Income

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

Reclassifications

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

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
March 31, 2020

3. Investments

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

	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
March 31, 2020				
Held-to-maturity:				
U.S. government securities	\$ 3,575,722	\$ 66,513	\$ -	\$ 3,642,235
U.S. agency securities	463,000	1,343	-	464,343
Total held-to-maturity investment securities	4,038,722	67,856	-	4,106,578
Available-for-sale:				
U.S. government securities	237,423,030	3,578,181	(1,679)	240,999,532
U.S. agency securities	18,060,340	332,802	-	18,393,142
Corporate debt securities	58,777,461	358,007	(465,323)	58,670,145
Other fixed-income securities	21,237,636	38,536	(42,856)	21,233,316
Mexican government securities (UMS)	12,486,308	35,661	(101,695)	12,420,274
Total available-for-sale investment securities	347,984,775	4,343,187	(611,553)	351,716,409
Total investment securities	\$ 352,023,497	\$ 4,411,043	\$ (611,553)	\$ 355,822,987
December 31, 2019				
Held-to-maturity:				
U.S. government securities	\$ 3,575,722	\$ 15,800	\$ (5,670)	\$ 3,585,852
U.S. agency securities	463,000	-	(32)	462,968
Total held-to-maturity investment securities	4,038,722	15,800	(5,702)	4,048,820
Available-for-sale:				
U.S. government securities	431,399,709	1,070,888	(57,102)	432,413,495
U.S. agency securities	65,065,747	89,882	(32,206)	65,123,423
Corporate debt securities	89,491,507	559,199	(8,410)	90,042,296
Other fixed-income securities	25,931,037	77,166	(13,054)	25,995,149
Mexican government securities (UMS)	14,093,290	251,701	(18,634)	14,326,357
Total available-for-sale investment securities	625,981,290	2,048,836	(129,406)	627,900,720
Total investment securities	\$ 630,020,012	\$ 2,064,636	\$ (135,108)	\$ 631,949,540

North American Development Bank
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March 31, 2020

3. Investments (continued)

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

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2020						
Held-to-maturity:						
U.S. government securities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. agency securities	-	-	-	-	-	-
Total Held-to-maturity securities	-	-	-	-	-	-
Available-for-sale:						
U.S. government securities	4,248,045	1,679	-	-	4,248,045	1,679
U.S. agency securities	-	-	-	-	-	-
Corporate debt securities	30,841,617	465,323	-	-	30,841,617	465,323
Other fixed-income securities	9,128,977	39,282	2,034,797	3,574	11,163,774	42,856
Mexican government securities (UMS)	8,442,274	101,695	-	-	8,442,274	101,695
Total available-for-sale investment securities	52,660,913	607,979	2,034,797	3,574	54,695,710	611,553
Total temporarily impaired securities	\$ 52,660,913	\$ 607,979	\$ 2,034,797	\$ 3,574	\$ 54,695,710	\$ 611,553
December 31, 2019						
Held-to-maturity:						
U.S. government securities	\$ 1,763,893	\$ 5,670	\$ -	\$ -	\$ 1,763,893	\$ 5,670
U.S. agency securities	462,968	32	-	-	462,968	32
Total Held-to-maturity securities	2,226,861	5,702	-	-	2,226,861	5,702
Available-for-sale:						
U.S. government securities	3,822,874	245	21,249,428	56,857	25,072,302	57,102
U.S. agency securities	-	-	8,765,302	32,206	8,765,302	32,206
Corporate debt securities	3,122,705	1,186	4,992,000	7,224	8,114,705	8,410
Other fixed-income securities	2,664,488	1,339	3,754,812	11,715	6,419,300	13,054
Mexican government securities (UMS)	3,605,000	18,634	-	-	3,605,000	18,634
Total available-for-sale investment securities	13,215,067	21,404	38,761,542	108,002	51,976,609	129,406
Total temporarily impaired securities	\$ 15,441,928	\$ 27,106	\$ 38,761,542	\$ 108,002	\$ 54,203,470	\$ 135,108

None of the unrealized losses identified in the preceding table are considered to be other-than-temporary or related to a credit impairment of an issuer as of March 31, 2020. As of that same date, the Bank did not have the intent to sell any of the securities with unrealized losses and believed that it was more-likely-than-not that the Bank would not be required to sell any such securities before a recovery of cost.

North American Development Bank
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March 31, 2020

3. Investments (continued)

Contractual maturities of investments as of March 31, 2020 and December 31, 2019 are summarized in the following table.

	Held-to-Maturity Securities		Available-for-Sale Securities	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
March 31, 2020				
Less than 1 year	\$ 2,298,253	\$ 2,269,158	\$ 235,569,923	\$ 234,555,089
1-5 years	1,808,325	1,769,564	116,146,486	113,429,686
5-10 years	-	-	-	-
More than 10 years	-	-	-	-
	<u>\$ 4,106,578</u>	<u>\$ 4,038,722</u>	<u>\$ 351,716,409</u>	<u>\$ 347,984,775</u>
December 31, 2019				
Less than 1 year	\$ 1,729,878	\$ 1,718,471	\$ 512,521,292	\$ 512,218,478
1-5 years	2,318,942	2,320,251	115,379,428	113,762,812
5-10 years	-	-	-	-
More than 10 years	-	-	-	-
	<u>\$ 4,048,820</u>	<u>\$ 4,038,722</u>	<u>\$ 627,900,720</u>	<u>\$ 625,981,290</u>

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 three months ended March 31, 2020 and 2019.

	Three Months Ended March 31	
	2020	2019
Held-to-maturity investment securities:		
Proceeds from maturities	\$ -	\$ 543,000
Available-for-sale investment securities:		
Proceeds from sales and maturities	541,801,852	55,074,121
Gross realized gains	23,956	1,368
Gross realized losses	5,758	-

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
March 31, 2020

3. Investments (continued)

The following table sets forth the net unrealized gains (losses) on securities available-for-sale and the reclassification adjustments required for the three months ended March 31, 2020 and the year ended December 31, 2019.

	Three Months Ended March 31, 2020	Year Ended December 31, 2019
Net unrealized gains (losses) on investment securities available-for-sale, beginning of year	\$ 1,919,430	\$ (2,329,346)
Net unrealized gains on investment securities available-for-sale, arising during the year	1,830,402	4,336,628
Reclassification adjustments for net gains on investment securities available-for-sale included in net income	(18,198)	(87,852)
Net unrealized gains on investment securities available-for-sale, end of year	<u>\$ 3,731,634</u>	<u>\$ 1,919,430</u>

4. Loans

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

	March 31, 2020	December 31, 2019
Loan balance	\$ 1,174,867,152	\$ 1,301,746,523
Allowance for loan losses:		
General	(16,834,062)	(16,834,062)
Specific	(2,401,420)	(2,382,783)
Unamortized loan fees	(11,397,441)	(12,284,799)
Foreign currency exchange rate adjustment	(43,257,140)	(33,301,924)
Fair value of hedged items	(118,145,561)	(62,856,585)
Net loans outstanding	<u>\$ 982,831,528</u>	<u>\$ 1,174,086,370</u>

At March 31, 2020 and December 31, 2019, outstanding unfunded loan commitments on signed loan agreements totaled \$103,925,928 and \$99,857,959, respectively. As of March 31, 2020, the Bank had loan agreements under development for an additional \$130,646,886.

The Bank under certain circumstances offered below-market-rate loans. As of March 31, 2020 and December 31, 2019, the Bank had below-market-rate loans outstanding of \$26,371,519 and \$27,438,337, respectively.

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
March 31, 2020

4. Loans (continued)

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

	March 31, 2020	December 31, 2019
Air quality	\$ 76,361,769	\$ 78,483,962
Basic urban infrastructure	34,132,443	34,525,116
Clean energy:		
Solar	315,448,685	429,095,367
Wind	586,340,458	590,585,436
Other	2,790,716	2,945,529
Energy efficiency	162,888	-
Public transportation	38,793,695	42,004,524
Solid waste	2,330,000	2,845,000
Storm drainage	10,398,577	10,713,740
Water and wastewater	108,107,921	110,547,849
	<u>\$ 1,174,867,152</u>	<u>\$ 1,301,746,523</u>

The following table presents the loan portfolio by borrower type as of March 31, 2020 and December 31, 2019.

	March 31, 2020	December 31 2019
Private	\$ 941,584,752	\$ 1,062,617,460
Public	175,642,796	180,595,606
Public-private	57,639,604	58,533,457
	<u>\$ 1,174,867,152</u>	<u>\$ 1,301,746,523</u>

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

The following table presents the loan portfolio by risk category as of March 31, 2020 and December 31, 2019. These risk categories are defined in Note 2, along with additional information on how the Bank evaluates credit quality.

	March 31, 2020	December 31 2019
A-1	\$ 33,301,996	\$ 34,593,756
A-2	257,140,158	355,904,478
A-3	595,036,253	610,206,818
B-1	274,349,262	276,452,024
B-2	-	9,529,283
B-3	839,025	932,135
C	-	-
D	14,037,570	14,128,029
E	-	-
Not Rated	162,888	-
	<u>\$ 1,174,867,152</u>	<u>\$ 1,301,746,523</u>

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
March 31, 2020

4. Loans (continued)

The category “not rated” refers to recently disbursed loans that have not yet been rated.

As of March 31, 2020 and December 31, 2019, the Bank had one non-accrual loan with an outstanding balance of \$14,037,570 and \$14,128,029, respectively.

In July 2018, the Bank restructured a non-accrual loan as a “troubled debt restructuring” with a restructured balance of \$14,976,865 and an extended amortization period. There was no charge-off of principal and interest related to the restructured loan for the year ended December 31, 2018. The specific allowance for this loan totaled \$2,401,420 and \$2,382,783 as of March 31, 2020 and December 31, 2019, respectively.

No non-accrual loans were restructured during the three months ended March 31, 2020 and year ended December 31, 2019. The average impaired loan balance for the three months ended March 31, 2020 and the year ended December 31, 2019 totaled \$14,097,876 and \$14,300,091, respectively.

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

	Loans 30–89 days past due	Loans 90 or more days past due	Total loans 30+ days past due
March 31, 2020	\$ -	\$ -	\$ -
December 31, 2019	-	-	-

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

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
March 31, 2020

4. Loans (continued)

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

	Allowance for Loan Losses			Total Loans Outstanding
	General Allowance	Specific Allowance	Total	
March 31, 2020				
Mexico:				
Construction	\$ 5,386,634	\$ -	\$ 5,386,634	\$ 281,530,782
Operation	8,653,802	2,401,420	11,055,222	680,337,120
Total Mexico	14,040,436	2,401,420	16,441,856	961,867,902
United States				
Construction	2,738	-	2,738	162,888
Operation	2,790,888	-	2,790,888	212,836,362
Total United States	2,793,626	-	2,793,626	212,999,250
	<u>\$ 16,834,062</u>	<u>\$ 2,401,420</u>	<u>\$ 19,235,482</u>	<u>\$ 1,174,867,152</u>
December 31, 2019				
Mexico:				
Construction	\$ 4,877,573	\$ -	\$ 4,877,573	\$ 282,303,028
Operation	8,032,616	2,382,783	10,415,399	692,724,906
Total Mexico	12,910,189	2,382,783	15,292,972	975,027,934
United States				
Construction	47,926	-	47,926	2,845,000
Operation	3,875,947	-	3,875,947	323,873,589
Total United States	3,923,873	-	3,923,873	326,718,589
	<u>\$ 16,834,062</u>	<u>\$ 2,382,783</u>	<u>\$ 19,216,845</u>	<u>\$ 1,301,746,523</u>

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
March 31, 2020

4. Loans (continued)

The following schedule summarizes the allowance for loan losses for the three months ended March 31, 2020 and the year ended December 31, 2019.

	Allowance for Loan Losses				
	Beginning Balance	Specific Provisions	General Provisions	Loan (Charge-offs) Recoveries	Ending Balance
March 31, 2020					
Mexico:					
Construction	\$ 4,877,573	\$ -	\$ 509,061	\$ -	\$ 5,386,634
Operation	10,415,399	18,637	621,186	-	11,055,222
Total Mexico	15,292,972	18,637	1,130,247	-	16,441,856
United States					
Construction	47,926	-	(45,188)	-	2,738
Operation	3,875,947	-	(1,085,059)	-	2,790,888
Total United States	3,923,873	-	(1,130,247)	-	2,793,626
	<u>\$ 19,216,845</u>	<u>\$ 18,637</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,235,482</u>
December 31, 2019					
Mexico:					
Construction	\$ 6,240,336	\$ -	\$ (1,362,763)	\$ -	\$ 4,877,573
Operation	9,440,443	55,682	919,274	-	10,415,399
Total Mexico	15,680,779	55,682	(443,489)	-	15,292,972
United States					
Construction	251,799	-	(203,873)	-	47,926
Operation	3,221,929	-	654,018	-	3,875,947
Total United States	3,473,728	-	450,145	-	3,923,873
	<u>\$ 19,154,507</u>	<u>\$ 55,682</u>	<u>\$ 6,656</u>	<u>\$ -</u>	<u>\$ 19,216,845</u>

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
March 31, 2020

5. Other Assets

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

	Gross Amount	Master Netting Arrangements	Net Amount
March 31, 2020			
Assets			
Cross-currency interest rate swaps	\$ 236,831,733	\$ (60,684,497)	\$ 176,147,236
Interest rate swaps	22,334,862	-	22,334,862
Collateral from swap counterparty	(91,310,000)	-	(91,310,000)
Credit valuation adjustment for swaps	(1,513,758)	-	(1,513,758)
Total other assets	<u>\$ 166,342,837</u>	<u>\$ (60,684,497)</u>	<u>\$ 105,658,340</u>
Liabilities			
Cross-currency interest rate swaps	\$ -	\$ -	\$ -
Interest rate swaps	3,772,076	-	3,772,076
Total other liabilities	<u>\$ 3,772,076</u>	<u>\$ -</u>	<u>\$ 3,772,076</u>
December 31, 2019			
Assets			
Cross-currency interest rate swaps	\$ 146,184,534	\$ (41,851,728)	\$ 104,332,806
Interest rate swaps	3,168,171	(249,065)	2,919,106
Collateral from swap counterparty	(43,950,000)	-	(43,950,000)
Credit valuation adjustment for swaps	(908,410)	-	(908,410)
Total other assets	<u>\$ 104,494,295</u>	<u>\$ (42,100,793)</u>	<u>\$ 62,393,502</u>
Liabilities			
Cross-currency interest rate swaps	\$ 1,000,876	\$ -	\$ 1,000,876
Interest rate swaps	465,236	-	465,236
Total other liabilities	<u>\$ 1,466,112</u>	<u>\$ -</u>	<u>\$ 1,466,112</u>

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
March 31, 2020

6. Debt

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

Issue Date	Maturity Date	Fixed Rate	March 31, 2020				
			Principal Amount	Unamortized Premium/ (Discount)	Unamortized Debt Issuance Costs	Fair Value of Hedged Items	Net Debt
Notes Payable							
<u>USD Issuance</u>							
10/26/12	10/26/22	2.40%	\$ 250,000,000	\$ (220,972)	\$ (382,111)	\$ 8,526,192	\$ 257,923,109
12/17/12	10/26/22	2.40	180,000,000	(972,345)	(242,038)	5,376,163	184,161,780
12/17/12	12/17/30	3.30	50,000,000	-	(184,114)	8,432,508	58,248,394
<u>CHF Issuance</u>							
04/30/15	04/30/25	0.25	128,706,754	417,920	(422,262)	4,259,533	132,961,945
04/26/17	10/26/27	0.20	124,443,117	291,445	(541,586)	5,513,884	129,706,860
07/24/18	07/24/26	0.30	126,415,858	117,990	(642,973)	8,717,726	134,608,601
<u>NOK Issuance</u>							
03/10/17	03/10/32	2.47	173,448,566	-	(473,145)	(29,530,899)	143,444,522
Total notes payable			1,033,014,295	(365,962)	(2,888,229)	11,295,107	1,041,055,211
Other Borrowings							
04/11/14	06/30/20	1.90	526,785	-	-	-	526,785
08/14/14	06/30/20	1.90	2,105,215	-	-	-	2,105,215
08/14/14	12/30/20	1.90	2,632,000	-	-	-	2,632,000
08/14/14	06/30/21	1.90	1,008,985	-	-	-	1,008,985
02/13/15	06/30/21	1.90	1,623,015	-	-	-	1,623,015
02/13/15	12/30/21	1.90	1,470,635	-	-	-	1,470,635
07/29/15	12/30/21	1.90	1,161,365	-	-	-	1,161,365
07/29/15	06/30/22	1.90	266,455	-	-	-	266,455
09/16/16	06/30/22	1.90	2,216,528	-	-	-	2,216,528
03/17/17	06/30/22	1.90	149,017	-	-	-	149,017
03/17/17	12/30/22	1.90	2,632,000	-	-	-	2,632,000
03/17/17	06/30/23	1.90	2,632,000	-	-	-	2,632,000
03/17/17	12/30/23	1.90	2,632,000	-	-	-	2,632,000
03/17/17	06/30/24	1.90	2,632,000	-	-	-	2,632,000
03/17/17	12/30/24	1.90	2,170,720	-	-	-	2,170,720
11/13/17	12/30/24	1.90	461,280	-	-	-	461,280
Total other borrowings			26,320,000	-	-	-	26,320,000
			\$ 1,059,334,295	\$ (365,962)	\$ (2,888,229)	\$ 11,295,107	\$ 1,067,375,211

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
March 31, 2020

6. Debt (continued)

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

Notes Payable

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

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March 31, 2020

6. Debt (continued)

The fair value of the hedges relating to interest rate swaps on a portion of the notes payable denominated in U.S. dollars was reported at March 31, 2020 and December 31, 2019 as other assets of \$22,334,862 and \$2,919,106, respectively. The fair value of the hedges relating to cross-currency interest rate swaps on notes payable not denominated in U.S. dollars was reported at March 31, 2020 and December 31, 2019 as other assets of \$(9,807,095) and \$(3,394,273), respectively. Additional information on the fair value of financial instruments and derivatives is provided in Notes 10 and 11.

Other Borrowings

On November 8, 2012, the Bank signed a loan commitment with another development bank to borrow up to \$50 million to fund eligible projects in Mexico. This loan amortizes semiannually, with the first principal payment paid on December 31, 2015 and final principal payment due on December 31, 2024. As of March 31, 2020 and December 31, 2019, the outstanding balance was \$26,320,000.

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

	March 31, 2020	December 31, 2019
Less than 1 year	\$ 5,264,000	\$ 255,264,000
1–2 years	5,264,000	5,264,000
2–3 years	435,264,000	435,264,000
3–4 years	5,264,000	5,264,000
4–5 years	5,264,000	5,264,000
5–10 years	379,565,729	379,565,729
More than 10 years	223,448,566	223,448,566
Total	<u>\$ 1,059,334,295</u>	<u>\$ 1,309,334,295</u>

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

	March 31, 2020	December 31, 2019
Short-term debt:		
Notes payable	\$ –	\$ 250,000,000
Other borrowings	5,264,000	5,264,000
Total short-term debt	<u>5,264,000</u>	<u>255,264,000</u>
Long-term debt:		
Notes payable	1,033,014,295	1,033,014,295
Other borrowings	21,056,000	21,056,000
Total long-term debt	<u>1,054,070,295</u>	<u>1,054,070,295</u>
Total debt	<u>\$ 1,059,334,295</u>	<u>\$ 1,309,334,295</u>

North American Development Bank
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March 31, 2020

7. Equity

Subscribed Capital

At March 31, 2020 and December 31, 2019, the shareholders of the Bank had subscribed 600,000 shares of capital stock, with a par value of \$10,000 per share. As defined in the Charter, capital includes unqualified and qualified subscribed shares. Qualified subscribed shares are subject to the necessary legal requirements of each subscribing country. Unqualified subscribed shares have either been funded or authorized for purchase by the subscribing country. Capital is further classified as callable or paid-in capital at March 31, 2020 and December 31, 2019 as shown in the following table.

	Mexico		United States		Total	
	Shares	USD Thousand	Shares	USD Thousand	Shares	USD Thousand
Subscribed capital	300,000	\$ 3,000,000	300,000	\$ 3,000,000	600,000	\$ 6,000,000
Less:						
Qualified callable capital	(121,833)	(1,218,330)	(127,500)	(1,275,000)	(249,333)	(2,493,330)
Unqualified callable capital	(133,167)	(1,331,670)	(127,500)	(1,275,000)	(260,667)	(2,606,670)
Qualified paid-in capital	(21,500)	(215,000)	(22,500)	(225,000)	(44,000)	(440,000)
Total funded paid-in capital	23,500	235,000	22,500	225,000	46,000	460,000
Less transfer to General Reserve for Domestic Programs	-	(22,500)	-	(22,500)	-	(45,000)
Total paid-in capital	23,500	\$ 212,500	22,500	\$ 202,500	46,000	\$ 415,000

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

As permitted in the Charter, 10% of each country's initial subscription of paid-in and callable capital was set aside to finance community adjustment and investment programs. Accordingly, the Bank approved transfers in prior years of \$45,000,000, equal to 10% of the paid-in capital of \$450,000,000 from the initial subscriptions, to support these programs. As of June 29, 1999, the paid-in capital of the Mexican Domestic Program was fully transferred to Mexico. As of December 31, 2018, the paid-in capital of the U.S. Domestic Program was fully disbursed or expended as endorsed by the Finance Committee appointed by the U.S. Government for this program.

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

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7. Equity (continued)

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

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

On September 26, 2016, Mexico made its first contribution of additional paid-in capital of \$10,000,000 or 1,000 shares and unqualified \$56,670,000 or 5,667 callable capital shares in accordance with Board Resolution (BR) 2015-24.

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

In accordance with BR 2015-24, the remaining subscriptions shall be made in several installments by 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)
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7. Equity (continued)

Retained Earnings

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

	March 31, 2020	December 31, 2019
Designated retained earnings		
Water Conservation Investment Fund (WCIF)	\$ 95,594	\$ 95,594
Technical Assistance Program (TAP)	2,647,846	2,802,305
Community Assistance Program (CAP)	6,834,874	7,715,406
Total designated retained earnings	<u>9,578,314</u>	<u>10,613,305</u>
Reserved retained earnings		
Debt Service Reserve	38,290,000	38,290,000
Operating Expenses Reserve	22,824,324	21,812,376
Special Reserve	30,000,000	30,000,000
Capital Preservation Reserve	69,661,128	69,661,128
Total reserved retained earnings	<u>160,775,452</u>	<u>159,763,504</u>
Undesignated retained earnings		
Operations	86,389,779	81,145,125
Mark-to-Market Hedge Valuations	8,050,605	7,076,567
Total undesignated retained earnings	<u>94,440,384</u>	<u>88,221,692</u>
Total retained earnings	<u>\$ 264,794,150</u>	<u>\$ 258,598,501</u>

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

North American Development Bank
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March 31, 2020

7. Equity (continued)

Accumulated Other Comprehensive Income

The following table presents the changes in accumulated other comprehensive income for the three months ended March 31, 2020 and year ended December 31, 2019.

	Beginning Balance	Period Activity	Ending Balance
March 31, 2020			
Net unrealized gain on available-for-sale investment securities	\$ 1,919,430	\$ 1,812,204	\$ 3,731,634
Foreign currency translation adjustment	304,250	(2,199)	302,051
Unrealized gain (loss) on hedging activities:			
Foreign currency translation adjustment	(33,301,924)	(9,955,216)	(43,257,140)
Fair value of cross-currency interest rate swaps	40,438,536	15,266,457	55,704,993
Net unrealized gain on hedging activities	7,136,612	5,311,241	12,447,853
Total accumulated other comprehensive gain	<u>\$ 9,360,292</u>	<u>\$ 7,121,246</u>	<u>\$ 16,481,538</u>
December 31, 2019			
Net unrealized gain (loss) on available-for-sale investment securities	\$ (2,329,346)	\$ 4,248,776	\$ 1,919,430
Foreign currency translation adjustment	337,247	(32,997)	304,250
Unrealized gain (loss) on hedging activities:			
Foreign currency translation adjustment	(40,516,565)	7,214,641	(33,301,924)
Fair value of cross-currency interest rate swaps	51,632,678	(11,194,142)	40,438,536
Net unrealized gain (loss) on hedging activities	11,116,113	(3,979,501)	7,136,612
Total accumulated other comprehensive gain	<u>\$ 9,124,014</u>	<u>\$ 236,278</u>	<u>\$ 9,360,292</u>

North American Development Bank
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8. Program Activities

Program activities are comprised of the following:

	Three Months ended March 31,	
	2020	2019
Program income		
EPA grant income:		
Border Environment Infrastructure Fund (BEIF):	\$ 263,095	\$ 188,075
Project Development Assistance Program (PDAP)	364,023	165,910
U.S. Mexico Border 2020 Program (Border 2020)	127,314	159,248
Total EPA grant income	754,432	513,233
Other grant income	950	6,016
Total program income	755,382	519,249
Program expenses		
Reimbursed administrative expenses:		
EPA:		
BEIF	263,095	188,075
PDAP	161,630	147,515
Border 2020	63,513	75,213
Total EPA reimbursed administrative expenses	488,238	410,803
Other	950	6,016
Total reimbursed administrative expenses	489,188	416,819
Grant disbursements		
EPA:		
PDAP	202,393	18,395
Border 2020	79,596	138,975
Total EPA grant disbursements	281,989	157,370
Community Assistance Program (CAP)	880,532	-
Technical Assistance Program (TAP)	154,459	18,014
Utility Management Institute (UMI)	43,976	-
Total grant disbursements	1,360,956	175,384
Total program expenses	1,850,144	592,203
Net program expenses	\$ 1,094,762	\$ 72,954

Border Environment Infrastructure Fund (BEIF)

The Bank administers grant funds from EPA through the BEIF. EPA grant awards since the initial grant made in April 1997 to March 31, 2020, total \$721,002,335. Under the terms of the grants, the Bank reviews and submits prospective projects to EPA. EPA approves the projects and they are subsequently certified for financing by the Board of Directors. EPA then disburses funds to the Bank, which directs the grant monies to the specified project. The Bank also oversees progress and compliance requirements for EPA and receives an allocation of the EPA grant funds for administrative expenses incurred.

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
March 31, 2020

8. Program Activities (continued)

As of March 31, 2020, EPA has approved project funding proposed by the Bank totaling \$684,055,974, of which \$651,433,012 has been disbursed through the Bank. The Bank recognized \$263,095 and \$188,075 as reimbursement of expenses incurred for the three months ended March 31, 2020 and 2019, respectively. These funds have been recorded as program revenue and expenses in the consolidated statements of income.

Water Conservation Investment Fund (WCIF)

In August 2002, the Board of Directors established the WCIF to finance water conservation projects in the U.S.-Mexico border region and designated \$80,000,000 of the Bank's undesignated retained earnings to the program. Of that amount, \$40,000,000 was reserved exclusively for water conservation projects in each country. For the three months ended March 31, 2020 and 2019, no funds were disbursed under this program. As of March 31, 2020 and December 31, 2019, cumulative disbursements total \$38,239,378 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. As of March 31, 2020 and December 31, 2019, a cumulative total of \$1,674,621 in uncommitted WCIF funds was transferred to the CAP program.

Community Assistance Program (CAP)

In February 2011, the Board of Directors approved a grant program to support public projects in all sectors eligible for Bank financing. The CAP program is funded from the Bank's undesignated retained earnings as authorized by the Board. As of March 31, 2020, a cumulative total of \$14,092,840 has been allocated to the CAP. For the three months ended March 31, 2020 and 2019, \$880,532 and \$0, respectively, were disbursed under this program. These disbursements were funded with previously designated retained earnings and have been reported as a program expense.

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. For the three months ended March 31, 2020 and 2019, \$154,459 and \$18,014, respectively, was disbursed under this program. These disbursements were funded with previously designated retained earnings and have been reported as a program expense.

As part of its technical assistance program, the Utility Management Institute (UMI) provides water utility managers and their staff with an opportunity for ongoing professional development aimed at enhancing their managerial and financial skills. For the three months ended March 31, 2020 and 2019, \$43,976 and \$0, respectively were expended under this program.

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
March 31, 2020

8. Program Activities (continued)

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

Project Development Assistance Program (PDAP). The Bank administers grants from EPA, on a reimbursement basis, to assist communities in the development of water and wastewater projects that have been prioritized by EPA to receive BEIF grants. For the three months ended March 31, 2020 and 2019, the Bank recognized \$202,393 and \$18,395, respectively, in technical assistance expenses, as well as \$161,630 and \$147,515 in grant administrative expenses, respectively. These funds have been recorded as program revenue and expenses in the consolidated statement of income.

Border 2020: U.S.-Mexico Environmental Program. The Bank administers grants from EPA, on a reimbursement basis, to support joint efforts of the two governments to improve the environment and protect the health of residents within 100 kilometers of the U.S.-Mexico border. The Bank provides logistical and administrative services to identify, contract and manage projects and workshops funded under the program. For the three months ended March 31, 2020 and 2019, the Bank recognized \$79,596 and \$138,975, respectively, in technical assistance expenses, as well as \$63,513 and \$75,213 in grant administrative expenses, respectively. These funds have been recorded as program revenue and expenses in the consolidated statement of income.

9. Employee Benefits

401(a) Retirement Plan

The Bank has a 401(a) Retirement Plan for its employees. This plan provides for employee and nondiscretionary employer contributions. For the three months ended March 31, 2020 and 2019, the Bank expended \$281,910 and \$277,905, respectively, relating to the plan.

Post-retirement Health Insurance Plan

The Bank has a post-retirement health insurance plan for qualifying employees based on number of years of service and age. Qualified retirees may purchase group health insurance coverage at the current employee rate subject to the plan limits. During 2019, an actuarial study of the plan was performed by a certified third party to estimate the prior, current and long-term benefit obligation as of December 31, 2019. The plan is funded by the Bank as benefits are paid. The Bank paid benefits of \$5,935 and \$5,901 for the three months ended March 31, 2020 and 2019, respectively. As of March 31, 2020, the unfunded portion of the plan totaled \$2,599,584 and is reflected in the consolidated balance sheet as a component of accrued liability and long-term liability of \$31,065 and \$2,568,519, respectively. As of December 31, 2019, the unfunded portion of the plan totaled \$2,518,519 and is reflected in the consolidated balance sheet as a component of accrued liability and long-term liability of \$37,000 and \$2,481,519, respectively.

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9. Employee Benefits (continued)

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

	March 31, 2020	December 31, 2019
Beginning balance	\$ 2,518,519	\$ -
Prior service expense	-	2,448,000
Current period service expense	66,750	67,000
Interest expense	20,250	20,000
Net benefits paid	(5,935)	(16,481)
Ending balance	<u>\$ 2,599,584</u>	<u>\$ 2,518,519</u>

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

	March 31, 2020	December 31, 2019
Beginning balance	\$ -	\$ -
Employer contributions	5,935	16,481
Net benefits paid	(5,935)	(16,481)
Ending balance	<u>\$ -</u>	<u>\$ -</u>

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

	March 31, 2020	December 31, 2019
Current liabilities	\$ 31,065	\$ 37,000
Non-current liabilities	2,568,519	2,481,519
Total	<u>\$ 2,599,584</u>	<u>\$ 2,518,519</u>

The net periodic benefit cost of the post-retirement health plan for the three months ended March 31, 2020 and 2019 is presented in the following table.

	Three Months Ended March 31,	
	2020	2019
Service expense	\$ 66,750	\$ -
Interest expense	20,250	-
Total	<u>\$ 87,000</u>	<u>\$ -</u>

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

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
March 31, 2020

9. Employee Benefits (continued)

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

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

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

April 1 - December 31, 2020	\$ 31,065
Year ended:	
December 31, 2021	61,000
December 31, 2022	68,000
December 31, 2023	82,000
December 31, 2024	117,000
December 31, 2025 thru December 31, 2029	990,000

10. Fair Value of Financial Instruments

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

Cash and Cash Equivalents

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

Securities Held-to-Maturity

Securities classified as held-to-maturity are reported at amortized costs. For these securities, the Bank obtains fair value measurements from an independent pricing service, which are based on prices quoted for the exact or like-kind instrument.

Securities Available-for-Sale

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

10. Fair Value of Financial Instruments (continued)

Loans Receivable and Interest Receivable

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

Hedged Items for Loans

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

Cross-currency Interest Rate Swaps

Cross-currency interest rate swaps are reported at fair value using Level 2 observable inputs. The fair value of these swaps is estimated based on discounting procedures, whereby each cash flow stream is discounted using the benchmark swap curve of the respective currency and converting the resulting net present value at the spot exchange rate, as well as other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The Bank's cross-currency interest rate swaps are all Mexican-peso for U.S.-dollar operations except for four (4) debt issuances in foreign currencies for U.S.-dollar operations. Cash flows in Mexican pesos are discounted using the TIIE 28-day swap curve. Cash flows in Swiss francs (CHF) are discounted using the CHF swap curve. Cash flows in Norwegian krone (NOK) are discounted using the NOK swap curve. Cash flows in U.S. dollars are discounted using the USD OIS curve.

Interest Rate Swaps

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

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.

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10. Fair Value of Financial Instruments (continued)

Hedged Items for Notes Payable

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

Long-term post-retirement benefits payable

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

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

	March 31, 2020		December 31, 2019	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets				
Cash and cash equivalents	\$ 318,073,363	\$ 318,073,363	\$ 121,597,839	\$ 121,597,839
Held-to-maturity securities	4,038,722	4,106,578	4,038,722	4,048,820
Available-for-sale securities	351,716,409	351,716,409	627,900,720	627,900,720
Loans, net	982,831,528	1,067,225,642	1,174,086,370	1,239,969,203
Interest receivable	11,272,298	11,272,298	15,987,916	15,987,916
Cross-currency interest rate swaps	176,147,236	176,147,236	104,332,806	104,332,806
Interest rate swaps	22,334,862	22,334,862	2,919,106	2,919,106
Liabilities				
Accrued interest payable	9,619,357	9,619,357	17,487,066	17,487,066
Short-term debt, net	5,264,000	5,264,000	255,238,795	255,238,888
Long-term debt, net	1,050,816,104	1,051,390,931	1,050,594,907	1,050,357,445
Long-term post-retirement benefits payable	2,568,519	2,568,519	2,481,519	2,481,519
Cross-currency interest rate swaps	-	-	1,000,876	1,000,876
Interest rate swaps	3,772,076	3,772,076	465,236	465,236

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
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10. Fair Value of Financial Instruments (continued)

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

	Fair Value Measurements Using			Total Fair Value
	Level 1	Level 2	Level 3	
March 31, 2020				
Assets				
Available-for-sale (AFS) securities:				
U.S. government securities	\$ 240,999,532	\$ -	\$ -	\$ 240,999,532
U.S. agency securities	18,393,142	-	-	18,393,142
Corporate debt securities	58,670,145	-	-	58,670,145
Other fixed-income securities	21,233,316	-	-	21,233,316
Mexican government securities (UMS)	12,420,274	-	-	12,420,274
Total AFS securities	351,716,409	-	-	351,716,409
Cross-currency interest rate swaps	-	176,147,236	-	176,147,236
Interest rate swaps	-	22,334,862	-	22,334,862
Hedged items for loans	-	-	(118,145,561)	(118,145,561)
Total assets at fair value	<u>\$ 351,716,409</u>	<u>\$ 198,482,098</u>	<u>\$ (118,145,561)</u>	<u>\$ 432,052,946</u>
Liabilities				
Cross-currency interest rate swaps	\$ -	\$ -	\$ -	\$ -
Interest rate swaps	-	3,772,076	-	3,772,076
Hedged item for notes payable	-	-	11,295,107	11,295,107
Total liabilities at fair value	<u>\$ -</u>	<u>\$ 3,772,076</u>	<u>\$ 11,295,107</u>	<u>\$ 15,067,183</u>
December 31, 2019				
Assets				
Available-for-sale (AFS) securities:				
U.S. government securities	\$ 432,413,495	\$ -	\$ -	\$ 432,413,495
U.S. agency securities	65,123,423	-	-	65,123,423
Corporate debt securities	90,042,296	-	-	90,042,296
Other fixed-income securities	25,995,149	-	-	25,995,149
Mexican government securities (UMS)	14,326,357	-	-	14,326,357
Total AFS securities	627,900,720	-	-	627,900,720
Cross-currency interest rate swaps	-	104,332,806	-	104,332,806
Interest rate swaps	-	2,919,106	-	2,919,106
Hedged items for loans	-	-	(62,856,585)	(62,856,585)
Total assets at fair value	<u>\$ 627,900,720</u>	<u>\$ 107,251,912</u>	<u>\$ (62,856,585)</u>	<u>\$ 672,296,047</u>
Liabilities				
Cross-currency interest rate swaps	\$ -	\$ 1,000,876	\$ -	\$ 1,000,876
Interest rate swaps	-	465,236	-	465,236
Hedged item for notes payable	-	-	(5,494,297)	(5,494,297)
Total liabilities at fair value	<u>\$ -</u>	<u>\$ 1,466,112</u>	<u>\$ (5,494,297)</u>	<u>\$ (4,028,185)</u>

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Notes to Consolidated Financial Statements (Unaudited)
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10. Fair Value of Financial Instruments (continued)

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

	Fair Value of Level 3 Instruments		
	Cross-currency Interest Rate Swaps	Interest Rate Swaps	Hedged Items
Assets			
Beginning balance, January 1, 2020	\$ -	\$ -	\$ (62,856,585)
Total realized and unrealized gains (losses):			
Included in earnings (expenses)	-	-	(55,288,976)
Included in other comprehensive income (loss)	-	-	-
Purchases	-	-	-
Settlements	-	-	-
Transfers in/out of Level 3	-	-	-
Ending balance, March 31, 2020	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (118,145,561)</u>
Beginning balance, January 1, 2019	\$ 187,560,968	\$ -	\$ (155,900,516)
Total realized and unrealized gains (losses):			
Included in earnings (expenses)	(69,989,016)	2,919,106	93,043,931
Included in other comprehensive income (loss)	(11,194,142)	-	-
Purchases	-	-	-
Settlements	(2,045,004)	-	-
Transfers in/out of Level 3	(104,332,806)	(2,919,106)	-
Ending balance, December 31, 2019	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (62,856,585)</u>
Liabilities			
Beginning balance, January 1, 2020	\$ -	\$ -	\$ (5,494,297)
Total realized and unrealized (gains) losses:			
Included in (earnings) expenses	-	-	16,789,404
Included in other comprehensive income	-	-	-
Purchases	-	-	-
Settlements	-	-	-
Transfers in/out of Level 3	-	-	-
Ending balance, March 31, 2020	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,295,107</u>
Beginning balance, January 1, 2019	\$ -	\$ 7,257,372	\$ (33,204,590)
Total realized and unrealized (gains) losses:			
Included in (earnings) expenses	1,000,876	(6,792,136)	27,710,293
Included in other comprehensive income	-	-	-
Purchases	-	-	-
Settlements	-	-	-
Transfers in/out of Level 3	(1,000,876)	(465,236)	-
Ending balance, December 31, 2019	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (5,494,297)</u>

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10. Fair Value of Financial Instruments (continued)

The Bank did not enter into any cross-currency interest rate swaps or interest rate swaps during the three months ended March 31, 2020. 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 or non-recurring basis as of March 31, 2020 and December 31, 2019.

11. Derivative Financial Instruments

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

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

The Bank enters into interest rate swaps that are matched to the terms of loans and 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.

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 \$91,310,000 and \$43,950,000 was posted from counterparties to the Bank as of March 31, 2020 and December 31, 2019, respectively. No collateral was posted by the Bank as of those same dates.

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11. Derivative Financial Instruments (continued)

The notional amounts and estimated fair values of the swaps outstanding at March 31, 2020 and December 31, 2019 are presented in the following table. The fair value of these swaps is estimated using internal valuation models with observable market data inputs.

	March 31, 2020		December 31, 2019	
	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
Cross-currency interest rate swaps	\$ 1,008,265,110	\$ 176,147,236	\$ 1,018,903,740	\$ 103,331,930
Interest rate swaps	639,209,418	18,562,786	951,401,589	2,453,870

The referenced exchange rate received for the cross-currency interest rate swaps outstanding at March 31, 2020 and December 31, 2019 was 4.22% and 5.28%, 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 March 31, 2020 and December 31, 2019.

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 \$12,447,853 and \$7,136,612 at March 31, 2020 and December 31, 2019, respectively.

Gains or losses due to changes in the fair value of cross-currency interest rate swaps designated as fair value hedges and ineffective swaps are reported in income (expense) from net hedging activities. For the three months ended March 31, 2020 and 2019, changes in the aforementioned swaps included in the accompanying consolidated statements of income were \$1,030,195 and \$1,227,655, 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 three months ended March 31, 2020 and 2019, changes in the aforementioned swaps included in the accompanying consolidated statements of income were \$0.

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12. Credit Risk Associated with Financial Instruments

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

13. Commitments

In the normal course of business, the Bank has various outstanding commitments, in addition to the loans receivable disclosed in Note 4 and the long-term borrowings disclosed in Note 6. Under agreements with consultants and contractors in effect at March 31, 2020, the Bank has obligations to make payments contingent upon the future performance of the consultants and contractors under the terms of their respective contracts and, therefore, they are not recorded in the financial statements.

Lease Commitments

The Bank rents office space for its headquarters in San Antonio, Texas, under an operating lease that expires on February 28, 2026. The Bank also rents office space for its Juarez Office under an operating lease that expires on April 3, 2021. Rent expense totaled \$56,091 and \$82,354 for the three months ended March 31, 2020 and 2019, respectively. The following schedule summarizes the minimum future expenses for the forgoing leases.

April 1 - December 31, 2020	\$	258,330
Year-ended:		
December 31, 2021		235,230
December 31, 2022		229,712
December 31, 2023		232,493
December 31, 2024		239,436
December 31, 2025		240,732
Thereafter		40,122
	\$	<u>1,476,055</u>

14. Accounting Standards Updates

Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. ASU 2016-02, among other things, require lessees to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis, and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. ASU 2016-02 does not significantly change lease

14. Accounting Standards Updates (continued)

accounting requirements applicable to lessors; however, certain changes were made to align, where necessary, lessor accounting with the lessee accounting model and ASC Topic 606: *Revenue from Contracts with Customers*. ASU 2016-02 will be effective for the Bank on January 1, 2021 and will require transition using a modified retrospective approach for leases existing at or entered into after, the beginning of the earliest comparative period presented in the financial statements.

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

ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. In addition, ASU 2016-13 amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. ASU 2016-13 will be effective for the Bank on January 1, 2023. The Bank is evaluating the potential impact of ASU 2016-13 to its consolidated financial statements.

ASU 2017-12, *Derivatives and Hedging (Topic 815) – Targeted Improvements to Accounting for Hedging Activities*. ASU 2017-12 amends the hedge accounting recognition and presentation requirements in ASC 815 to improve the transparency and understandability of information conveyed to financial statement users about an entity's risk management activities to better align the entity's financial reporting for hedging relationships with those risk management activities and to reduce the complexity of and simplify the application of hedge accounting. ASU 2017-12 will be effective for the Bank on January 1, 2021. The Bank is evaluating the potential impact of ASU 2017-12 to its consolidated financial statements.

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

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15. Subsequent Event

On April 23, 2020, the United States made its first contribution of the additional paid-in capital of \$10,000,000 or 1,000 shares. On April 25, 2020, the United States unqualified \$10,000,000 or 1,000 shares of paid-in capital and \$56,670,000 or 5,667 shares of callable capital shares in accordance with Board Resolution 2015-24.

Supplementary Information

North American Development Bank
Statement of Income of NADB Office in Juarez, Chihuahua (Unaudited)
For the Three Months Ended March 31, 2020

	EPA		Other Grants	Operation	Total
	PDAP	Border 2020			
Income:					
U.S. Environmental Protection Agency:					
Project Development Assistance Program (PDAP)					
grant income	\$ 364,023	\$ -	\$ -	\$ -	\$ 364,023
U.S.-Mexico Border 2020 Program grant income	-	127,314	-	-	127,314
Other income	-	-	950	199	1,149
Total income	<u>364,023</u>	<u>127,314</u>	<u>950</u>	<u>199</u>	<u>492,486</u>
Operating expenses:					
Personnel	142,084	47,807	751	768,607	959,249
General and administrative	18,662	13,136	199	91,345	123,342
Consultants	884	2,570	-	8,228	11,682
Depreciation	-	-	-	2,276	2,276
Total operating expenses	<u>161,630</u>	<u>63,513</u>	<u>950</u>	<u>870,456</u>	<u>1,096,549</u>
Income (loss) before program activities	202,393	63,801	-	(870,257)	(604,063)
Technical assistance disbursements	<u>202,393</u>	<u>79,596</u>	<u>-</u>	<u>198,435</u>	<u>480,424</u>
Net income (loss)	<u>\$ -</u>	<u>\$ (15,795)</u>	<u>\$ -</u>	<u>\$ (1,068,692)</u>	<u>\$ (1,084,487)</u>