

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

SEPTEMBER 30, 2020

North American Development Bank (NADB)
Consolidated Financial Statements and Supplementary Information (Unaudited)
September 30, 2020

Contents

Consolidated Financial Statements

Consolidated Balance Sheets	2
Consolidated Statements of Income	3
Consolidated Statements of Comprehensive Income	4
Consolidated Statement of Changes in Equity	5
Consolidated Statements of Cash Flows.....	6
Notes to Consolidated Financial Statements.....	7

Supplementary Information

Statement of Income by Program.....	45
-------------------------------------	----

North American Development Bank
Consolidated Balance Sheets
As of September 30, 2020 and December 31, 2019

	(Unaudited) September 30, 2020	(Audited) December 31, 2019
Assets		
Cash and cash equivalents:		
Held at other financial institutions in demand deposit accounts	\$ 2,846,540	\$ 406,916
Held at other financial institutions in interest bearing accounts	24,965,372	45,890,923
Repurchase agreements	21,270,000	75,300,000
	<u>49,081,912</u>	<u>121,597,839</u>
Held-to-maturity investment securities, at amortized cost	4,119,146	4,038,722
Available-for-sale investment securities, at fair value	935,526,885	627,900,720
Loans outstanding	1,136,195,034	1,301,746,523
Allowance for loan losses	(19,235,482)	(19,216,845)
Unamortized loan fees	(10,318,153)	(12,284,799)
Foreign currency exchange rate adjustment	(52,533,918)	(33,301,924)
Hedged items, at fair value	(68,831,197)	(62,856,585)
Net loans outstanding	<u>985,276,284</u>	<u>1,174,086,370</u>
Interest receivable	10,352,614	15,987,916
Grant and other receivable	6,055,242	1,310,349
Furniture, equipment and leasehold improvements, net	135,409	167,710
Other assets	<u>131,134,818</u>	<u>62,393,503</u>
Total assets	<u>\$ 2,121,682,310</u>	<u>\$ 2,007,483,129</u>
Liabilities and Equity		
Liabilities:		
Current Liabilities:		
Accounts payable	\$ 711,618	\$ 814,012
Accrued liabilities	2,026,042	1,921,177
Accrued interest payable	8,097,156	17,487,066
Undisbursed grant funds	8,912	9,880
Other liabilities	7,741,550	1,466,112
Deferred U.S. capital contribution	165,000,000	-
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>188,849,278</u>	<u>277,294,663</u>
Long-term Liabilities:		
Long-term post-retirement benefits payable	2,707,924	2,481,519
Long-term debt, net of discounts and unamortized debt issuance costs	1,119,903,752	1,050,594,907
Foreign currency exchange rate adjustment	17,265,579	-
Hedged items, at fair value	37,544,977	(5,851,918)
Net long-term debt	<u>1,174,714,308</u>	<u>1,044,742,989</u>
Total long-term liabilities	<u>1,177,422,232</u>	<u>1,047,224,508</u>
Total liabilities	<u>1,366,271,510</u>	<u>1,324,519,171</u>
Equity:		
Paid-in capital	475,000,000	415,000,000
General Reserve:		
Retained earnings:		
Designated	8,683,433	10,613,305
Reserved	160,775,452	159,763,504
Undesignated	97,784,674	88,221,692
Accumulated other comprehensive income	13,162,130	9,360,292
Non-controlling interest	5,111	5,165
Total equity	<u>755,410,800</u>	<u>682,963,958</u>
Total liabilities and equity	<u>\$ 2,121,682,310</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 Nine Months Ended September 30, 2020 and 2019

	For the Nine Months Ended	
	9/30/2020	9/30/2019
Interest income:		
Loans	\$ 39,214,112	\$ 50,297,598
Investments	5,863,608	14,395,475
Total interest income	<u>45,077,720</u>	<u>64,693,073</u>
Interest expense	<u>17,354,014</u>	<u>34,804,744</u>
Net interest income	27,723,706	29,888,329
Operating expenses (income):		
Personnel	9,502,528	9,585,873
General and administrative	1,229,416	1,658,963
Consultants and contractors	981,286	1,300,270
Provision for loan losses	18,637	(944,310)
Other	(370,046)	10,335
Depreciation	84,005	99,419
Total operating expenses	<u>11,445,826</u>	<u>11,710,550</u>
Net operating income	16,277,880	18,177,779
Non-interest and non-operating income (expenses):		
Gain on securities	51,441	83,883
Income (expenses) from hedging activities, net	(7,154,408)	4,577,231
Fees and other income (expenses), net	19,134	256,760
Swap and debt settlements, net	(2,623,578)	-
Total non-interest and non-operating income (expense)	<u>(9,707,411)</u>	<u>4,917,874</u>
Income before program activities	6,570,469	23,095,653
Program activities:		
Program income	6,712,686	6,620,973
Program expenses:		
Operating expenses	1,630,809	1,467,216
Grant disbursements	3,007,342	1,383,975
Total program expenses	<u>4,638,151</u>	<u>2,851,191</u>
Net program income (expense)	<u>2,074,535</u>	<u>3,769,782</u>
Net income	8,645,004	26,865,435
Non-controlling interest net loss	<u>(54)</u>	<u>(74)</u>
Controlling interest net income	<u>\$ 8,645,058</u>	<u>\$ 26,865,509</u>

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

North American Development Bank
Consolidated Statements of Comprehensive Income
For the Nine Months Ended September 30, 2020 and Year Ended December 31, 2019

	(Unaudited)	(Audited)
	Nine Months Ended September 30, 2020	Year Ended December 31, 2019
Net income	\$ 8,645,004	\$ 29,700,984
Non-controlling interest in net loss	(54)	(137)
Controlling interest in net income	<u>8,645,058</u>	<u>29,701,121</u>
Other comprehensive income (loss):		
Available-for-sale investment securities:		
Change in unrealized gains (losses) during the period, net	3,693,489	4,336,628
Reclassification adjustment for net gains included in net income	<u>(56,414)</u>	<u>(87,852)</u>
Total unrealized gain on available-for-sale investment securities	3,637,075	4,248,776
Foreign currency translation adjustment	(12,759)	(32,997)
Unrealized gains (losses) on hedging activities:		
Foreign currency translation adjustment, net	(10,153,066)	7,214,641
Fair value of cross-currency interest rate swaps and options, net	<u>10,330,588</u>	<u>(11,194,142)</u>
Total unrealized gain (loss) on hedging activities	<u>177,522</u>	<u>(3,979,501)</u>
Total other comprehensive income	<u>3,801,838</u>	<u>236,278</u>
Total comprehensive income	<u>\$ 12,446,896</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 Nine Months Ended September 30, 2020 and Year Ended December 31, 2019

	Paid-in Capital	General Reserve Retained Earnings	Accumulated Other Comprehensive Income	Non-controlling Interest	Total Equity
Beginning balance, January 1, 2019	\$ 415,000,000	\$ 228,897,380	\$ 9,124,014	\$ 5,302	\$ 653,026,696
Net income	-	29,701,121	-	-	29,701,121
Other comprehensive income	-	-	236,278	-	236,278
Non-controlling interest	-	-	-	(137)	(137)
Ending balance, December 31, 2019 (audited)	415,000,000	258,598,501	9,360,292	5,165	682,963,958
Capital contribution	60,000,000	-	-	-	60,000,000
Net income	-	8,645,058	-	-	8,645,058
Other comprehensive income	-	-	3,801,838	-	3,801,838
Non-controlling interest	-	-	-	(54)	(54)
Ending balance, September 30, 2020 (unaudited)	<u>\$ 475,000,000</u>	<u>\$ 267,243,559</u>	<u>\$ 13,162,130</u>	<u>\$ 5,111</u>	<u>\$ 755,410,800</u>

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

**North American Development Bank
Consolidated Statements of Cash Flows (Unaudited)
For the Nine Months Ended September 30, 2020 and 2019**

	For the Nine Months Ended	
	9/30/2020	9/30/2019
Cash flows from operating activities		
Net income	\$ 8,645,058	\$ 26,865,509
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	84,005	99,419
Amortization of net premiums (discounts) on investments	(1,470,910)	(3,646,263)
Change in fair value of swaps, hedged items and other non-cash items	21,277,424	(51,625,453)
Non-controlling interest	(54)	(74)
Gains on securities, net	(56,414)	(81,397)
Provision for loan losses	18,637	(944,310)
Long-term postretirement benefits payable	226,405	-
Change in other assets and liabilities:		
Decrease in interest receivable	5,635,302	1,484,811
Increase in accounts receivable	(4,744,893)	(213,222)
Decrease in accounts payable	(102,394)	(435,716)
Increase (decrease) in accrued liabilities	104,865	(170,319)
Decrease in accrued interest payable	(9,389,910)	(3,759,483)
Increase in deferred U.S. capital contribution	165,000,000	-
Net cash provided by (used in) operating activities	<u>185,227,121</u>	<u>(32,426,498)</u>
Cash flows from lending, investing, and development activities		
Capital expenditures	(51,821)	(26,392)
Loan principal repayments	172,738,471	86,581,115
Loan disbursements	(7,186,982)	(42,044,532)
Purchase of held-to-maturity investments	(1,803,671)	(2,411,373)
Purchase of available-for-sale investments	(1,662,367,995)	(252,101,622)
Proceeds from maturities of held-to-maturity investments	1,726,812	1,718,000
Proceeds from sales and maturities of available-for-sale investments	<u>1,359,902,664</u>	<u>222,823,598</u>
Net cash provided by (used in) lending, investing, and development activities	<u>(137,042,522)</u>	<u>14,538,794</u>
Cash flows from financing activities		
Capital contribution	60,000,000	-
Proceeds from note issuances	351,930,442	-
Principal repayment of other borrowings	(2,632,000)	(2,631,000)
Principal repayment of notes payable	(529,998,000)	-
Grant funds from the Environmental Protection Agency (EPA)	6,645,165	8,256,833
Grant funds from other sources	-	121,142
Grant disbursements - EPA	(6,645,163)	(8,256,817)
Grant disbursements from other sources	<u>(970)</u>	<u>(82,969)</u>
Net cash used in financing activities	<u>(120,700,526)</u>	<u>(2,592,811)</u>
Net decrease in cash and cash equivalents	<u>(72,515,927)</u>	<u>(20,480,515)</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>\$ 49,081,912</u>	<u>\$ 154,613,898</u>
Supplemental cash information		
Cash paid during the year for interest	\$ 16,770,974	\$ 22,197,271
Significant non-cash transactions		
Foreign currency translation adjustment	\$ (10,153,066)	\$ 3,673,197
Change in fair value of cross-currency interest rate swaps, net	10,330,588	(5,801,897)
Change in fair value of available-for-sales investments, net	3,637,075	4,742,542

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

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 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 September 30, 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)
September 30, 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, money market accounts with other financial institutions and overnight repurchase agreements.

Repurchase Agreements

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

Investment Securities

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

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

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

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

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

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 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 September 30, 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)
September 30, 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 probability of default for each loan using internal credit risk methodologies, along with statistical cumulative recovery rates for each sector.

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

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

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)
September 30, 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 September 30, 2020, the Bank had entered into counterparty agreements with 11 counterparties, two (2) of which are backed by the federal government of Mexico and the other nine (9) are commercial financial institutions. The foreign currency translation adjustment on loans denominated in Mexican pesos as of September 30, 2020 and December 31, 2019 was \$(52,533,918) and \$(33,301,924), respectively.

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

The Bank discontinues hedge accounting prospectively if it determines that the derivative is no longer highly effective in offsetting changes in the fair value or cash flows of the hedged item, or if it is no longer probable that the hedged loan repayment will occur. If hedge accounting is discontinued because the hedge ceases to be effective, the Bank will continue to record the swap at fair value with changes in value reflected in earnings for the period, and any fair value adjustments included in other comprehensive income will be recognized in the consolidated statements of income over the remaining life of the

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2020

2. Summary of Significant Accounting Policies (continued)

loan. If it is probable that the hedged loan repayments will not occur, gains and losses accumulated in other comprehensive income (loss) are recognized immediately in earnings.

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

Fair Value

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

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

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

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

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

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 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)
September 30, 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 September 30, 2020 and December 31, 2019.

	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
September 30, 2020				
Held-to-maturity:				
U.S. government securities	\$ 4,119,146	\$ 33,986	\$ -	\$ 4,153,132
U.S. agency securities	-	-	-	-
Total held-to-maturity investment securities	4,119,146	33,986	-	4,153,132
Available-for-sale:				
U.S. government securities	680,509,080	2,492,351	(492)	683,000,939
U.S. agency securities	73,477,284	388,714	(12,371)	73,853,627
Corporate debt securities	96,493,477	1,358,313	(26,899)	97,824,891
Other fixed-income securities	48,199,379	350,750	(4,107)	48,546,022
Mexican government securities (UMS)	23,896,348	986,935	-	24,883,283
Mortgage-backed securities	7,394,812	23,311	-	7,418,123
Total available-for-sale investment securities	929,970,380	5,600,374	(43,869)	935,526,885
Total investment securities	\$ 934,089,526	\$ 5,634,360	\$ (43,869)	\$ 939,680,017
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
Notes to Consolidated Financial Statements (Unaudited)
September 30, 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 September 30, 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
September 30, 2020						
Held-to-maturity:						
U.S. government securities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. agency securities	-	-	-	-	-	-
Total Held-to-maturity securities	-	-	-	-	-	-
Available-for-sale:						
U.S. government securities	5,644,517	492	-	-	5,644,517	492
U.S. agency securities	17,186,340	12,371	-	-	17,186,340	12,371
Corporate debt securities	9,746,741	26,899	-	-	9,746,741	26,899
Other fixed-income securities	1,905,893	4,107	-	-	1,905,893	4,107
Mexican government securities (UMS)	-	-	-	-	-	-
Mortgage-backed securities	-	-	-	-	-	-
Total available-for-sale investment securities	34,483,491	43,869	-	-	34,483,491	43,869
Total temporarily impaired securities	\$ 34,483,491	\$ 43,869	\$ -	\$ -	\$ 34,483,491	\$ 43,869
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 September 30, 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
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2020

3. Investments (continued)

Contractual maturities of investments as of September 30, 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
September 30, 2020				
Less than 1 year	\$ 2,959,443	\$ 2,947,370	\$ 632,084,854	\$ 631,630,800
1-5 years	1,193,689	1,171,776	296,023,908	290,944,768
5-10 years	-	-	-	-
More than 10 years	-	-	-	-
Mortgage-backed securities	-	-	7,418,123	7,394,812
	<u>\$ 4,153,132</u>	<u>\$ 4,119,146</u>	<u>\$ 935,526,885</u>	<u>\$ 929,970,380</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 and maturity activity of investment securities for the nine months ended September 30, 2020 and 2019.

	Nine Months Ended September 30	
	2020	2019
Held-to-maturity investment securities:		
Proceeds from maturities	\$ 1,726,812	\$ 1,718,000
Available-for-sale investment securities:		
Proceeds from sales and maturities	1,359,902,664	222,823,598
Gross realized gains	65,044	95,460
Gross realized losses	8,630	14,063

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 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 nine months ended September 30, 2020 and the year ended December 31, 2019.

	Nine Months Ended September 30, 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	3,693,489	4,336,628
Reclassification adjustments for net gains on investment securities available-for-sale included in net income	(56,414)	(87,852)
Net unrealized gains on investment securities available-for-sale, end of year	<u>\$ 5,556,505</u>	<u>\$ 1,919,430</u>

4. Loans

The following schedule summarizes loans outstanding as of September 30, 2020 and December 31, 2019.

	September 30, 2020	December 31, 2019
Loan balance	\$ 1,136,195,034	\$ 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	(10,318,153)	(12,284,799)
Foreign currency exchange rate adjustment	(52,533,918)	(33,301,924)
Fair value of hedged items	(68,831,197)	(62,856,585)
Net loans outstanding	<u>\$ 985,276,284</u>	<u>\$ 1,174,086,370</u>

At September 30, 2020 and December 31, 2019, outstanding unfunded loan commitments on signed loan agreements totaled \$127,950,282 and \$99,857,959, respectively. As of September 30, 2020, the Bank had loan agreements under development for an additional \$48,974,133.

The Bank under certain circumstances offered below-market-rate loans under its Low Interest Rate Lending Facility (LIRF) program, which was terminated in May 2013. As of September 30, 2020 and December 31, 2019, the Bank had LIRF loans outstanding of \$24,534,855 and \$27,438,337, respectively.

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2020

4. Loans (continued)

The following table presents the loan portfolio by sector as of September 30, 2020 and December 31, 2019.

	September 30, 2020	December 31, 2019
Air quality	\$ 72,082,289	\$ 78,483,962
Basic urban infrastructure	33,329,407	34,525,116
Clean energy:		
Solar	311,373,862	429,095,367
Wind	563,766,507	590,585,436
Other	2,477,324	2,945,529
Energy efficiency	233,774	-
Public transportation	39,085,087	42,004,524
Solid waste	2,330,000	2,845,000
Storm drainage	9,768,250	10,713,740
Water and wastewater	101,748,534	110,547,849
	<u>\$ 1,136,195,034</u>	<u>\$ 1,301,746,523</u>

The following table presents the loan portfolio by borrower type as of September 30, 2020 and December 31, 2019.

	September 30, 2020	December 31, 2019
Private	\$ 915,112,037	\$ 1,062,617,460
Public	165,278,130	180,595,606
Public-private	55,804,867	58,533,457
	<u>\$ 1,136,195,034</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 September 30, 2020 and December 31, 2019. These risk categories are defined in Note 2, along with additional information on how the Bank evaluates credit quality.

	September 30, 2020	December 31, 2019
A-1	\$ 31,532,481	\$ 34,593,756
A-2	254,152,497	355,904,478
A-3	667,032,805	610,206,818
B-1	168,786,874	276,452,024
B-2	-	9,529,283
B-3	652,807	932,135
C	-	-
D	14,037,570	14,128,029
E	-	-
	<u>\$ 1,136,195,034</u>	<u>\$ 1,301,746,523</u>

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2020

4. Loans (continued)

As of September 30, 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 September 30, 2020 and December 31, 2019, respectively.

No non-accrual loans were restructured during the nine months ended September 30, 2020 and year ended December 31, 2019. The average impaired loan balance for the nine months ended September 30, 2020 and the year ended December 31, 2019 totaled \$14,057,672 and \$14,300,091, respectively.

An age analysis of past-due loans, including both accruing and non-accruing loans, as of September 30, 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
September 30, 2020	\$ -	\$ -	\$ -
December 31, 2019	-	-	-

There were no loans past due 90 or more days accruing interest as of September 30, 2020 and December 31, 2019.

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2020

4. Loans (continued)

The following table summarizes the allowance for loan losses by classification as of September 30, 2020 and December 31, 2019.

	Allowance for Loan Losses			Total Loans Outstanding
	General Allowance	Specific Allowance	Total	
September 30, 2020				
Mexico:				
Construction	\$ 1,522,774	\$ -	\$ 1,522,774	\$ 100,000,000
Operation	12,427,998	2,401,420	14,829,418	836,559,110
Total Mexico	13,950,772	2,401,420	16,352,192	936,559,110
United States				
Construction	5,623	-	5,623	233,774
Operation	2,877,667	-	2,877,667	199,402,150
Total United States	2,883,290	-	2,883,290	199,635,924
	<u>\$ 16,834,062</u>	<u>\$ 2,401,420</u>	<u>\$ 19,235,482</u>	<u>\$ 1,136,195,034</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)
September 30, 2020

4. Loans (continued)

The following schedule summarizes the allowance for loan losses for the nine months ended September 30, 2020 and the year ended December 31, 2019.

	Allowance for Loan Losses				
	Beginning Balance	Specific Provisions	General Provisions	Loan (Charge-offs) Recoveries	Ending Balance
September 30, 2020					
Mexico:					
Construction	\$ 4,877,573	\$ -	\$ (3,354,799)	\$ -	\$ 1,522,774
Operation	10,415,399	18,637	4,395,382	-	14,829,418
Total Mexico	15,292,972	18,637	1,040,583	-	16,352,192
United States					
Construction	47,926	-	(42,303)	-	5,623
Operation	3,875,947	-	(998,280)	-	2,877,667
Total United States	3,923,873	-	(1,040,583)	-	2,883,290
	<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)
September 30, 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 September 30, 2020 and December 31, 2019.

	Gross Amount	Master Netting Arrangements	Net Amount
September 30, 2020			
Assets			
Cross-currency interest rate swaps	\$ 196,318,884	\$ (34,844,586)	\$ 161,474,298
Interest rate swaps	12,468,280	-	12,468,280
Options	2,770,557	-	2,770,557
Collateral from counterparty	(43,510,000)	-	(43,510,000)
Credit valuation adjustment for swaps	(2,068,317)	-	(2,068,317)
Total other assets	<u>\$ 165,979,404</u>	<u>\$ (34,844,586)</u>	<u>\$ 131,134,818</u>
Liabilities			
Cross-currency interest rate swaps	\$ -	\$ -	-
Interest rate swaps	7,741,550	-	7,741,550
Total other liabilities	<u>\$ 7,741,550</u>	<u>\$ -</u>	<u>\$ 7,741,550</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 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)
September 30, 2020

6. Debt

The following tables summarize the notes payable and other borrowings as of September 30, 2020 and December 31, 2019.

September 30, 2020								
Issue Date	Maturity Date	Fixed Rate	Principal Amount	Unamortized Premium/ (Discount)	Unamortized Debt Issuance Costs	FX Translation Adjustment	Fair Value of Hedged Items	Net Debt
Notes Payable								
<u>USD Issuance</u>								
12/17/12	10/26/22	2.40%	\$ 150,002,000	\$ (653,495)	\$ (162,669)	\$ -	\$ 4,404,646	\$ 153,590,482
12/17/12	12/17/30	3.30	50,000,000	-	(175,590)	-	8,063,635	57,888,045
<u>CHF Issuance</u>								
04/30/15	04/30/25	0.25	128,706,754	385,088	(380,728)	-	9,413,264	138,124,378
04/26/17	10/26/27	0.20	124,443,117	296,210	(506,011)	-	11,673,216	135,906,532
07/24/18	07/24/26	0.30	126,415,858	116,454	(592,338)	-	14,169,161	140,109,135
05/28/20	11/28/28	0.20	186,316,116	20,643	(1,029,421)	9,140,601	-	194,447,939
05/28/20	05/27/33	0.55	165,614,326	692,066	(1,032,176)	8,124,978	-	173,399,194
<u>NOK Issuance</u>								
03/10/17	03/10/31	2.47	86,724,283	-	(220,012)	-	(5,113,771)	81,390,500
03/10/17	03/10/32	2.47	86,724,283	-	(225,006)	-	(5,065,174)	81,434,103
Total notes payable			1,104,946,737	856,966	(4,323,951)	17,265,579	37,544,977	1,156,290,308
Other Borrowings								
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			23,688,000	-	-	-	-	23,688,000
			\$ 1,128,634,737	\$ 856,966	\$ (4,323,951)	\$ 17,265,579	\$ 37,544,977	\$ 1,179,978,308

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 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
			\$ 1,309,334,295	\$ (455,365)	\$ (3,045,228)	\$ (5,494,297)	\$ 1,300,339,405

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.

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2020

6. Debt (continued)

The fair value of the hedges relating to interest rate swaps on notes payable denominated in U.S. dollars was reported at September 30, 2020 and December 31, 2019 as other assets of \$12,468,280 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 September 30, 2020 and December 31, 2019 as other assets of \$34,971,817 and \$(3,394,273), respectively. The fair value of hedges relating to options on notes payable not denominated in U.S. dollars was reported at September 30, 2020 as other assets of \$2,770,557. 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 September 30, 2020 and December 31, 2019, the outstanding balance was \$23,688,000 and \$26,320,000, respectively.

The following table summarizes the maturities of the notes payable and other borrowings as of September 30, 2020 and December 31, 2019.

	September 30, 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	155,266,000	435,264,000
3-4 years	5,264,000	5,264,000
4-5 years	131,338,754	5,264,000
5-10 years	437,175,091	379,565,729
More than 10 years	389,062,892	223,448,566
Total	<u>\$ 1,128,634,737</u>	<u>\$ 1,309,334,295</u>

The following table summarizes short-term and long-term debt as of September 30, 2020 and December 31, 2019.

	September 30, 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	1,104,946,737	1,033,014,295
Other borrowings	18,424,000	21,056,000
Total long-term debt	<u>1,123,370,737</u>	<u>1,054,070,295</u>
Total debt	<u>\$ 1,128,634,737</u>	<u>\$ 1,309,334,295</u>

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2020

7. Equity

Subscribed Capital

At September 30, 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 September 30, 2020 and December 31, 2019 as shown in the following tables.

September 30, 2020	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)	(102,000)	(1,020,000)	(223,833)	(2,238,330)
Unqualified callable capital	(133,167)	(1,331,670)	(153,000)	(1,530,000)	(286,167)	(2,861,670)
Qualified paid-in capital	(21,500)	(215,000)	-	-	(21,500)	(215,000)
Total funded paid-in capital	23,500	235,000	45,000	450,000	68,500	685,000
Less restricted from commitments	-	-	-	(165,000)	-	(165,000)
Less transfer to General Reserve for Domestic Programs	-	(22,500)	-	(22,500)	-	(45,000)
Total paid-in capital	23,500	\$ 212,500	45,000	\$ 262,500	68,500	\$ 475,000

December 31, 2019	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

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2020

7. Equity (continued)

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 General Capital Increase (GCI), each government has subscribed 300,000 shares of capital with a par value of \$10,000 per share or \$3,000,000,000 for a total of \$6,000,000,000 as of September 30, 2020 and December 31, 2019.

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

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

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

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

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2020

7. Equity (continued)

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

On August 6, 2020, the United States completed its paid-in capital commitment under the GCI by unqualifying its subscription to 21,500 paid-in capital shares and making a corresponding payment of \$215,000,000. Of this amount, \$165,000,000 is restricted from commitment, in accordance with Chapter II, Article II, Section 3(c) of the Charter, until matching subscription payments are received from Mexico, and is recorded as a deferred U.S. capital contribution in the consolidated balance sheets. On this date, the United States also unqualified its subscription to 19,833 callable capital shares with a value of \$198,330,000.

In accordance with Board Resolution BR 2020-7, the remaining subscriptions shall be made in several installments by December 31, 2028, or such later dates as the Board of Directors shall determine. The callable portion of the subscription for capital shares of the Bank will be subject to call only when required to meet obligations, as outlined in Chapter II, Article II, Section 3(d) of the Charter.

Retained Earnings

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

	September 30, 2020	December 31, 2019
Designated retained earnings		
Water Conservation Investment Fund (WCIF)	\$ -	\$ 95,594
Technical Assistance Program (TAP)	2,303,602	2,802,305
Community Assistance Program (CAP)	6,379,831	7,715,406
Total designated retained earnings	<u>8,683,433</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	97,723,670	81,145,125
Mark-to-Market Hedge Valuations	61,004	7,076,567
Total undesignated retained earnings	<u>97,784,674</u>	<u>88,221,692</u>
Total retained earnings	<u>\$ 267,243,559</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
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2020

7. Equity (continued)

Accumulated Other Comprehensive Income

The following table presents the changes in accumulated other comprehensive income for the nine months ended September 30, 2020 and year ended December 31, 2019.

	Beginning Balance	Period Activity	Ending Balance
September 30, 2020			
Net unrealized gain on available-for-sale investment securities	\$ 1,919,430	\$ 3,637,075	\$ 5,556,505
Foreign currency translation adjustment	304,250	(12,759)	291,491
Unrealized gain (loss) on hedging activities:			
Foreign currency translation adjustment	(33,301,924)	(10,153,066)	(43,454,990)
Fair value of cross-currency interest rate swaps	40,438,536	10,330,588	50,769,124
Net unrealized gain on hedging activities	7,136,612	177,522	7,314,134
Total accumulated other comprehensive gain	<u>\$ 9,360,292</u>	<u>\$ 3,801,838</u>	<u>\$ 13,162,130</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
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2020

8. Program Activities

Program activities are comprised of the following:

	<u>Nine Months Ended September 30,</u>	
	2020	2019
Program Income		
Non-program specific contribution:		
U.S. Department of State	\$ 2,902,000	\$ 2,902,000
Ministry of Environment and Natural Resources (SEMARNAT)	1,186,800	1,413,240
Program specific expense reimbursements and grant income:		
Border Environment Infrastructure Fund (BEIF)	815,016	702,179
Project Development Assistance Program (PDAP)	1,377,493	1,031,672
U.S. Mexico Border 2020 Program (Border 2020)	430,406	540,630
Other grant income	971	31,252
Total program income	<u>6,712,686</u>	<u>6,620,973</u>
Program Expenses		
Operating expenses:		
BEIF	815,016	702,179
PDAP	627,107	505,342
Border 2020	187,715	228,443
Other	971	31,252
Total operating expenses	<u>1,630,809</u>	<u>1,467,216</u>
Grant disbursements:		
PDAP	750,386	526,330
Border 2020	283,107	448,738
Community Assistance Program (CAP)	1,335,575	211,650
Water Conservation Investment Fund (WCIF)	95,594	-
Technical Assistance Program (TAP)	498,703	79,291
Utility Management Institute (UMI)	43,977	117,966
Total grant disbursements	<u>3,007,342</u>	<u>1,383,975</u>
Total program expenses	<u>4,638,151</u>	<u>2,851,191</u>
Net program income (expenses)	<u>\$ 2,074,535</u>	<u>\$ 3,769,782</u>

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 September 30, 2020, total \$743,741,258. Under the terms of the grants, the Bank reviews and submits prospective projects to EPA. EPA approves the projects and they are subsequently certified for financing by the Board of Directors. EPA then disburses funds to the Bank, which directs the grant monies to the specified project. The Bank also oversees progress and compliance requirements for EPA and receives an allocation of the EPA grant funds for administrative expenses incurred.

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2020

8. Program Activities (continued)

As of September 30, 2020, EPA has approved project funding proposed by the Bank totaling \$690,759,539, of which \$655,864,598 has been disbursed through the Bank. The Bank recognized \$815,016 and \$702,179 as reimbursement of expenses incurred for the nine months ended September 30, 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 nine months ended September 30, 2020 and 2019, \$95,594 and \$0, respectively, were disbursed under this program. As of September 30, 2020 and December 31, 2019, cumulative disbursements total \$38,334,972 for the United States and \$39,990,407 for Mexico. These disbursements were reported as a program expense.

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

Community Assistance Program (CAP)

In February 2011, the Board of Directors approved a grant program to support public projects in all sectors eligible for Bank financing. Subject to annual limits, the CAP program is funded from the Bank's undesignated retained earnings as authorized by the Board. As of September 30, 2020, a cumulative total of \$14,092,840 has been allocated to the CAP. For the nine months ended September 30, 2020 and 2019, \$1,335,575 and \$211,650, respectively, were disbursed under this program. These disbursements have been reported as a program expense.

Technical Assistance Program (TAP)

The Bank designated a portion of its retained earnings as authorized by the Board of Directors to offer technical assistance and training to project sponsors for the purpose of strengthening their financial performance and ensuring the long-term sustainability of their infrastructure, subject to annual limits. For the nine months ended September 30, 2020 and 2019, \$498,703 and \$79,291, respectively, was disbursed under this program. These disbursements have been reported as a program expense.

As part of its technical assistance program, the Utility Management Institute (UMI) provides water utility managers and their staff with an opportunity for ongoing professional development aimed at enhancing their managerial and financial skills. For the nine months ended September 30, 2020 and 2019, \$43,977 and \$117,966, respectively were expended under this program.

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 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 nine months ended September 30, 2020 and 2019, the Bank recognized \$750,386 and \$526,330, respectively, in technical assistance expenses, as well as \$627,107 and \$505,342 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 nine months ended September 30, 2020 and 2019, the Bank recognized \$283,107 and \$448,738, respectively, in technical assistance expenses, as well as \$187,715 and \$228,443 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 nine months ended September 30, 2020 and 2019, the Bank expended \$876,850 and \$846,211 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 \$18,410 for the nine months ended September 30, 2020 and \$16,481 for the year ended December 31, 2019. As of September 30, 2020, the unfunded portion of the plan totaled \$2,761,109 and is reflected in the consolidated balance sheet as a component of accrued liability and long-term liability of \$53,185 and \$2,707,924, 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.

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2020

9. Employee Benefits (continued)

The following table presents the change in benefit obligations as of September 30, 2020 and December 31, 2019.

	September 30, 2020	December 31, 2019
Beginning balance	\$ 2,518,519	\$ -
Prior service expense	-	2,448,000
Current period service expense	200,250	67,000
Interest expense	60,750	20,000
Net benefits paid	(18,410)	(16,481)
Ending balance	<u>\$ 2,761,109</u>	<u>\$ 2,518,519</u>

The change in post-retirement health plan assets as of September 30, 2020 and December 31, 2019 is presented in the following table.

	September 30, 2020	December 31, 2019
Beginning balance	\$ -	\$ -
Employer contributions	18,410	16,481
Net benefits paid	(18,410)	(16,481)
Ending balance	<u>\$ -</u>	<u>\$ -</u>

The following table presents post-retirement health plan liabilities as of September 30, 2020 and December 31, 2019.

	September 30, 2020	December 31, 2019
Current liabilities	\$ 53,185	\$ 37,000
Non-current liabilities	2,707,924	2,481,519
Total	<u>\$ 2,761,109</u>	<u>\$ 2,518,519</u>

The net periodic benefit cost of the post-retirement health plan for the nine months ended September 30, 2020 and 2019 is presented in the following table.

	Nine Months Ended September 30,	
	2020	2019
Service expense	\$ 200,250	\$ -
Interest expense	60,750	-
Total	<u>\$ 261,000</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)
September 30, 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 September 30, 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.

October 1 - December 31, 2020	\$ 7,435
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 seven (7) debt issuances in foreign currencies for U.S.-dollar operations. Cash flows in Mexican pesos are discounted using the TIIE 28-day swap curve. Cash flows in Swiss francs (CHF) are discounted using the CHF swap curve. Cash flows in Norwegian krone (NOK) are discounted using the NOK swap curve. Cash flows in U.S. dollars are discounted using the USD OIS curve.

Interest Rate Swaps

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

Options

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

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2020

10. Fair Value of Financial Instruments (continued)

Debt and Accrued Interest Payable

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

Hedged Items for Notes Payable

Hedged items for notes payable are reported at fair value using Level 3 unobservable inputs. The fair value of the hedged items is estimated based on discounting procedures, whereby each cash flow stream is discounted using the USD OIS curve for USD issuances, the CHF swap curve for 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.

	September 30, 2020		December 31, 2019	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets				
Cash and cash equivalents	\$ 49,081,912	\$ 49,081,912	\$ 121,597,839	\$ 121,597,839
Held-to-maturity securities	4,119,146	4,153,132	4,038,722	4,048,820
Available-for-sale securities	935,526,885	935,526,885	627,900,720	627,900,720
Loans, net	985,276,284	1,079,357,620	1,174,086,370	1,239,969,203
Interest receivable	10,352,614	10,352,614	15,987,916	15,987,916
Cross-currency interest rate swaps	161,474,298	161,474,298	104,332,806	104,332,806
Interest rate swaps	12,468,280	12,468,280	2,919,106	2,919,106
Options	2,770,557	2,770,557	-	-
Liabilities				
Accrued interest payable	8,097,156	8,097,156	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	1,119,903,752	1,120,504,017	1,050,594,907	1,050,357,445
Long-term post-retirement benefits payable	2,707,924	2,707,924	2,481,519	2,481,519
Cross-currency interest rate swaps	-	-	1,000,876	1,000,876
Interest rate swaps	7,741,550	7,741,550	465,236	465,236

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2020

10. Fair Value of Financial Instruments (continued)

The Bank's financial assets and liabilities measured at fair value on a recurring basis as of September 30, 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	
September 30, 2020				
Assets				
Available-for-sale (AFS) securities:				
U.S. government securities	\$ 683,000,939	\$ -	\$ -	\$ 683,000,939
U.S. agency securities	73,853,627	-	-	73,853,627
Corporate debt securities	97,824,891	-	-	97,824,891
Other fixed-income securities	48,546,022	-	-	48,546,022
Mexican government securities (UMS)	24,883,283	-	-	24,883,283
Mortgage-backed securities	7,418,123	-	-	7,418,123
Total AFS securities	935,526,885	-	-	935,526,885
Cross-currency interest rate swaps	-	161,474,298	-	161,474,298
Interest rate swaps	-	12,468,280	-	12,468,280
Options	-	2,770,557	-	2,770,557
Hedged items for loans	-	-	(68,831,197)	(68,831,197)
Total assets at fair value	<u>\$ 935,526,885</u>	<u>\$ 176,713,135</u>	<u>\$ (68,831,197)</u>	<u>\$ 1,043,408,823</u>
Liabilities				
Cross-currency interest rate swaps	\$ -	\$ -	\$ -	\$ -
Interest rate swaps	-	7,741,550	-	7,741,550
Hedged item for notes payable	-	-	37,544,977	37,544,977
Total liabilities at fair value	<u>\$ -</u>	<u>\$ 7,741,550</u>	<u>\$ 37,544,977</u>	<u>\$ 45,286,527</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>

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2020

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 nine months ended September 30, 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)	-	-	(14,042,991)
Included in other comprehensive income (loss)	-	-	-
Purchases	-	-	-
Settlements	-	-	8,068,379
Transfers in/out of Level 3	-	-	-
Ending balance, September 30, 2020	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (68,831,197)</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	-	-	52,863,354
Included in other comprehensive income	-	-	-
Purchases	-	-	-
Settlements	-	-	(9,824,080)
Transfers in/out of Level 3	-	-	-
Ending balance, September 30, 2020	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 37,544,977</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>

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2020

10. Fair Value of Financial Instruments (continued)

The Bank has no nonfinancial assets or liabilities measured at fair value on a recurring or non-recurring basis as of September 30, 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 for a portion of its long-term notes payable. The swaps have been designated as hedging instruments, because they hedge the risk of changes in the fair value of fixed-rate loans and notes payable due to changes in the designated benchmark interest rate. The Bank designated the LIBOR swap rate as the benchmark interest rate. The swaps are structured so that the notional amounts mature to match the expected maturity of the loans and the notes payable.

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

The Bank may be required to post or receive collateral based on the outstanding fair value of its derivatives. Cash collateral and receivable totaling \$43,510,000 and \$43,950,000 was posted from counterparties to the Bank as of September 30, 2020 and December 31, 2019, respectively. No collateral was posted by the Bank as of those same dates.

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2020

11. Derivative Financial Instruments (continued)

The notional amounts and estimated fair values of the swaps outstanding at September 30, 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.

	September 30, 2020		December 31, 2019	
	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
Cross-currency interest rate swaps	\$ 1,167,744,386	\$ 161,474,298	\$ 1,018,903,740	\$ 103,331,930
Interest rate swaps	374,251,405	4,726,730	951,401,589	2,453,870
Options	175,965,221	2,770,557	-	-

Swaps that are no longer deemed effective because of borrower default on the hedged loans are not included in the preceding table. There were no swaps that were considered ineffective due to borrower default as of September 30, 2020 and December 31, 2019.

Gains and Losses on Derivative Cash Flows

Cross-currency Interest Rate Swaps and Options – The effective portion of the gain or loss due to changes in the fair value of cross-currency interest rate swaps and options designated as cash flow hedges is included in the accompanying consolidated statements of comprehensive income, while the ineffective portion is included in income (expense) from net hedging activities. The accumulated gain (loss) is reclassified into earnings as the hedged cash flows are received to offset the foreign currency gains (losses) that would have been recognized in earnings if the Bank had not been a party to the swaps and options. The accumulated net gain (loss) related to the swaps and options included in accumulated other comprehensive income totaled \$7,314,134 and \$7,136,612 at September 30, 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 and options are reported in income (expense) from net hedging activities. For the nine months ended September 30, 2020 and 2019, changes in the aforementioned swaps and options included in the accompanying consolidated statements of income were \$(5,994,502) and \$4,362,206, respectively.

Interest Rate Swaps – With regard to the interest rate swaps on outstanding loans and a portion of notes payable, the changes in the fair value of the swaps offset the changes in the fair value of the loans and debt due to changes in the USD OIS curve, while the ineffective portion is included in income (expense) from net hedging activities. For the nine months ended September 30, 2020 and 2019, changes in the aforementioned swaps included in the accompanying consolidated statements of income were \$0.

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2020

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 September 30, 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 \$211,602 and \$215,288 for the nine months ended September 30, 2020 and 2019, respectively. The following schedule summarizes the minimum future expenses for the forgoing leases.

October 1 - December 31, 2020	\$	67,624
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		40,121
	\$	<u>1,285,348</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

North American Development Bank
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2020

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, 2022 and will require a transition using a modified retrospective approach for leases existing at or entered into after the beginning of the earliest comparative period presented in the financial statements.

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

ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the 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 and is not expected to have a significant impact on its consolidated financial statements.

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

Supplementary Information

North American Development Bank
Statement of Income by Program
For the Nine Months Ended September 30, 2020

	<u>CAP</u>	<u>TAP</u>	<u>UMI</u>	<u>WCIF</u>	<u>ProRec</u>	<u>BEIF</u>	<u>PDAP</u>	<u>B2020</u>	<u>Other</u>	<u>Total</u>
Program Income:										
Non-program specific contribution:										
SEMARNAT	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,186,800	\$ 1,186,800
U.S. Department of State	-	-	-	-	-	-	-	-	2,902,000	2,902,000
Program specific expense										
reimbursements and grant income:										
EPA	-	-	-	-	-	815,016	1,377,493	430,406	-	2,622,915
Other	-	-	-	-	-	-	-	-	971	971
Total program income	-	-	-	-	-	815,016	1,377,493	430,406	4,089,771	6,712,686
Program Expenses:										
Operating expenses	-	-	-	-	-	815,016	627,107	187,715	971	1,630,809
Grant disbursements	1,335,575	498,703	43,977	95,594	-	-	750,386	283,107	-	3,007,342
Total program expenses	1,335,575	498,703	43,977	95,594	-	815,016	1,377,493	470,822	971	4,638,151
Net program income (loss)	<u>\$ (1,335,575)</u>	<u>\$ (498,703)</u>	<u>\$ (43,977)</u>	<u>\$ (95,594)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (40,416)</u>	<u>\$ 4,088,800</u>	<u>\$ 2,074,535</u>