North American Development Bank

Banco de Desarrollo de América del Norte

2014 Annual Report

Content

Message from Management

April 2015

2014 was a momentous year for the **North American Development Bank (NADB)**, as steady growth in new loans and projects was complemented by a significant number of project completions, as well as important institutional decisions by its Board of Directors.

From an operational standpoint, 16 new projects were certified by NADB's sister institution, the Border Environment Cooperation Commission (BECC), and US$349.37 million in financing was approved, with the vast majority of this amount—US$323.67 million—in the form of loan financing. These projects will benefit an estimated 1.55 million residents through improved water and wastewater systems, clean and renewable energy and better air quality. As of December 31, 2014, NADB's loan portfolio had an outstanding balance of US$1.19 billion, representing an increase of 17.2% over the previous year.

In addition to these new projects, 20 previously certified projects reached construction completion, including 12 wastewater projects that together are collecting and treating more than 7 million gallons per day of sewage, and the installation of 114 megawatts of renewable energy capacity.

From an institutional standpoint, the BECC-NADB Board of Directors moved forward with two major initiatives. At the request of the Board, NADB management conducted an assessment of the Bank's long-term capital adequacy and its need for a general capital increase. The findings of this assessment, which were reported to the Board in December 2014, concluded that given NADB's current capital adequacy ratios, additional capital will be required to sustain its current rate of growth, address infrastructure needs and continue to fulfill its mandate.

In January, U.S. President Barack Obama and Mexican President Enrique Peña Nieto announced their support for doubling of the Bank's capital to US$6 billion. Authorization for the capital increase, along with appropriations for the first US$45 million tranche, are requested in President Obama's Fiscal Year 2016 Budget, which was presented to Congress on February 2 of this year. Mexico's Ministry of Finance and Public Credit (SHCP) is working to provide the first US$45 million installment in Mexico's 2016 fiscal budget as well.

Support for NADB's capital increase request—the first such request in the Bank's 20-year history—reflects the significant contributions this financial institution has made in helping the two countries meet shared bilateral goals in areas that both governments consider important—infrastructure, the border and the environment—and affirms their confidence in the continued success of NADB.

In another action reflecting the continued growth and development of the Bank, in December 2014, the Board of Directors approved a resolution recommending that the Governments of the United States and Mexico integrate BECC into a single entity with NADB. This recommendation for juridical and institutional integration of the two entities is the culmination of an initiative launched in July 2011 to streamline their project development processes and improve coordination of their respective activities, which will enhance their usefulness to border communities and make more efficient use of their available resources. Under the proposed integration, the mission, objectives and functions of the two institutions will be preserved, and their geographic jurisdiction and environmental mandate will remain unchanged. Project certification and financing will continue uninterrupted during the integration process, but with greater efficiency as their operations are fully merged.

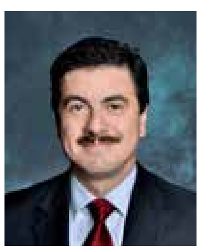
NADB Management also maintained a focus on strategies to mitigate credit and operational risk as the Bank's loan portfolio continues to experience strong growth. The operational risk assessment that began in 2013 was completed in July 2014, and NADB management began implementation of key recommendations, including establishment of a centralized risk management area.

Moving forward, the Bank's management will continue working with relevant partners and stakeholders to assess infrastructure needs, develop projects for financing and implement programs for addressing these needs in order to help build a sustainable future for the U.S.-Mexico border region. In this regard, NADB's approach remains centered on conservative loan policies, diversification of project sectors in order to mitigate risk, and collaboration with other public, commercial and multinational financial institutions.

In closing, we want to extend our gratitude on behalf of the entire NADB team to all of our partners and stakeholders throughout the border region, in both the U.S. and Mexico, without whose collaboration and support we would not be able to accomplish our mission.

We proudly present the 2014 North American Development Bank Annual Report.

Gerónimo Gutiérrez
Managing Director



Alex Hinojosa
Deputy Managing Director

General Overview

Mandate and governance: NADB is a binational financial institution established and capitalized by the governments of the United States and Mexico for the purpose of financing environmental infrastructure projects certified by its sister organization, the Border Environment Cooperation Commission (BECC), as well as offering technical and other assistance to support the development of eligible projects. The scope of the Bank's mandate—including the geographic jurisdiction and environmental sectors in which it may operate—as well as its functions and limitations, are defined in an agreement between the two governments (the "Charter").

As defined in the Charter, projects that qualify as environmental infrastructure are those that will prevent, control or reduce environmental pollutants, improve the drinking water supply, or protect flora and fauna, provided that such projects also improve human health, promote sustainable development, or contribute to a higher quality of life. A list of eligible environmental sectors and projects is shown in Box 1.

In addition, eligible projects must be located within 100 kilometers (about 62 miles) north of the international boundary in the four U.S. states of Texas, New Mexico, Arizona and California and within 300 kilometers (about 186 miles) south of the border in the six Mexican states of Tamaulipas, Nuevo Leon, Coahuila, Chihuahua, Sonora, and Baja California. However, projects beyond these areas may be deemed eligible if the Board determines that they remedy a transboundary environmental or health problem.

NADB and BECC are governed by a ten-member Board of Directors with equal representation from each member country (see Box 2). The chairmanship alternates between the United States and Mexico each year. All powers of NADB are vested in the Board of Directors, which determines policy within the framework of the Charter and approves all the Bank's programs and financing proposals involving NADB funds.

Financing Operations: The Bank provides loan and grant financing and technical assistance, as well as administers grant funding provided by other entities. Prior to financing approval, the technical feasibility and environmental impacts of the projects are evaluated and verified by BECC through a certification process that ensures transparency and promotes public participation. Project certification and financing proposals are approved simultaneously by the Board of Directors. Although project implementation is the responsibility of the project sponsors, NADB provides substantial project oversight and support during the procurement and construction phases of project execution to verify that the proceeds of its loans and grants are used efficiently and for purposes within the scope of the certified project.

Box 1: Eligible Sectors

Water:

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Box 2: Board of Directors

United States

- Secretary of the Treasury
- Secretary of State
- Administrator of the Environmental Protection Agency
- U.S. border state representative
- U.S. border resident representative

Mexico

- Secretary of Finance and Public Credit
- Secretary of Foreign Relations
- Secretary of Environment and Natural Resources
- Mexican border state representative
- Mexican border resident representative

* Board chair, 2014

Loan Program: The Bank takes a conservative approach to lending. For that reason, it performs a thorough due-diligence analysis of the technical and financial viability of each project considered for loan financing. In the case of certain borrowers and projects, this in-house analysis is further supported by external advisors who examine and structure the loans from a legal, technical, and financial perspective. The Bank negotiates individual loan agreements based on its policies and the needs of a particular borrower or project. Loan disbursements are made subject to the fulfillment of conditions set forth in each individual loan agreement.

Loans are generally offered at fixed or variable market rates, payable monthly, quarterly or semi-annually and with maturities of up to 25 years. For U.S. borrowers, loans are available in U.S. dollars. For Mexican borrowers, loans are available in Mexican pesos or in U.S. dollars if the project generates sufficient revenue in U.S. dollars to service the debt. For loans made in Mexican pesos, the Bank's exchange rate risk is fully hedged through cross-currency swaps. Loans are also generally secured by some form of credit support.

Loans may be made to public and private borrowers. Consistent with NADB's risk management philosophy, private borrower lending is subject to an even more stringent analysis and credit enhancement requirements. The Bank also supports public-private partnerships as a sound means of financing public infrastructure, especially for water supply and wastewater treatment projects. In most cases these partnerships are implemented through a build-operate-transfer (BOT) agreement, where the private contractor is the borrower and the municipality or utility serves as the source of payment and/or guarantor.

The Bank may act as sole lender or co-finance projects with other public or private financiers, depending upon the characteristics and financing needs of a project. In its early years, almost all of the Bank's co-financed projects were through a consortium with other governmental lenders, mainly in the wastewater sector. More recently, the Bank has participated in several project finance transactions with a co-financing structure where it will be repaid *pari passu* and share collateral pro-rata with the other lenders. The Bank is looking to participate in more co-financing structures of this nature, which will allow it to support larger projects while limiting its credit exposure.

As a matter of prudent risk management, the Bank also imposes limits per project and per borrower. In general, NADB cannot lend a project more than 85% of the eligible project costs. As amended in May 2013, the single obligor limit (SOL) is set at 20% of the Bank's usable equity (funded, unimpaired paid-in capital, plus undesignated retained earnings, the Special Reserve, and the Capital Preservation Reserve). An additional 10% may be made available for obligors that meet certain risk-related criteria. As of December 31, 2013, usable equity totaled US$478.31 million, resulting in a 20% SOL of US$95.66 million and a 30% SOL of US$143.49 million. At the close of 2014, usable equity had increased to US$493.61 million, raising the 20% SOL to US$98.72 million and the 30% SOL to US$148.08 million.

Grant Programs: NADB uses a portion of its retained earnings to finance grant and technical assistance programs in support of its mandate. These funds may be designated by the Board as needed and are subject to availability. NADB had two grant programs in 2014: the Community Assistance Program (CAP) and the Technical Assistance Program (TAP). The objectives and funding limits of each program are described in Box 3, along with the Water Conservation Investment Fund (WCIF), which was formally terminated in 2013 and is in the process of being closed out.

NADB also administers grant funds provided by EPA through the Border Environment Infrastructure Fund (BEIF) for priority water and wastewater projects. These funds are received from EPA prior to disbursement by the Bank to the grantees, and any BEIF-related operating expenses incurred by the Bank are reimbursed by EPA. Consequently, these funds are reflected in NADB's consolidated financial statements, but have no economic effect on its operations. During the years ended December 31, 2014 and 2013, BEIF grant disbursements to project sponsors totaled US$14.67 million and US$17.46 million, respectively. During the same period, NADB recognized US$1.04 million and US$1.21 million, respectively, as reimbursement for administrative expenses incurred in running the program.

Box 3:
Grant Programs

CAP:
Grants for up to US$500,000 are available for public-sector projects in low-income communities in all environmental sectors eligible for NADB financing, with priority given to drinking water, wastewater, water conservation and solid waste infrastructure.

TAP:
Grants for up to US$350,000 are available to fund studies and other activities related to project development and institutional capacity-building measures aimed at achieving the effective and efficient operation of public services. Training in the financial administration and planning of water utilities and other project-related seminars are also provided through the Utility Management Institute (UMI).

WCIF:
US$80-million grant program to support the implementation of water efficiency and conservation efforts along the border, which was formally terminated in 2013. Once the last four projects funded under the program have been completed, the WCIF will be fully closed out and any unused funds will be rolled over to the CAP.

Domestic Programs: In addition to its environmental mandate, under the Charter, the two governments allocated ten percent of the Bank's subscribed capital to finance community adjustment and investment projects throughout the U.S. and Mexico in support of the purposes of the North American Free Trade Agreement (NAFTA). A completely separate program was established in each country. In the case of the Mexican domestic program, the funds were transferred in full to the Mexican government, but at the request of the U.S. government, NADB continues to hold and administer the funds of the U.S. domestic program. Consequently, its accounts are consolidated with those of NADB's international program. However, the U.S. domestic program's operations and allocated capital funding are completely independent of the Bank's international program, and any net income earned by the program and its profits, losses, expenses and disbursements do not affect the Bank's retained earnings or paid-in capital. The supplementary information provided at the end of the consolidated financial statements includes combining statements that show the breakdown of the international and domestic accounts.

The U.S. domestic program called, Community Adjustment and Investment Program (USCAIP), was designed to assist communities and the private sector in creating new jobs and preserving existing jobs in areas adjusting to changes in their economies as a result of NAFTA. USCAIP operates under the direction of a Finance Committee that is comprised of representatives of the U.S. Departments of the Treasury, Agriculture (USDA), and Housing and Urban Development (HUD), and the U.S. Small Business Administration (SBA), along with other agencies selected by the Department of the Treasury, which serves as Finance Committee chair. NADB disburses USCAIP funds under the direction of the Finance Committee, which is responsible for endorsing all financing decisions under USCAIP.

In January 2009, the Finance Committee determined that the best way to use the remaining USCAIP capital and have the greatest possible impact on USCAIP eligible communities would be principally through a Targeted Grant Program. During 2014, US$1.44 million in grants was disbursed through this program, and five new grants totaling US$0.85 million were awarded. During the same period, one loan was repaid in full. As of December 31, 2014, USCAIP had two loans with an outstanding balance of US$0.69 million. Expenditures directly related to the operation of the U.S. domestic program are paid out of its capital funds. Expenditures for the years ended December 31, 2014 and 2013 totaled US$0.30 million and US$0.29 million, respectively.

For more information about the U.S. domestic program, see Note 8 in the consolidated financial statements or visit the USCAIP website at www.nadbank-caip.org.

Unless otherwise specified, the information contained in this report pertains solely to the Bank's international program.

Table 1: Financial Summary 2010-2014[1]

(US$ Thousands)

	2014	2013	2012	2011	2010
Operational Highlights					
Loan commitments signed	$304,323	$349,881	$559,120	$105,908	$129,014
Loan disbursements	254,163	214,964	501,500	80,347	171,796
Loan repayments	76,122	73,733	52,753	122,811	12,141
Undisbursed portion of committed loans	126,985	238,780	119,819	62,199	44,903
Balance Sheet Data					
Cash and cash equivalents	$85,086	$56,810	$62,357	$36,778	$38,403
Investments	357,868	488,715	326,217	313,791	236,040
Loans outstanding[2]	1,185,514	1,011,212	869,981	427,750	470,214
Total assets	1,633,369	1,573,076	1,302,304	820,018	754,399
Borrowings outstanding, gross	1,059,953	1,046,386	730,000	250,000	250,000
Total liabilities	1,090,683	1,054,422	780,457	286,822	261,421
Total equity	542,686	518,654	521,848	533,197	492,978
Callable capital	2,295,000	2,295,000	2,295,000	2,295,000	2,295,000
Income Statement Data					
Loan income	$38,487	$35,149	$19,344	$20,994	$20,512
Investment income	5,412	4,386	7,779	6,907	11,400
Other income	1,056	46	590	9,420	529
Operating expenses	13,153	20,377	11,407	10,397	8,733
Administrative expenses[3]	8,567	8,871	8,425	7,999	6,768
Provision for loan losses	2,199	10,544	-	2,350	900
Other expenses	2,387	962	2,982	48	1,065
Interest expense	13,548	10,838	5,363	4,532	4,095
Litigation expense	-	-	1,484	-	-
Income before grant program activity	18,254	8,366	9,458	22,392	19,613
Program expenses[4]	2,077	1,145	2,437	737	2,121
Net income	16,177	7,221	7,020	21,655	17,492
Ratios					
Adjusted shareholders' equity[5] / loans outstanding	44.2%	49.3%	57.5%	119.2%	101.2%
Gross debt / callable capital	46.2%	45.6%	31.8%	10.9%	10.9%
Gross debt / adjusted shareholders' equity	202.4%	210.1%	145.8%	49.0%	52.5%
Interest coverage[6]	2.7x	2.8x	3.6x	6.5x	6.3x
Liquid assets / total assets	23.8%	31.3%	25.7%	36.3%	29.3%
Operating income / adjusted shareholders' equity	3.5%	1.7%	1.9%	4.4%	4.1%
Operating income / average assets	1.1%	0.6%	0.9%	2.8%	3.2%

[1] Excludes the U.S. domestic program (see page 5).

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

[3] Administrative expenses is defined as the sum of personnel, consultants, operational travel and general and administrative.

[4] Program expenses include grant financing and technical assistance funded from the Bank's retained earnings, but excludes the Border Environment Infrastructure Fund (BEIF), which is fully funded by the U.S. Environmental Protection Agency.

[5] Adjusted shareholder' equity is defined as the sum of undesignated paid-in capital, undesignated retained earnings, reserves, and accumulated other comprehensive income.

[6] Interest coverage ratio is defined as total revenue minus administrative expenses divided by interest expense.

Financing Operations

Lending Activity

New loan commitments totaling US$323.67 million were approved for eight projects in 2014, an increase of 18.5% compared to loan approvals of US$273.24 million for 11 projects in 2013. Five of the new loan commitments approved in 2014 were contracted before year-end, along with four commitments approved in previous years. Altogether, nine loan agreements totaling US$304.32 million were signed in 2014, a 13.0% decrease compared to the 11 loans for US$349.88 million contracted in 2013. At the close of 2014, an estimated US$145.11 million in approved loan commitments was pending contracting, as compared to US$123.74 million in 2013.

A five-year summary of the Bank's lending activity is provided in Table 1. Over the past five years, loan signings have averaged US$289.65 million per year.

Table 2:
Loan Commitments Approved
(US$ Millions)

Sector	2014	2013
Air quality/roadway improvements	**$ 46.16**	$ 8.60
Basic urban infrastructure*	**-**	19.10
Landfill gas-to-energy	**-**	3.07
Public transportation	**9.12**	-
Solar energy	**41.08**	192.47
Water / wastewater	**1.54**	-
Water conservation	**30.77**	-
Wind energy	**195.00**	50.00
Total	**$ 323.67**	$ 273.24

A breakdown of the loans approved and contracted by sector for the past two years is shown in Tables 2 and 3, respectively. As highlighted in these charts, efforts to break into new areas were rewarded in 2014 as the Bank contracted its first loans for a landfill gas-to-energy project and a public transportation project for the purchase and/or lease of low-emission buses, as well as approved its first loan to support a water conservation project for an irrigation district.

Table 3:
Loan Commitments Signed
(US$ Millions)

Sector	2014	2013
Air quality/roadway improvements	**$ 30.82**	$ 136.53
Basic urban infrastructure*	**-**	19.10
Landfill gas-to-energy	**2.61**	-
Public transportation	**9.12**	-
Solar energy	**81.08**	169.99
Water / wastewater	**1.54**	24.26
Wind energy	**179.15**	-
Total	**$ 304.32**	$ 349.88

Loan disbursements increased 18.2% to a total of US$254.16 million in 2014 (compared to US$214.96 million in 2013) and included the full or partial disbursement of all but one of the loans contracted during the year. At the end of 2014 an estimated US$126.99 million in contracted loan commitments was pending disbursement, as compared to US$238.78 million in 2013.

Table 4:
Loan Disbursements
(US$ Millions)

Sector	2014	2013
Air quality/roadway improvements	**$ 30.82**	$ 10.64
Basic urban infrastructure*	**3.28**	11.08
Landfill gas-to-energy	**2.61**	-
Solar energy	**103.02**	122.06
Water / wastewater	**37.56**	33.77
Wind energy	**76.88**	37.41
Total	**$ 254.16**	$ 214.96

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

A breakdown of disbursements by sector during 2014 and 2013 is shown in Table 4. Loan funds flowed in a similar pattern both years, with the majority going to solar energy projects, followed by wind energy and water-related projects. In 2014, solar energy accounted for 40.5% of disbursements, down from 56.8% in 2013; while wind energy represented 30.2%, nearly double the percentage in 2013 (17.4%); and water and wastewater loans remained fairly stable at 14.8%, compared to 15.7% in 2013.

Private-sector borrowers in the U.S. accounted for 40.5% of the disbursed loans in 2014, while the remaining 59.5% went to projects in Mexico and was divided among public-sector (1.3%), private-sector (31.3%) and public-private borrowers (26.9%). In comparison, 74.2% of the loans disbursed in 2013 went to private-sector borrowers in the U.S., and the remaining

25.8% to projects in Mexico, of which 16.9% went to governmental borrowers and 8.9% to public-private partnerships. This shift in borrowers reflects the growing interest of private companies to invest in renewable energy in Mexico, as well as Mexican municipalities and water utilities seeking partnerships with the private sector in order to provide public services.

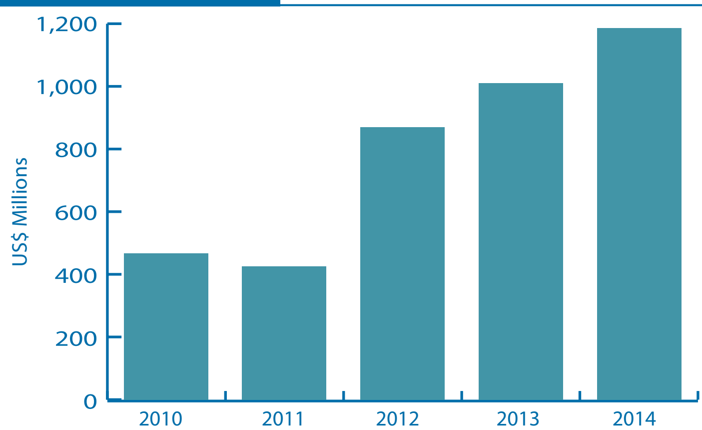
Principal payments totaled US$76.12 million in 2014, including the prepayment of one loan for US$1.14 million. In comparison, the Bank received US$73.73 million in principal payments in 2013, which included US$12.36 million for the prepayment of three loans. Excluding prepayments, principal payments increased 22.2% between 2013 and 2014 and have grown at an average annual rate of 62.8% since December 2010 as a result of the steady growth of the loan portfolio.

Loan Portfolio

As of December 31, 2014, the Bank had an outstanding loan balance of US$1.19 billion, an increase of 17.2% over the balance at the end of 2013 (US$1.01 billion). The Bank registered a similar increase of 16.2% in 2013 from a balance of US$869.98 million at the close of 2012.

Since December 31, 2010, the loan portfolio has grown at an average annual rate of 26.0%. However, as shown in Figure 1, in the past couple of years, portfolio growth has leveled off, increasing at a more moderate average rate of 16.7% per year.

Figure 1:
Annual Loan Portfolio Performance



Changes in the monetary value of loans by environmental sector during the 12-month period ending December 31, 2014 are provided in Table 5. All of the sectors registered steady growth with the exception of storm drainage and basic urban infrastructure, both of which declined as a result of principal payments. Solar energy registered the largest monetary increase with US$73.91 million, followed by wind energy with US$60.60 million and water and wastewater with US$29.41 million.

Nevertheless, as illustrated in Figure 2, the distribution of loans by environmental sector for the years ending in 2013 and 2014 remained very stable with minimal changes. The most significant changes were a 2.3% increase in solar energy, a 1.2% decline in storm drainage and a 0.9% decline in basic urban infrastructure.

Table 5:
Outstanding Loans by Environmental Sector
(US$ Millions)

	12/31/2014	12/31/2013	% Change
Wind energy	**$ 430.53**	$ 369.93	16.4%
Solar energy	**341.53**	267.62	27.6%
Water/wastewater	**188.25**	158.84	18.5%
Air quality/roadway improvements	**136.22**	118.62	14.8%
Storm drainage	**62.86**	66.06	-4.8%
Basic urban infrastructure*	**23.51**	29.00	-18.9%
Other clean energy	**2.61**	1.14	128.9%
Total	**$ 1,185.51**	$ 1,011.21	

* Basic urban infrastructure includes a mix of street paving, water and sewer lines, and storm drainage.

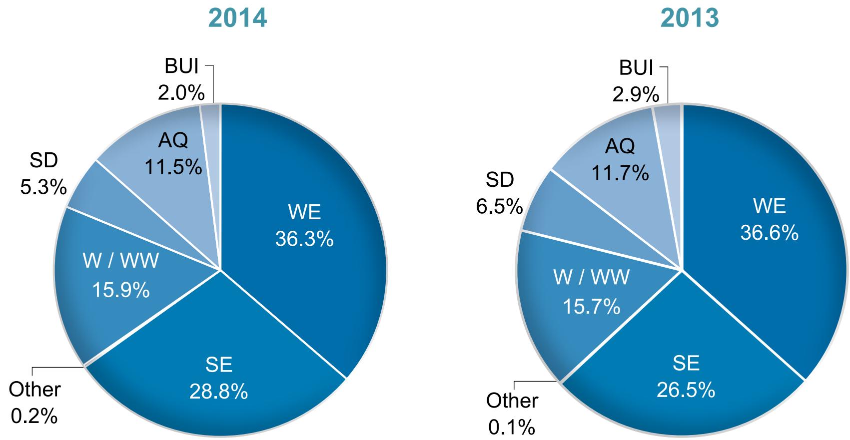
At the close of 2014 and 2013, wind energy accounted for the largest portion of the loan portfolio at 36.3% and 36.6%, respectively; followed by solar energy with 28.8% and 26.5%, respectively; and water and wastewater with 15.9% and 15.7%, respectively.

Given that the border region offers ideal conditions for solar and wind energy projects, the Bank expects to see continued demand for loans in those sectors. Of the US$126.99 million in signed loan commitments pending disbursement at the end of 2014, just over 80% (US$103.10 million) is destined for renewable energy projects. However, the Bank continues to pursue projects in other areas. Of the US$145.78 million in approved loan commitments pending contracting at the end of 2014, 62.1% (US$90.11 million) is intended for projects related to air quality, water conservation and wastewater treatment.

In terms of borrowers, the loan portfolio is broken down into three categories: public, private or public-private. In the latter case, a private company is the direct borrower, but the source of payment and/or guaranty is a public utility or local government and the Bank has recourse to both the private and public entity.

During 2014, the volume of loans held by private-sector borrowers increased US$132.70 million to US$774.67 million, mainly as a result of increased lending in the renewable energy sector. During the same period, the volume of loans held by public-sector borrowers decreased US$25.61 million to US$319.77 million, which can partly be attributed to the increasing number of local governments and utilities seeking to provide public services and infrastructure through public-private partnerships. Loans held by public-private borrowers totaled US$91.07 million in 2014, an increase of US$67.21 million over the prior year total of US$23.86 million. A breakdown of the loan portfolio by borrower type at the close of 2013 and 2014 is shown in Figure 3.

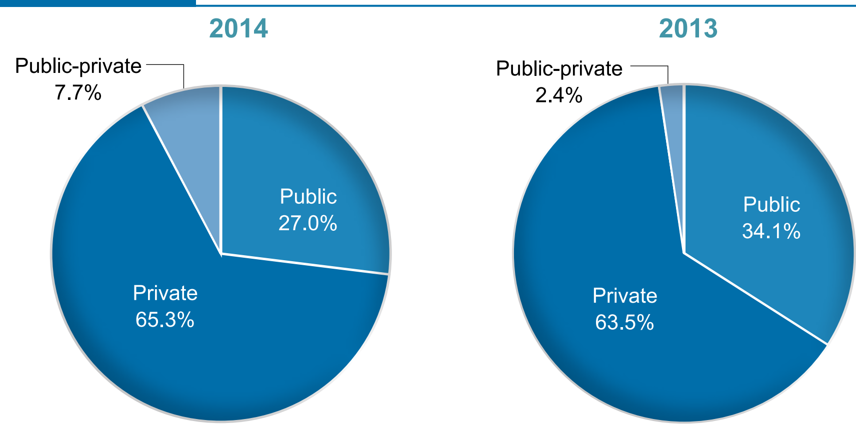
Figure 2:
Breakdown of Loan Portfolio by Environmental Sector



* Air Quality (AQ), Basic Urban Infrastructure (BUI), Storm Drainage (SD), Solar Energy (SE), Water/ Wastewater (W/WW), Wind Energy (WE)

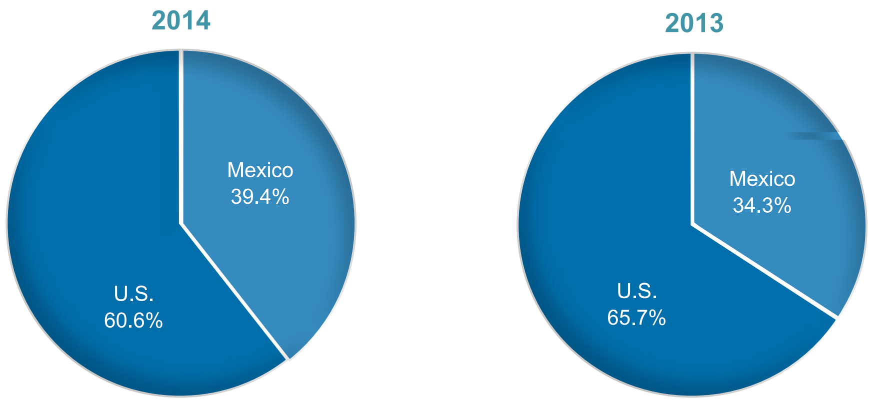
** Other included biofuel in 2013 and landfill gas-to-energy in 2014.

Figure 3:
Breakdown of Loan Portfolio by Borrower Type



In terms of portfolio distribution by geographic region, investment in projects in Mexico grew more rapidly than in the United States in 2014, reversing the trend of the previous two years. Loans invested in Mexican projects grew by 34.7% (US$120.41 million) to a total of US$466.96 million in 2014, compared to an increase of 3.3% (US$11.07 million) in 2013, while the amount held by U.S. borrowers increased 8.1% (US$53.89 million) to a total of US$718.55 million, compared to an increase of 24.4% (US$130.16 million) the previous year. Figure 4 illustrates the breakdown of the loan portfolio by country at the close of 2013 and 2014. This new growth trend is expected to continue as lending activity in Mexico tends to cover a broader array of sectors than in the United States, where borrowers have access to more financing options.

Figure 4:
Breakdown of Loan Portfolio by Region



As indicated in Table 6, during 2014, new lending activity was spread across eight of the ten border states within the Bank's geographic jurisdiction. While the largest monetary investment was made in Baja California with new loans totaling US$48.05 million, the most noteworthy changes occurred in Chihuahua, where outstanding loans more than quadrupled from US$9.04 million to US$40.11 million, followed by Nuevo Leon where outstanding loans more than doubled from US$28.85 million to US$62.87 million.

As a result of this lending activity, the loan portfolio is becoming more evenly distributed by state (see Figure 5). Although the majority of the loan portfolio continues to be concentrated in the same three states, the level of concentration declined from 73.4% in 2013 to 66.5% in 2014. At the close of 2014, Texas accounted for 28.1% of the loan portfolio, down from 31.0% at the beginning of the period, followed by California with 25.0% (compared to 26.0% in 2013) and Tamaulipas with 13.4% (compared to 16.4% in 2013).

Table 6:
Outstanding Loans by State*
(US$ Millions)

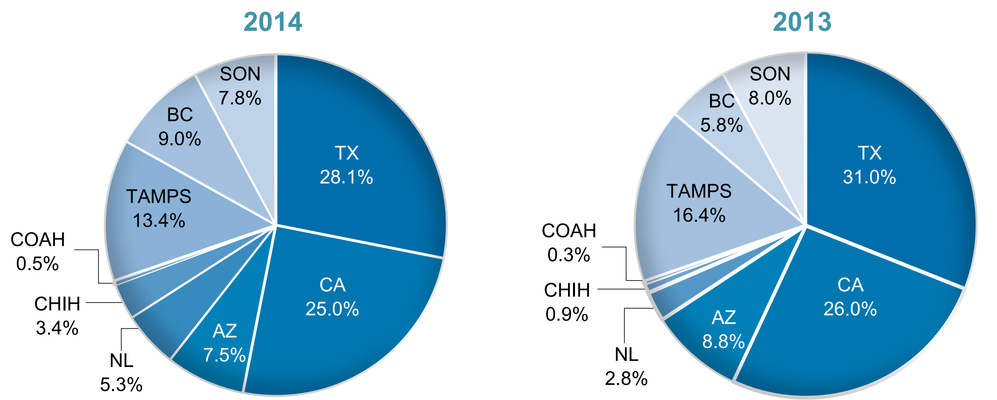
	12/31/2014	12/31/2013	% Change
Texas	**$ 333.82**	$ 313.20	6.6%
California	**295.92**	262.92	12.6%
Tamaulipas	**158.67**	165.64	-4.2%
Baja California	**107.01**	58.96	81.5%
Sonora	**92.94**	81.08	14.6%
Arizona	**88.81**	88.54	0.3%
Nuevo Leon	**62.87**	28.85	117.9%
Chihuahua	**40.11**	9.04	343.7%
Coahuila	**5.36**	2.98	79.9%
Total	**$ 1,185.51**	$ 1,011.21	

* Includes loans to both public and private borrowers.

All of the Bank's current lending is made at market rates. However, in prior years, NADB was authorized to offer below-market interest rate lending on a limited basis for public projects in the water and solid waste sectors. At the close of 2014, US$46.81 million of outstanding loans were at below-market rates, representing 3.9% of the total portfolio.

The Bank funds loans with its equity or borrowed monies. Under its charter, the total amount of outstanding loans (and guaranties) may not at any time exceed the total amount of unimpaired subscribed capital of the Bank, plus the unimpaired reserves and undistributed surplus that are included in its capital resources. As of December 31, 2014, the total unimpaired subscribed capital of the Bank was US$2.70 billion (paid-in capital and callable capital allocated to the international program) and its unimpaired reserves and undesignated retained earnings came to US$119.00 million, for a total loan limit of US$2.82 billion, an increase of US$17.88 million (0.6%) over the loan limit of US$2.80 billion at the end of 2013.

Figure 5:
Breakdown of Loan Portfolio by State



Non-performing Loans: The Bank monitors the credit quality of its borrowers on an ongoing basis and may suspend the disbursement of a loan in the event a weakness is identified that jeopardizes repayment in compliance with the contractual terms. The Bank generally classifies loans as non-performing when payments of principal or interest on the loan are delinquent for 90 days or more, or where reasonable doubt exists as to the borrower's ability to make timely payment. Loans are generally placed in nonaccrual status when principal or interest is delinquent for 180 days or more, or where reasonable doubt exists as to timely collection. The Bank evaluates credit recovery actions on a case-by-case basis and negotiates with delinquent borrowers to recover amounts due. In certain cases where a borrower experiences financial difficulties, the Bank may seek to restructure the contractual terms of the loan.

Of the 67 loans outstanding at the close of 2014, one was classified as non-performing with a balance of US$3.39 million, representing 0.3% of the loan portfolio. In comparison, two of the 61 loans outstanding at the close of 2013 were classified as non-performing with a balance of US$6.98 million.

In the event that the full repayment of a loan is deemed doubtful, the Bank allocates a specific allowance for probable and estimable loan losses on its financial statements. As of December 31, 2014 and 2013, the Bank had a specific allowance for loan losses of US$0 and US$3.44 million, respectively. The Bank also provides a general allowance for loan losses for private-sector borrowers based on statistical cumulative default and recovery rates for project finance loans. As of December 31, 2014 and 2013, the general allowance totaled US$11.36 million and US$9.45 million, respectively.

Grant Activity

During 2014, three grants totaling US$0.77 million were approved through the Community Assistance Program (CAP), and two of those grants totaling US$0.32 million were contracted by year end. In comparison, five CAP grants totaling US$2.18 million were approved and contracted in 2013. New grant commitments for infrastructure projects averaged US$0.79 million annually during the past five years.

With respect to the Technical Assistance Program (TAP), NADB approved US$0.49 million for eight studies in 2014 and US$0.57 million for five studies in 2013. During the past five years, new grant approvals for technical assistance projects have averaged US$0.52 million annually. Additionally, through the Utility Management Institute (UMI), NADB sponsored seven training seminars in 2014 and 19 in 2013.

Disbursements of NADB-funded grants for studies, training and project implementation for the years ended December 31, 2014 and 2013 came to US$2.08 million and US$1.14 million, respectively. Over the past five years, grant disbursements have averaged US$1.70 million annually. A breakdown of grant disbursements by program for the past two years is shown in Table 7. These grant disbursements were funded with previously designated retained earnings and are reported as program expenses in the consolidated income statement.

Table 7:
Grant Disbursments
(US$)

Program	For the Years Ended 12/31/2014	12/31/2013
CAP	**$ 796,259**	$ -
TAP	**380,650**	261,047
UMI	**378,419**	428,818
WCIF	**521,904**	455,025
Total	**$ 2,077,232**	$ 1,144,890

A small portion of CAP funding is used to cover the supervision costs of projects financed under the program. A cumulative total of US$0.25 million and US$0.17 million were committed to construction supervision contracts as of December 31, 2014 and 2013, respectively. For the years ended in those same dates, a total of US$0.12 million and $0, respectively, had been expended under supervision contracts and is included as a component of the CAP grant disbursements shown in Table 7.

At the end of 2014, there was a balance of approximately US$5.31 million in committed grant funds pending disbursement: US$3.30 million from the Water Conservation Investment Fund (WCIF), US$1.82 million from CAP and US$0.19 million in TAP funds.

For fiscal years 2014 and 2013, US$0.45 million from undesignated retained earnings was allocated to the technical assistance program for training purposes. No new funding was allocated to the CAP for project financing during 2014 and 2013. Therefore, as of December 31, 2014, NADB had a balance of US$8.27 million in uncommitted CAP funding available for future projects and US$4.71 million in TAP funds available for studies.

Funding Resources

NADB funds its lending activities and general operations with equity (paid-in capital and retained earnings) and the proceeds from borrowings. As of December 31, 2014, total equity under the international program was US$542.69 million, an increase of 4.6% compared to US$518.65 million at the close of 2013.

Capitalization

The total authorized capital of NADB is US$3 billion with equal commitments from its two member countries, the United States and Mexico. Each government authorized the subscription of 150,000 shares of the Bank’s capital stock with a par value of US$10,000 per share. Fifteen percent of NADB’s authorized capital is in the form of paid-in capital and the remaining 85% is callable capital.

Paid-in capital: Paid-in capital totals US$450 million and consists of cash funds contributed to NADB by the U.S. and Mexico. As set forth in its Charter at inception, 10% of the paid-in capital and associated callable capital subscribed by each country went to finance the domestic programs. Therefore, of the US$450 million in paid-in capital, US$45 million was transferred to the domestic programs for community adjustment and investment, leaving US$405 million for NADB's international program.

The paid-in capital for the domestic programs was divided equally between the two countries with each receiving US$22.50 million for its respective program. The balance of paid-in capital and related earnings for the Mexican domestic program was subsequently transferred to the Mexican federal government as of June 1999. In the case of the U.S. domestic program, NADB continues to hold and administer the balance of its paid-in capital and related earnings. As of December 31, 2014, US$4.34 million in paid-in capital was allocated to USCAIP and held in the Bank's General Reserve.

Callable capital: Callable capital totaling US$2.55 billion—with US$255 million related to the domestic programs and the remaining US$2.295 billion to the international program—is composed of funds that must be provided to NADB by the two governments if required to meet its outstanding debt obligations or guaranties. Callable capital may not be used for loans or investments and constitutes, in effect, backing for the Bank's outstanding indebtedness and guaranties.

The subscription of US$1.275 billion of callable capital stock has been authorized by both governments through their respective legislatures and will be appropriated, if needed. Any capital call must be made uniformly to both member countries, but the obligations of the U.S. and Mexico to make payment of the callable portion of their capital subscriptions to the Bank are independent of each other. As a result, the failure of one member country to make payment on any such call would not excuse the other member from its obligation to make payment and, if necessary, the Bank may make successive calls on the non-defaulting member, up to its subscribed callable capital limit. Neither member country may be required to pay more than the unpaid balance of its capital subscription.

General Reserve

The Bank maintains a General Reserve funded in an amount equal to the retained earnings of NADB, plus transfers from paid-in capital for the U.S. domestic program. As of December 31, 2014 and 2013, the General Reserve balance was US$141.07 million and US$126.59 million, respectively, of which approximately US$137.87 million and US$121.70 million, respectively, related to the Bank's retained earnings under the international program. The remaining balances of US$3.20 million and US$4.89 million represented the allocated paid-in capital and retained earnings of the U.S. domestic program as of December 31, 2014 and 2013, respectively.

Retained earnings are classified as reserved for a specific purpose, designated to a specific program or undesignated. Under the international program NADB maintains four reserves, which are described and funded in the order of priority shown in Box 4.

Box 4:
Reserve Funds under the International Program

Debt Service Reserve:
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:
Maintained in an amount equal to 12 months of the operating budget expenses at each fiscal year-end.

Special Reserve:
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 US$30 million.

Capital Preservation Reserve:
Indexed to the U.S. annual inflation rate in order to maintain the value of the paid-in capital in real terms.

Annual allocations from undesignated retained earnings to the reserve funds are made as necessary, and if available, to maintain the levels mandated under the retained earnings policy. Allocations of undesignated retained earnings to programs may be made with Board approval only after full funding of the reserves. Table 8 provides a breakdown of the retained earnings allocated to reserves and programs at the end of fiscal years 2014 and 2013.

During 2014, retained earnings grew 13.3% to a total of US$137.87 million, while the amount allocated to reserves increased US$9.50 million (11.2%), mainly as a result of capital preservation requirements, and the amount designated to programs decreased US$1.70 million (8.3%) due to grant disbursements. With US$94.60 million of the retained earnings allocated to

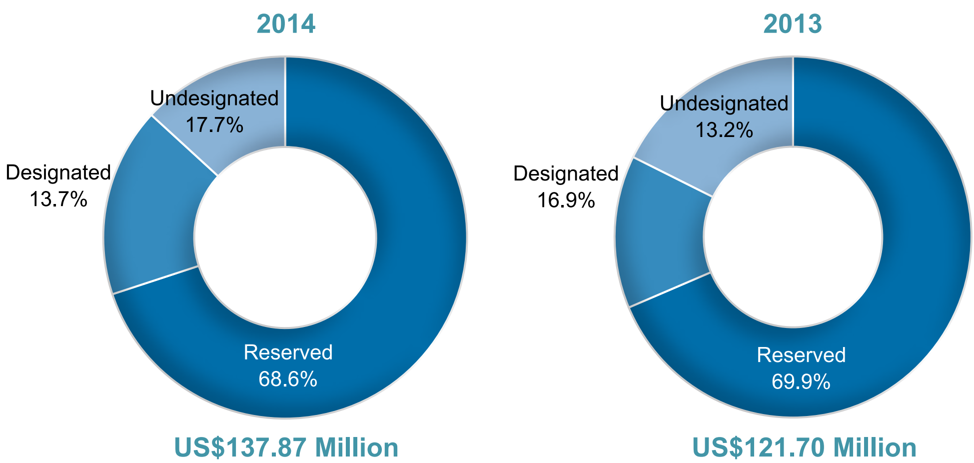
Table 8:
Reserved and Designated Retained Earnings under the International Program
(US$ Millions)

		12/31/2014		12/31/2013
Reserved retained earnings				
Debt Service Reserve	**$**	**19.99**	$	18.43
Operating Expenses Reserve		**10.40**		9.38
Special Reserve		**30.00**		30.00
Capital Preservation Reserve		**34.21**		27.30
Total reserves	**$**	**94.60**	$	85.11
Designated retained earnings				
Community Assistance Program (CAP)	**$**	**10.68**	$	11.47
Water Conservation Investment Fund (WCIF)		**3.30**		3.82
Technical Assistance Program (TAP)		**4.90**		5.29
Total designated	**$**	**18.88**	$	20.58

reserves and US$18.88 million designated to fund programs, the Bank had US$24.39 million in undesignated retained earnings at the end of 2014, which represents an increase of 52.3% (US$8.38 million) over the balance of undesignated retained earnings held at the end of 2013 (US$16.01 million).

The Special Reserve may be used to offset losses on outstanding loans or to pay expenses relating to the enforcement of the Bank's rights under outstanding loan and guaranty agreements. The U.S. domestic program may also allocate funding to this reserve for its loans. As of December 31, 2014 and 2013, special reserves allocated to the U.S. domestic program totaled US$20,752 and US$34,667, respectively.

Figure 6:
Retained Earnings under the International Program



Borrowings

NADB may raise funds by issuing debt in international capital markets or with other financial institutions for the purpose of financing its lending operations or refinancing existing borrowings. The Bank's annual borrowing plan is approved by the Board of Directors. In accordance with its debt limit policy, total principal outstanding may not exceed at any time the callable portion of its subscribed capital shares associated with the international program, plus the minimum liquidity level required under the liquidity policy. With US$2.295 billion in subscribed callable capital associated with the international program and a minimum liquidity level of US$185.50 million for 2014, the Bank's maximum debt limit during 2014 was US$2.48 billion. This figure is slightly higher than the maximum debt limit of US$2.46 billion in 2013, as the Bank had a lower minimum liquidity requirement for 2013 (US$164.00 million). At the close of 2014, the Bank had total debt outstanding of US$1.06 billion, accounting for 42.7% of its debt limit.

The Bank did not issue any new debt in the capital markets during 2014; however, under a fixed-rate loan agreement for up to US$50 million contracted with another development bank in November 2012, NADB drew down US$13.57 million during 2014 to fund eligible wastewater projects in Mexico. In October 2013, the Bank issued a five-year non-amortizing note with a face value of US$300.00 million at a fixed coupon rate that generated proceeds of US$298.21 million. NADB also drew down US$16.39 million on the aforesaid loan agreement for Mexican wastewater projects in 2013.

Gross outstanding debt increased 1.3% to a total of US$1.06 billion in 2014, from US$1.05 billion at the close of 2013. All borrowings have been issued at fixed rates in U.S. dollars. A breakdown of the borrowings by type and maturity is shown in Tables 9 and 10, respectively. Most of the Bank's fixed-rate debt is hedged through interest rate swaps, effectively changing it to floating rates.

Table 9:
Gross Debt by Type
(US$ Millions)

	12/31/2014	12/31/2013
Notes payable	**$ 1,030.00**	$ 1,030.00
Other borrowings	**29.95**	16.39
Total	**$ 1,059.95**	$ 1,046.39

Table 10:
Gross Debt by Maturity
(US$ Millions)

	12/31/2014	12/31/2013
Short-term	**$ 2.63**	$ -
Long-term	**1,057.32**	1,046.39
Total	**$ 1,059.95**	$ 1,046.39

In February 2014, under its revised methodology for multilateral development banks and other supranational entities, Moody's Investors Service issued NADB an Aa1/P-1 rating with a stable outlook, reflecting its strong capitalization and liquidity levels, conservative risk management policies and the expectation of strong shareholder support in the event of financial stress. In April 2014, Fitch Ratings reaffirmed its AA/F1+ credit rating of NADB with a stable outlook.

Results of Operations

The main source of revenue for NADB is derived from interest income on its loan portfolio and investment holdings. Expenses mainly consist of interest paid on borrowed funds, personnel and administrative costs, provisions for loan losses and net unrealized losses from hedging activities.

For the year ended December 31, 2014, the Bank had total revenue of US$44.95 million, total operating expenses of US$13.15 million, interest expense of US$13.55 million and income before program activities of US$18.25 million. Net income after program expenses (grant disbursements) was US$16.18 million. Table 11 provides a breakdown of the main operating income and expense categories for the years ended December 31, 2014 and 2013.

Table 11:
Operating Income & Expenses under the International Program
(US$ Millions)

	For the Years Ended	
	12/31/2014	12/31/2013
Loan interest income	**$ 38.49**	$ 35.15
Investment interest income	**5.22**	4.39
	43.71	39.54
Less: interest expense	**13.55**	10.84
Net interest income	**30.16**	28.70
Gain (loss) on sales of investments, net	**0.19**	(0.01)
Other income	**1.06**	0.05
Total net revenue	**31.41**	28.74
Less:		
Administrative expenses	**8.57**	8.87
Provisions for loan losses	**2.20**	10.54
Other expenses	**2.39**	0.96
Income before program activities	**$ 18.25**	$ 8.37

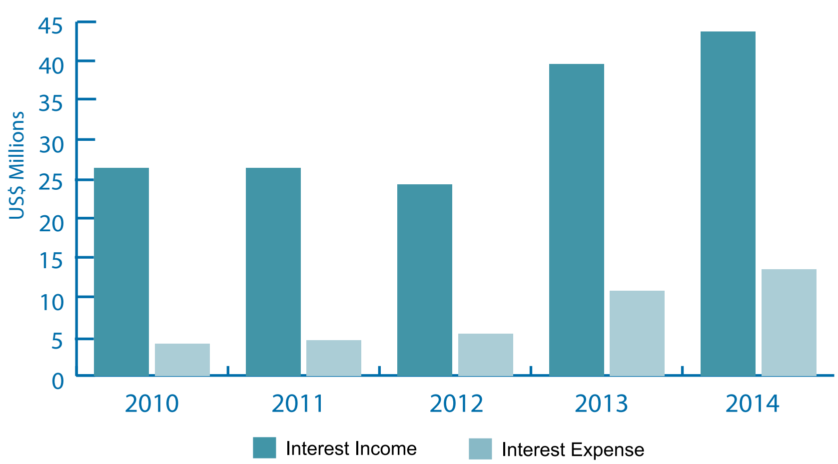
Interest Income: For the year ended December 31, 2014, interest from loans totaled US$38.49 million, an increase of US$3.34 million or 9.5% over the previous year, reflecting the continued growth of the loan portfolio. Interest income on investments for the same period totaled US$5.22 million, an increase of US$0.83 million or 18.9% compared to the previous year. This increase can mainly be attributed to higher average investment balances deriving from the proceeds of a debt issuance received in the last quarter of 2013.

Net Gain (Loss) on Investments: The net gain on sales of available-for-sale investment securities for the year ended December 31, 2014, was US$0.19 million, as compared to a net loss of less than US$0.01 million for the year ended December 31, 2013. Available-for-sale investment securities totaled US$304.20 million and US$435.10 million as of December 31, 2014 and 2013, respectively, representing a decrease of US$130.89 million or 30.1%. This reduction in investment holdings occurred as securities were sold to fund new loans.

Other Income and Expenses: Other income and expenses generally consist of net foreign exchange gains (losses), net gains (losses) from swaps, loan fees, depreciation and other miscellaneous income and expenses. For the year ended December 31, 2014, other income totaled US$1.06 million as compared to US$0.05 million for the year ended December 31, 2013. The net increase is primarily attributable to a US$1.04 million increase in swap income. For the years ended December 31, 2014 and 2013, other expenses totaled US$2.39 million and US$0.96 million, respectively. The increase is mainly attributable to a US$1.53 million impairment in the fair value of other real estate owned.

Interest Expense: Interest expense consists of the interest on US$1.06 billion and US$1.05 billion in debt as of December 31, 2014 and 2013, respectively, net of hedge effect. For the year ended December 31, 2014, interest expense totaled US$13.55 million as compared to US$10.84 million for the year ended December 31, 2013.

Figure 7:
Interest Income vs. Interest Expense



Provision for Loan Losses: In addition to specific loan loss provisions on non-performing loans, in November 2013, NADB began creating general provisions on loans made to private-sector borrowers based on probabilities of default and expected recovery rates. During 2013, the allowance for loan losses was increased by US$10.54 million, mainly due to a general provision for loan losses totaling US$9.45 million, as the Bank implemented its new general allowance policy. The remaining US$1.09 million was provisioned for a specific impaired loan. During 2014, the net provision for loan losses was US$2.20 million, which mainly consisted of a general provision for loan losses of US$1.90 million due to increased lending to the private sector, while the remaining US$0.30 million was provisioned for a specific impaired loan.

Administrative Expenses: These expenses, which consist of personnel, consultants, travel, general and administrative costs, decreased 3.4%, from US$8.87 million in 2013 to US$8.57 million in 2014, mainly because of a significant increase in loan origination fees, which helped offset loan origination costs.

Liquidity Management

NADB has established liquidity and investment policies to help ensure that it can meet its financial obligations at all times, even under conditions of constrained market access, as well as have sufficient cash flows to cover its operational needs in the normal course of business.

Liquidity Policy

Under its liquidity policy, the Bank's minimum level of liquid holdings is equal to the highest consecutive 12 months of the following 18 months of expected debt service obligations, committed net loan disbursements and projected operating expenses for the relevant fiscal year. The minimum liquidity level is determined prior to the beginning of each fiscal year and may be revised during the year in the event of major changes in outlook. In accordance with this policy, the minimum liquidity balance for the 2014 fiscal year was US$185.50 million and for the 2015 fiscal year it will be US$147.70 million.

Table 12:
Liquid Assets under the International Program
(US$ Millions)

	For the Years Ended	
Type of Security	12/31/2014	12/31/2013
Cash and Cash Equivalents	**$ 85.09**	$ 56.81
U.S. Treasury Securities	**106.17**	176.81
U.S. Agency Securities	**68.83**	92.28
Mortgage-backed Securities	**0.02**	0.08
United Mexican State (UMS) Securities	**15.06**	18.37
Taxable Municipal Securities	**3.05**	5.08
Other Permissible Securities*	**111.07**	142.48
Total	**$ 389.29**	$ 491.91

*Other permissible securities include corporate debt securities, asset-backed securities,commercial paper and certificates of deposit.

The Bank's liquid asset holdings are in the form of cash, cash equivalents (mainly repurchase agreements) and investments in longer term marketable securities (fixed-income securities). All of the investments held in the liquidity portfolio are designated as available-for-sale. As of December 31, 2014, 49.1% of the Bank's liquid asset portfolio was comprised of highly liquid assets (cash, cash equivalents and U.S. Treasuries). The remaining 50.9% was comprised of other types of liquid assets held by the Bank.

As of December 31, 2014 and 2013, liquid assets totaled US$389.29 million and US$491.91 million, respectively. The US$102.62 million decrease was primarily the result of loan disbursements. At the close of 2014, the Bank's liquid assets represented 23.8% of total assets (US$1,633.37 million) and 36.7% of total gross debt (US$1,059.95 million), as compared to 31.3% of total assets (US$1,573.08 million) and 47.0% of total gross debt (US$1,046.39 million), at the end of 2013.

Investment Policy

The Bank's investment objectives are to ensure that its liquid assets are prudently invested to preserve capital and provide necessary liquidity. All of the Bank's investments are classified as held-to-maturity or available-for-sale securities.

The Bank invests in high quality, liquid securities which have readily identifiable prices. Permissible securities that otherwise meet the Bank's investment policy comprise a wide range of high-quality, fixed-income instruments, including U.S. Treasury and governmental agency securities, Mexican government securities, bank deposits, repurchase agreements (pursuant to master purchase agreements and fully collateralized by U.S. Treasury securities), certificates of deposit, commercial paper and money market funds.

The Bank is restricted from investing more than 5% of its investment portfolio in the securities of any one issuer, excluding obligations of the U.S. government, the Mexican government and U.S. government agencies. The investment portfolio must contain a minimum of 25% U.S. government securities; all other securities are subject to caps as indicated in Box 5.

The majority of the securities in which the Bank invests must be rated AA (or its equivalent) or higher by a recognized securities rating agency. There are only two exceptions: 1) Mexican government securities; and 2) corporate debt securities denominated in U.S. dollars and rated A (or its equivalent) or higher, which cannot exceed 25% of the total investment portfolio. Repurchase agreements, certificates of deposit and commercial paper counterparties must have a short-term debt rating of A-1 (or its equivalent) or higher by a recognized rating agency.

Box 5:
Investment Guidelines

Securities	Established Limits
U.S. Treasury securities	25% minimum
U.S. agency securities	45% maximum
Mortgage-backed securities	15% maximum
Mexican (UMS) securities	30% maximum
Taxable municipal securities	25% maximum
Other permissible securities	35% maximum

Risk Management

As a part of its development financing services, the Bank is exposed to credit risk (loan portfolio or counterparty risk); market risk (interest rate and exchange rate); liquidity risk (funding and liquidation); and operational risk. The Bank manages its risks in accordance with the Charter and the policies approved by the Board of Directors. In general, NADB manages the risks inherent in its lending activities by ensuring that the projects it finances meet certain economic and feasibility criteria and by requiring some form of credit support if necessary. NADB's market risk is limited by its liquidity and investment policies. The Bank takes a conservative approach to market risk, which is neutralized or mitigated through the use of derivatives. The Bank engages in these transactions for the sole purpose of asset/liability risk management, and not for any speculative purposes.

Credit Risk

The Bank is subject to certain credit risk related to the potential losses that could result from the default of borrowers (loan portfolio credit risk) or from the default of the Bank's investment, trading or swap counterparties (counterparty risk).

Loan Portfolio Credit Risk: As a result of its core business of providing infrastructure development loans, the Bank is exposed to the risk that it may not receive payment of principal and/or interest on one or more of its loans in accordance with the agreed-upon terms. Loan portfolio credit risk is determined by the credit quality of each borrower and the Bank's exposure to each borrower. The Bank mitigates this credit-default risk by performing thorough credit analyses and applying stringent due-diligence procedures to projects and borrowers, as well as using tailor-made loan structures with strong payment mechanisms and adhering to strict debt service coverage requirements. In addition, the Bank has established policies limiting its exposure per project and per obligor, and continually monitors the financial stability of each borrower throughout the term of the loan.

To further mitigate this credit default risk, all of the loans in the Bank's outstanding portfolio are secured by some form of credit support, including project revenue, borrower cash flows, senior liens on project equity and assets, step-in rights or, in the case of Mexican loans, federal tax revenue pledged to an irrevocable trust or pursuant to a mandate agreement. In addition, the Bank maintains an allowance for loan losses, as well as a Special Reserve funded from its retained earnings, which are available to offset any losses on outstanding loans or pay expenses relating to the enforcement of the Bank's rights under outstanding loan agreements.

Counterparty Risk: This risk arises from exposure to losses that could occur as a result of the default of one of the Bank's investment, trading or swap counterparties. The main sources of the Bank's counterparty risk are the financial instruments in which the Bank invests its liquidity and the swap transactions it enters into with a financial institution as the counterparty. The Bank maintains cash and cash equivalents, investments, and certain other financial instruments with various major financial institutions, performs periodic evaluations of the relative credit standing of these financial institutions and limits the amount of credit exposure with any one institution. All of its swaps are with five counterparties, two of which are backed by the federal government of Mexico. The other three are commercial financial institutions rated A1/A+, A2/A and A3/A by two nationally-recognized rating agencies. NADB signs an International Swap and Derivatives Association (ISDA) agreement with appropriate collateral support provisions with the commercial banks with which it enters into swap transactions.

Liquidity Risk

Liquidity risk arises from a financial institution's inability to meet its contractual obligations in a timely manner without adversely affecting daily operations or the financial condition of the institution. NADB has established liquidity and investment policies to mitigate this risk. Under these policies, NADB maintains a portfolio of liquid investments to ensure that it can meet its financial obligations at all times, even under conditions of constrained market access, as well as have sufficient cash flows to cover its operational needs in the normal course of business.

Market Risk

The Bank is exposed to market risks as a result of general market movements, mainly through changes in interest and exchange rates affecting earnings on its loan and investment portfolios and the cost of its external borrowings. These risks are mitigated through the Bank's asset and liability management program and its hedging activities.

Interest Rate Risk: There are three potential sources of interest rate risk for the Bank: (i) financial margin volatility from a mismatch in timing on the reset periods to maturity between assets and liabilities; (ii) changes in the market value of investments and redemption of investments to fund loans; and (iii) cost of external borrowings in loan pricing due to decrease in market interest during the term of borrowed funds.

To mitigate the volatility of the financial margin and minimize a repricing mismatch, the Bank uses interest rate swaps to hedge asset and liability positions. Most of the Bank's fixed-rate borrowings have been swapped to a floating interest rate. Fixed-rate loans made with the proceeds of the swapped debt are in turn swapped to a floating rate.

To minimize the risk related to investments, the Bank controls the average duration of its portfolio. To maintain adequate liquidity and protect the Bank's portfolio from significant losses caused by interest rate movements, the average duration of the portfolio may not exceed four years. The Bank structures its investment portfolio so that its investment securities mature concurrent with anticipated cash flow requirements, with additional consideration for unanticipated cash demands.

Exchange Rate Risk: The Bank is exposed to exchange rate risk as a result of its dual-currency lending operations. To minimize exchange rate risk, NADB matches its lending operations to the local currency of the borrower. For U.S. borrowers, loans are available in U.S. dollars. For Mexican borrowers, loans are available in Mexican pesos, as well as in U.S. dollars if the project generates sufficient revenue in U.S. dollars to service the debt. For financing extended in pesos, a currency hedge must be established unless the source of funding for the loan is also in pesos.

COFIDAN, a non-regulated, multi-purpose financial institution established in Mexico to channel NADB loans to state and local public entities in that country, is wholly-owned by the Bank, and its accounts are consolidated with those of the Bank for financial reporting purposes. Since COFIDAN is located in Mexico, it operates primarily using Mexican pesos. Accordingly, the Bank is exposed to some exchange rate risk in the translation of COFIDAN's assets and liabilities into U.S. dollars using the exchange rate in effect at the end of the relevant financial reporting period (revenue and expenses are translated using average exchange rates for the period). The resulting cumulative translation adjustment is included in NADB's accumulated other comprehensive income. Because of the small asset size, such adjustments have not been material and are not expected to be in the future.

Operational Risk

Operational risk is the potential loss arising from external events or from internal activities due to inadequate or failed processes, a breakdown in systems or human error. Operational risk also includes fraud and failures in the execution of legal, fiduciary and agency responsibilities. These risks stem from the manner in which the Bank is operated, as opposed to the risk arising from its financial transactions.

NADB manages its operational risk through a system of internal controls based on established policies and procedures for all significant areas of operation, including funds management, disbursements, procurement and financial reporting. This system is strengthened by the Bank's highly qualified personnel who maintain the highest standards of integrity and professionalism in the performance of their duties.

In addition, NADB has internal audit staff to evaluate compliance with bank policies, procedures and processes based on continual risk assessments, with direction from Bank management. The internal audit staff reports directly to Bank management and provides semiannual reports to the Board, which include an assessment of the adequacy and effectiveness of NADB's internal control framework and any key internal audit findings.

To further mitigate this risk and strengthen its internal controls, the Bank engaged a consultant in 2013 to perform a comprehensive operational risk assessment that was completed in July 2014. The key recommendations in the final report included establishing a centralized risk management function, improving loan portfolio management and assessment, separating treasury operations from accounting, implementing software to capture and monitor the Bank's risk environment, and enhancing internal audit work. The first recommendation was implemented in November 2014 with the creation of a risk management area and the hiring of an experienced risk manager.

Basis of Reporting & Critical Accounting Policies

The Bank's consolidated financial statements are prepared in accordance with generally accepted accounting principles (GAAP) in the United States, and are consistent with that of an international organization. The notes to the financial statements contain a summary of NADB's significant accounting policies, including a discussion of recently issued rules and regulations. Certain of these policies are considered to be critical to the portrayal of the Bank's financial condition, because they require NADB management to make difficult, complex or subjective judgments, or relate to matters that are inherently uncertain. These policies include (i) the use of fair value accounting and (ii) the determination of the level of loss allowances and reserves in the loan portfolio.

Fair Value Accounting: The Bank uses fair value measurements to account for the value of its cross-currency interest rate swaps, interest rate swaps, and available-for-sale debt securities. Where possible, fair value is determined by reference to quoted market prices. If quoted market prices are unavailable, then fair value is based on pricing and discounted cash flow models. The selection of data included in pricing and cash flow models involves a significant degree of judgment, and changes in the assumptions and measurements underlying this data could have a substantial impact on the amounts the Bank reports as assets and liabilities, as well as the related unrealized gains and losses reported on its income statement. The Bank believes that its estimates of fair value are reasonable in light of its established processes for obtaining data for use in its models; the periodic evaluation, review and validation of its models; and the consistent application of this approach from period to period. Additional information about this policy can be found in Notes 2 and 11 to the consolidated financial statements.

Loan Loss Allowances: The determination of the allowance for loan losses is based on management's current judgments about the credit quality of the Bank's loan portfolio, and the allowance is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. Determining the appropriate allowance for loan losses involves significant judgment about when a loss has been incurred and the amount of that loss. Actual losses may differ from expected losses due to unforeseen changes in a variety of factors that affect borrowers' creditworthiness and the accuracy of the Bank's allocated allowance. Additional information about this policy can be found in Notes 2 and 4 to the consolidated financial statements.

External Auditors

The accounts of the Bank are audited annually by independent external auditors with established international experience chosen by the Board on the basis of a proposal by Bank management. In accordance with the policies and principles established by the Board, the external auditors are selected through a competitive process, are appointed for terms of up to five years, and are engaged on an annual basis. Having completed a five-year term as the Bank's external auditors in 2011, Ernst & Young LLP (E&Y) won the bid in 2012 and was appointed by the Board as the Bank's external auditors for a second five-year term that will end in 2016. The Bank renewed its contract with E&Y to carry out the annual audit of its accounts for fiscal year 2014.

Consolidated Financial Statements and Supplemental Information

North American Development Bank
Years Ended December 31, 2014 and 2013
With Report of Independent Auditors

Report of Independent Auditors

Ernst & Young

The Board of Directors
North American Development Bank

We have audited the accompanying consolidated financial statements of North American Development Bank (the Bank), which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of income and comprehensive income, changes in equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of North American Development Bank at December 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Supplementary Information

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

Ernst & Young, LLP

San Antonio, Texas
March 31, 2015

Consolidated Balance Sheets

	December 31 2014	December 31 2013
Assets		
Cash and cash equivalents:		
Held at other financial institutions in demand deposit accounts	**$ 1,836,490**	$ 76,348
Held at other financial institutions in interest-bearing accounts	**52,919,581**	39,527,978
Repurchase agreements	**32,900,000**	21,000,000
	87,656,071	60,604,326
Held-to-maturity investment securities, at amortized cost	**53,664,254**	53,619,703
Available-for-sale investment securities, at fair value	**304,203,394**	435,095,011
Loans outstanding	**1,186,205,931**	1,012,367,164
Allowance for loan losses	**(11,378,816)**	(12,917,307)
Unamortized loan fees	**(8,535,936)**	(3,411,490)
Foreign currency exchange rate adjustment	**(32,890,748)**	(16,054,882)
Hedged items, at fair value	**1,698,406**	(17,343,992)
Net loans outstanding	**1,135,098,837**	962,639,493
Interest receivable	**10,458,143**	10,331,837
Grant and other receivable	**1,631,316**	419,481
Furniture, equipment and leasehold improvements, net	**177,321**	192,950
Other assets	**43,692,549**	55,079,144
Total assets	**$ 1,636,581,885**	$ 1,577,981,945
Liabilities and equity		
Liabilities:		
Accounts payable	**$ 1,066,206**	$ 993,536
Accrued liabilities	**292,225**	322,356
Accrued interest payable	**8,394,741**	8,343,188
Undisbursed grant funds	**1,000**	1,005
Other liabilities	**20,426,135**	37,650,115
Short-term debt	**2,631,000**	–
Long-term debt, net of discount	**1,052,838,328**	1,041,314,034
Hedged items, at fair value	**5,047,280**	(34,189,989)
Net long-term debt	**1,057,885,608**	1,007,124,045
Total liabilities	**1,090,696,915**	1,054,434,245
Equity:		
Paid-in capital	**405,000,000**	405,000,000
General Reserve:		
Allocated paid-in capital	**4,337,076**	5,773,589
Retained earnings:		
Designated	**17,719,949**	19,663,688
Reserved	**94,623,755**	85,140,670
Undesignated	**24,392,203**	16,013,735
Accumulated other comprehensive loss	**(194,018)**	(8,050,355)
Non-controlling interest	**6,005**	6,373
Total equity	**545,884,970**	523,547,700
Total liabilities and equity	**$ 1,636,581,885**	$ 1,577,981,945

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

Consolidated Statements of Income

	Year Ended December 31	
	2014	**2013**
Income:		
Interest:		
Investment income	**$ 5,224,734**	$ 4,395,364
Loan income	**38,528,324**	35,205,952
Gain (loss) on sales of available-for-sale investment securities, net	**188,097**	(8,011)
Fee income	**17,257**	46,261
Other	**1,038,329**	100
Total revenues	**44,996,741**	39,639,666
Operating expenses:		
Personnel	**4,877,951**	5,193,127
Consultants and contractors	**2,380,353**	2,346,345
General and administrative	**1,070,094**	1,049,866
Operational travel	**238,823**	281,591
Depreciation	**49,738**	35,480
Provision for loan losses	**2,199,499**	10,544,119
Other	**2,336,949**	926,792
U.S. Domestic Program	**301,055**	286,147
Total operating expenses	**13,454,462**	20,663,467
Interest expense	**13,547,601**	10,838,179
Income before program activities	**17,994,678**	8,138,020
Program activities:		
U.S. Environmental Protection Agency (EPA) grant income	**1,041,909**	1,207,801
EPA grant administration expense	**(1,041,909)**	(1,207,801)
Technical Assistance Program expense	**(759,069)**	(689,865)
Community Assistance Program expense	**(796,259)**	–
Water Conservation Investment Fund expense	**(521,904)**	(455,025)
Net program expenses	**(2,077,232)**	(1,144,890)
Income before non-controlling interest	**15,917,446**	6,993,130
Net loss attributable to non-controlling interest	**(368)**	(161)
Net income attributable to NADB	**$ 15,917,814**	$ 6,993,291

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

Consolidated Statements of Comprehensive Income

	Year Ended December 31	
	2014	2013
Net income	**$ 15,917,814**	$ 6,993,291
Other comprehensive income (loss):		
Available-for-sale investment securities:		
Change in unrealized gains (losses) during the period, net	**918,065**	(1,164,800)
Reclassification adjustment for net (gains) losses included in net income	**(188,097)**	8,011
Total unrealized gain (loss) on available-for-sale investment securities	**729,968**	(1,156,789)
Foreign currency translation adjustment	**47,575**	(41,184)
Unrealized gains (losses) on hedging activities:		
Foreign currency translation adjustment, net	**(16,357,061)**	(5,532)
Fair value of cross-currency interest rate swaps, net	**23,435,855**	(9,211,861)
Total unrealized gain (loss) on hedging activities	**7,078,794**	(9,217,393)
Total other comprehensive gain (loss)	**7,856,337**	(10,415,366)
Total comprehensive income (loss)	**$ 23,774,151**	$ (3,422,075)

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

Consolidated Statement of Changes in Equity

	Paid-in Capital	General Reserve: Allocated Paid-in Capital	General Reserve: Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest	Total Equity
Beginning balance, January 1, 2013	$ 405,000,000	$ 6,602,838	$ 113,824,802	$ 2,365,011	$ 6,534	$ 527,799,185
Transfer to Targeted Grant Program of the U.S. Domestic Program	–	(829,249)	–	–	–	(829,249)
Net income	–	–	6,993,291	–	–	6,993,291
Other comprehensive loss	–	–	–	(10,415,366)	–	(10,415,366)
Non-controlling interest	–	–	–	–	(161)	(161)
Ending balance, December 31, 2013	405,000,000	5,773,589	120,818,093	(8,050,355)	6,373	523,547,700
Transfer to Targeted Grant Program of the U.S. Domestic Program	**–**	**(1,436,513)**	**–**	**–**	**–**	**(1,436,513)**
Net income	**–**	**–**	**15,917,814**	**–**	**–**	**15,917,814**
Other comprehensive income	**–**	**–**	**–**	**7,856,337**	**–**	**7,856,337**
Non-controlling interest	**–**	**–**	**–**	**–**	**(368)**	**(368)**
Ending balance, December 31, 2014	**$ 405,000,000**	**$ 4,337,076**	**$ 136,735,907**	**$ (194,018)**	**$ 6,005**	**$ 545,884,970**

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

Consolidated Statements of Cash Flows

	Year Ended December 31 2014	2013
Operating activities		
Net income	**$ 15,917,814**	$ 6,993,291
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	**49,738**	35,480
Amortization of net premium on investments	**2,582,651**	1,980,067
Change in fair value of swaps and other non-cash items	**41,396,025**	(26,463,294)
Non-controlling interest	**(368)**	(161)
(Gain) loss on sales of available-for-sale investment securities, net	**(188,097)**	8,011
Provision for loan losses	**2,199,499**	10,544,119
Change in other assets and liabilities:		
Increase in interest receivable	**(126,306)**	(1,816,222)
(Increase) decrease in receivable and other assets	**1,425,083**	(7,605,846)
Increase (decrease) in accounts payable	**72,670**	(75,706)
Increase (decrease) in accrued liabilities	**(30,131)**	84,747
Increase in accrued interest payable	**51,553**	1,678,491
Net cash provided by (used in) operating activities	**63,350,131**	(14,637,023)
Lending, investing, and development activities		
Capital expenditures	**(34,109)**	(93,406)
Loan principal repayments	**76,585,766**	74,084,868
Loan disbursements	**(254,162,523)**	(214,964,344)
Purchase of held-to-maturity investments	**(3,224,685)**	(1,150,000)
Purchase of available-for-sale investments	**(295,316,846)**	(558,724,883)
Proceeds from maturities of held-to-maturity investments	**3,203,000**	1,145,000
Proceeds from sales and maturities of available-for-sale investments	**424,521,011**	393,086,910
Net cash used in lending, investing, and development activities	**(48,428,386)**	(306,615,855)
Financing activities		
Proceeds from other borrowings	**13,566,518**	16,386,468
Proceeds from note issuance	**–**	299,409,000
Grant funds from the Environmental Protection Agency (EPA)	**15,672,030**	18,976,292
Grant disbursements – EPA	**(15,672,035)**	(18,976,292)
Grant activity – U.S. Domestic Program	**(1,436,513)**	(829,249)
Net cash provided by financing activities	**12,130,000**	314,966,219
Net increase (decrease) in cash and cash equivalents	**27,051,745**	(6,286,659)
Cash and cash equivalents at January 1, 2014 and 2013	**60,604,326**	66,890,985
Cash and cash equivalents at December 31, 2014 and 2013	**$ 87,656,071**	$ 60,604,326
Supplemental cash information		
Cash paid during the year for interest	**$ 30,266,987**	$ 23,055,486
Significant noncash transactions		
Foreign currency translation adjustment	**$ (16,357,061)**	$ (5,532)
Change in fair value of cross-currency interest rate swaps, net	**$ 23,435,855**	$ (9,211,861)
Change in fair value of available-for-sale investments, net	**$ 729,968**	$ (1,156,789)

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

Notes to Consolidated Financial Statements

December 31, 2014

1. Organization and Purpose

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

The Bank began its operations on November 10, 1994, with initial capital subscriptions by the United States and Mexico. The Bank is governed by a Board of Directors appointed by the two countries. The operations of the Bank are subject to certain limitations outlined in the Charter, as amended on August 6, 2004. The geographic jurisdiction of the International Program is within 100 kilometers north of the U.S.-Mexico border and within 300 kilometers south of the border. The Bank is located in San Antonio, Texas.

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

On June 2, 1998, the Board of Directors adopted a resolution authorizing the Bank to establish a limited-purpose financial institution (*Sociedad Financiera de Objeto Limitado,* SOFOL) for the purpose of facilitating Bank lending to the Mexican public sector. In January 1999, the Corporación Financiera de América del Norte, S.A. de C.V. SOFOL (COFIDAN) began operations in Mexico City and, in October 2006, COFIDAN was converted from a SOFOL to a non-regulated, multipurpose financial institution (SOFOM, E.N.R.), and its name was modified to Corporación Financiera de América del Norte, S.A. de C.V. SOFOM E.N.R. As of December 31, 2014, COFIDAN is 99.90% owned by the Bank and 0.10% owned by the Mexican government. The accounts of COFIDAN are consolidated with the Bank, and all material intercompany accounts and transactions are eliminated in consolidation. The non-controlling interest reflected in the consolidated balance sheets and consolidated statements of income represents the ownership of the Mexican government through the Ministry of Finance and Public Credit (SHCP).

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates in Financial Statements

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) and are presented in a manner consistent with that of an international organization. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. These estimates include investments, allowance for loan losses, the fair value of derivative instruments and other real estate owned included in other assets, and the fair value of derivative instruments included in other liabilities and in long-term debt. Actual results could differ from those estimates.

Principles of Consolidation

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

2. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

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

Repurchase Agreements

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

Investment Securities

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

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

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

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

The accretion of discounts and the amortization of premiums are computed using the interest method. Realized gains and losses are determined using the specific identification method. Investments in a loss position are reviewed in order to determine whether the unrealized loss, which is considered an impairment, is temporary or other-than-temporary. In the event of other-than-temporary impairment, the cost basis of the investment would be written down to its fair value, and the credit component of the loss would be included in current earnings. The Bank had no securities classified as other-than-temporarily impaired as of December 31, 2014 and 2013.

Taxation

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

Furniture, Equipment, and Leasehold Improvements

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

General Reserve

The Board of Directors defines the General Reserve as retained earnings plus allocated paid-in capital for the U.S. Domestic Program, as described in Note 8. Retained earnings are classified as either designated for a specific program, reserved, or undesignated.

2. Summary of Significant Accounting Policies (continued)

Undesignated retained earnings in excess of one percent (1.0%) of total assets of the International Program are used to fund four reserves in the following order of priority:

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

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

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

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

Loans and Allowance for Loan Losses

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

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

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

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

In cases where a borrower experiences financial difficulties and the Bank makes certain monetary concessions to the borrower through modifications of the contractual terms of the loan, the loan is classified as a restructured troubled loan. 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

2. Summary of Significant Accounting Policies (continued)

the amount of that loss. The determination of the allowance for loan losses is based on management's current judgment about the credit quality of the loan portfolio. A specific allowance is established for impaired loans that exhibit a distinct possibility that the Bank may sustain some loss. Impairment of these loans is measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate or the fair value of the collateral, if the loan is collateral-dependent. In 2013, under the International Program, a general allowance for loans to private-sector borrowers was established based on statistical cumulative default and recovery rates for project finance loans.

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

Credit Quality

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

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

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

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

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

Program Activities

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

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

2. Summary of Significant Accounting Policies (continued)

Foreign Currency

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

The lending activities of the Bank include making loans that are denominated in Mexican pesos. For such loans, the Bank enters into cross-currency interest rate swaps that mitigate its exposure to fluctuations in foreign currency exchange rates and interest rates. As of December 31, 2014, the Bank had entered into swap counterparty agreements with Fondo de Apoyo a Estados y Municipios (FOAEM), a fund owned by the government of Mexico and administered by the federally run development bank, Banco Nacional de Obras y Servicios Publicos, S.N.C. (Banobras); directly with Banobras outside the FOAEM arrangement; and with three other financial institutions. The foreign currency translation adjustment on loans denominated in Mexican pesos as of December 31, 2014 and 2013 was $(32,890,748) and $(16,054,882), respectively. Changes in the foreign currency translation adjustment are reported through other comprehensive income.

All swaps relating to the lending activities of the Bank have been designated as cash flow or fair value hedges and are recognized in the accompanying consolidated balance sheets at their fair value. Changes in the fair value of the cash flow hedges are reported in other comprehensive income and are reclassified to earnings at the time of the hedged loan repayment. Changes in the fair value of the fair value hedges are reported in other income or expense. The fair value of these hedges was reported in the accompanying consolidated balance sheets at December 31, 2014 as other assets of $36,938,315 and other liabilities of $7,039,801 and at December 31, 2013 as other assets of $30,093,188 and other liabilities of $6,251,708.

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

Derivatives executed with certain counterparties are subject to a master netting arrangement. Fair-value amounts recognized for derivatives and for the right or obligation to reclaim or return cash collateral are offset for financial reporting purposes. Additional information on the amounts subject to master netting arrangements and collateral is provided in Note 5.

Fair Value

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

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

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially

2. Summary of Significant Accounting Policies (continued)

the full term of the assets or liabilities. This category generally includes U.S. agency securities, corporate debt securities, other fixed-income securities, United Mexican States (UMS) securities, and mortgage-backed debt securities.

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

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

Accumulated Other Comprehensive Income

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

Other Income and Other Expenses

Other income and other expenses consist primarily of net foreign exchange gains (losses) and net gains (losses) from swaps.

Reclassifications

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

3. Investments

All investments held by the Bank are classified as either held-to-maturity or available-for-sale securities. The following schedule summarizes investments as of December 31, 2014 and 2013.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2014				
Held-to-maturity:				
U.S. agency securities	**$ 3,799,685**	**$ 489**	**$ (4,634)**	**$ 3,795,540**
Mexican government securities (UMS)	**49,864,569**	**5,260,431**	**–**	**55,125,000**
Total held-to-maturity investment securities	**53,664,254**	**5,260,920**	**(4,634)**	**58,920,540**
Available-for-sale:				
U.S. government securities	**106,194,365**	**49,534**	**(74,585)**	**106,169,314**
U.S. agency securities	**68,850,600**	**66,249**	**(89,660)**	**68,827,189**
Corporate debt securities	**83,946,144**	**110,439**	**(91,205)**	**83,965,378**
Other fixed-income securities	**30,131,807**	**54,159**	**(31,408)**	**30,154,558**
Mexican government securities (UMS)	**15,099,181**	**14,824**	**(50,263)**	**15,063,742**
Mortgage-backed securities	**22,588**	**625**	**–**	**23,213**
Total available-for-sale investment securities	**304,244,685**	**295,830**	**(337,121)**	**304,203,394**
Total investment securities	**$ 357,908,939**	**$ 5,556,750**	**$ (341,755)**	**$ 363,123,934**
December 31, 2013				
Held-to-maturity:				
U.S. agency securities	$ 3,778,000	$ 2,033	$ (2,430)	$ 3,777,603
Mexican government securities (UMS)	49,841,703	5,558,297	–	55,400,000
Total held-to-maturity investment securities	53,619,703	5,560,330	(2,430)	59,177,603
Available-for-sale:				
U.S. government securities	176,847,338	68,756	(110,413)	176,805,681
U.S. agency securities	92,580,053	3,259	(301,900)	92,281,412
Corporate debt securities	105,040,656	54,732	(494,020)	104,601,368
Other fixed-income securities	42,907,758	92,294	(44,848)	42,955,204
Mexican government securities (UMS)	18,415,253	–	(42,753)	18,372,500
Mortgage-backed securities	75,212	3,634	–	78,846
Total available-for-sale investment securities	435,866,270	222,675	(993,934)	435,095,011
Total investment securities	$ 489,485,973	$ 5,783,005	$ (996,364)	$ 494,272,614

3. Investments (continued)

The following schedule summarizes unrealized losses and the fair value of investments aggregated by category and the length of time individual securities have been in a continuous unrealized loss position as of December 31, 2014 and 2013.

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2014						
Held-to-maturity:						
U.S. agency securities	**$ 3,220,051**	**$ 4,634**	**$ –**	**$ –**	**$ 3,220,051**	**$ 4,634**
Mexican government securities (UMS)	**–**	**–**	**–**	**–**	**–**	**–**
Total held-to-maturity investment securities	**3,220,051**	**4,634**	**–**	**–**	**3,220,051**	**4,634**
Available-for-sale:						
U.S. government securities	**67,687,951**	**74,585**	**–**	**–**	**67,687,951**	**74,585**
U.S. agency securities	**32,392,395**	**89,660**	**–**	**–**	**32,392,395**	**89,660**
Corporate debt securities	**35,682,081**	**91,205**	**–**	**–**	**35,682,081**	**91,205**
Other fixed-income securities	**6,001,354**	**31,408**	**–**	**–**	**6,001,354**	**31,408**
Mexican government securities (UMS)	**11,049,242**	**50,263**	**–**	**–**	**11,049,242**	**50,263**
Mortgaged-backed securities	**–**	**–**	**–**	**–**	**–**	**–**
Total available-for-sale investment securities	**152,813,023**	**337,121**	**–**	**–**	**152,813,023**	**337,121**
Total temporarily impaired securities	**$ 156,033,074**	**$ 341,755**	**$ –**	**$ –**	**$ 156,033,074**	**$ 341,755**
December 31, 2013						
Held-to-maturity:						
U.S. agency securities	$ 1,657,570	$ 2,430	$ –	$ –	$ 1,657,570	$ 2,430
Mexican government securities (UMS)	–	–	–	–	–	–
Total held-to-maturity investment securities	1,657,570	2,430	–	–	1,657,570	2,430
Available-for-sale:						
U.S. government securities	101,158,872	110,413	–	–	101,158,872	110,413
U.S. agency securities	76,008,856	301,900	–	–	76,008,856	301,900
Corporate debt securities	80,252,396	494,020	–	–	80,252,396	494,020
Other fixed-income securities	24,365,068	44,848	–	–	24,365,068	44,848
Mexican government securities (UMS)	18,372,500	42,753	–	–	18,372,500	42,753
Mortgaged-backed securities	–	–	–	–	–	–
Total available-for-sale investment securities	300,157,692	993,934	–	–	300,157,692	993,934
Total temporarily impaired securities	$ 301,815,262	$ 996,364	$ –	$ –	$ 301,815,262	$ 996,364

None of the unrealized losses identified in the preceding table are considered to be other-than-temporary since, as of December 31, 2014, the Bank did not have the intent to sell any of these securities and believed that it was more-likely-than-not that the Bank would not be required to sell any such securities before a recovery of cost.

3. Investments (continued)

Contractual maturities of investments as of December 31, 2014 and 2013 are summarized in the following tables.

	Held-to-Maturity Securities		Available-for-Sale Securities	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
December 31, 2014				
Less than 1 year	**$ –**	**$ –**	**$ 159,765,448**	**$ 159,783,965**
1–5 years	**3,795,540**	**3,799,685**	**144,414,733**	**144,438,132**
5–10 years	**55,125,000**	**49,864,569**	**–**	**–**
More than 10 years	**–**	**–**	**–**	**–**
Mortgage-backed securities	**–**	**–**	**23,213**	**22,588**
	$ 58,920,540	**$ 53,664,254**	**$ 304,203,394**	**$ 304,244,685**
December 31, 2013				
Less than 1 year	$ –	$ –	$ 261,396,676	$ 261,395,009
1–5 years	3,777,603	3,778,000	173,619,489	174,396,049
5–10 years	55,400,000	49,841,703	–	–
More than 10 years	–	–	–	–
Mortgage-backed securities	–	–	78,846	75,212
	$ 59,177,603	$ 53,619,703	$ 435,095,011	$ 435,866,270

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

The following table summarizes sale, call, and maturity activity of investment securities for the years ended December 31, 2014 and 2013.

	Year Ended December 31	
	2014	2013
Held-to-maturity investment securities:		
Proceeds from maturities	**$ 3,203,000**	$ 1,145,000
Available-for-sale investment securities:		
Proceeds from sales and maturities	**424,521,011**	393,086,910
Gross realized gains	**190,182**	261,809
Gross realized losses	**2,085**	269,820

The following table sets forth the unrealized gains (losses) on securities available-for-sale and the reclassification adjustments required for the years ended December 31, 2014 and 2013.

	2014	2013
Unrealized gains (losses) on investment securities available-for-sale, beginning of year	**$ (771,259)**	$ 385,530
Unrealized gains (losses) on investment securities available-for-sale, arising during the year	**918,065**	(1,164,800)
Reclassification adjustments for (gains) losses on investment securities available-for-sale included in net income	**(188,097)**	8,011
Net unrealized losses on investment securities available-for-sale, end of year	**$ (41,291)**	$ (771,259)

4. Loans

The following schedule summarizes loans outstanding as of December 31, 2014 and 2013.

	International Program	U.S. Domestic Program	Total
December 31, 2014			
Loan balance	**$ 1,185,514,182**	**$ 691,749**	**$ 1,186,205,931**
Allowance for loan losses:			
General	**(11,355,628)**	**(23,188)**	**(11,378,816)**
Specific	**–**	**–**	**–**
Unamortized loan fees	**(8,535,936)**	**–**	**(8,535,936)**
Foreign currency exchange rate adjustment	**(32,890,748)**	**–**	**(32,890,748)**
Fair value of hedged items	**1,698,406**	**–**	**1,698,406**
Net loans outstanding	**$ 1,134,430,276**	**$ 668,561**	**$ 1,135,098,837**
December 31, 2013			
Loan balance	$ 1,011,211,596	$ 1,155,568	$ 1,012,367,164
Allowance for loan losses:			
General	(9,453,064)	(23,188)	(9,476,252)
Specific	(3,441,055)	–	(3,441,055)
Unamortized loan fees	(3,411,490)	–	(3,411,490)
Foreign currency exchange rate adjustment	(16,054,882)	–	(16,054,882)
Fair value of hedged items	(17,343,992)	–	(17,343,992)
Net loans outstanding	$ 961,507,113	$ 1,132,380	$ 962,639,493

At December 31, 2014 and 2013, the International Program had outstanding loan commitments on signed loan agreements totaling $126,985,036 and $238,780,007, respectively. At December 31, 2014 and 2013, the U.S. Domestic Program did not have any outstanding loan commitments on signed loan agreements. The Board has also approved an additional $145,113,514 in loans for the International Program, for which loan agreements are in development.

The Bank under certain circumstances offered below-market-rate loans. As of December 31, 2014 and 2013, the Bank had below-market-rate loans outstanding for the International Program of $46,808,142 and $50,353,220, respectively. At December 31, 2014 and 2013, the U.S. Domestic Program did not have any below-market-rate loans.

4. Loans (continued)

The following table presents the loan portfolio by sector as of December 31, 2014 and 2013.

	December 31	
	2014	**2013**
International Program:		
Air Quality	**$ 136,216,927**	$ 118,618,859
Basic Urban Infrastructure	**23,514,816**	29,004,705
Clean Energy:		
Solar	**341,536,534**	267,622,888
Wind	**430,528,983**	369,929,600
Other	**2,608,099**	1,136,359
Storm Drainage	**62,862,096**	66,057,730
Water and Wastewater	**188,246,727**	158,841,455
Total International Program	**1,185,514,182**	1,011,211,596
U.S. Domestic Program	**691,749**	1,155,568
	$ 1,186,205,931	$ 1,012,367,164

The following table presents the loan portfolio by risk category as of December 31, 2014 and 2013. These risk categories are defined in Note 2, along with additional information on how the Bank evaluates credit quality.

	December 31	
	2014	**2013**
International Program:		
Pass	**$ 1,182,128,587**	$ 1,004,236,219
Special Mention	**3,385,595**	3,693,738
Substandard	**–**	–
Doubtful	**–**	3,281,639
Total International Program	**1,185,514,182**	1,011,211,596
U.S. Domestic Program:		
Pass	**314,541**	763,578
Special Mention	**377,208**	391,990
Substandard	**–**	–
Doubtful	**–**	–
Total U.S. Domestic Program	**691,749**	1,155,568
	$ 1,186,205,931	$ 1,012,367,164

The International Program had one nonaccrual loan with an outstanding balance of $3,385,595 as of December 31, 2014 and had two nonaccrual loans with an outstanding balance of $6,975,377 as of December 31, 2013. The average impaired loan balance for the years ended December 31, 2014 and 2013 totaled $4,488,469 and $13,251,894, respectively. No interest income was recognized on the impaired loans for the years ended December 31, 2014 and 2013. In December 2013, the Bank foreclosed on the collateral of a loan under the International Program with an outstanding balance, net of allowance for loan loss, of $7,179,731, and received that amount as partial payment. As of December 31, 2014 and 2013, the Bank had collateral from foreclosed loans reported as other assets of $5,953,307 and $7,833,038, respectively.

4. Loans (continued)

Under the International Program, the outstanding balance of loans past due 90 days or more that was still accruing interest was $0 and $77,619 as of December 31, 2014 and 2013, respectively. Under the U.S. Domestic Program, the outstanding balance of loans past due 90 days or more that was still accruing interest was $377,208 and $0 as of December 31, 2014 and 2013, respectively.

An age analysis of past-due loans, including both accruing and non-accruing loans, as of December 31, 2014 and 2013, is shown in the following table.

	Loans 30–89 Days Past Due	Loans 90 or More Days Past Due	Total Past-due Loans
December 31, 2014			
International Program	**$ –**	**$ 3,385,595**	**$ 3,385,595**
U.S. Domestic Program	**–**	**377,208**	**377,208**
	$ –	**$ 3,762,803**	**$ 3,762,803**
December 31, 2013			
International Program	$ –	$ 7,052,996	$ 7,052,996
U.S. Domestic Program	–	–	–
	$ –	$ 7,052,996	$ 7,052,996

The following table summarizes the allowance for loan losses by classification as of December 31, 2014 and 2013.

	Allowance for Loan Losses			
	General Allowance	Specific Allowance	Total	Total Loans Outstanding
December 31, 2014				
International Program:				
Private:				
Construction	**$ 5,528,110**	**$ –**	**$ 5,528,110**	**$ 178,946,567**
Operation	**5,827,518**	**–**	**5,827,518**	**595,727,049**
Public	**–**	**–**	**–**	**319,768,042**
Public-private	**–**	**–**	**–**	**91,072,524**
Total International Program	**11,355,628**	**–**	**11,355,628**	**1,185,514,182**
U.S. Domestic Program	**23,188**	**–**	**23,188**	**691,749**
	$ 11,378,816	**$ –**	**$ 11,378,816**	**$ 1,186,205,931**
December 31, 2013				
International Program:				
Private:				
Construction	$ 4,950,438	$ –	$ 4,950,438	$ 166,440,298
Operation	4,502,626	3,441,055	7,943,681	475,530,189
Public	–	–	–	345,376,590
Public-private	–	–	–	23,864,519
Total International Program	9,453,064	3,441,055	12,894,119	1,011,211,596
U.S. Domestic Program	23,188	–	23,188	1,155,568
	$ 9,476,252	$ 3,441,055	$ 12,917,307	$ 1,012,367,164

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

4. Loans (continued)

The following schedule summarizes the allowance for loan losses for the years ended December 31, 2014 and 2013.

	Allowance for Loan Losses				
	Beginning Balance	Specific	General	Loan (Charge-offs) Recoveries	Ending Balance
December 31, 2014					
International Program:					
Private:					
Construction	**$ 4,950,438**	**$ –**	**$ 577,672**	**$ –**	**$ 5,528,110**
Operation	**7,943,681**	**(11,208)**	**1,324,892**	**(3,429,847)**	**5,827,518**
Public	**–**	**308,143**	**–**	**(308,143)**	**–**
Public-private	**–**	**–**	**–**	**–**	**–**
Total International Program	**12,894,119**	**296,935**	**1,902,564**	**(3,737,990)**	**11,355,628**
U.S. Domestic Program	**23,188**	**–**	**–**	**–**	**23,188**
	$ 12,917,307	**$ 296,935**	**$ 1,902,564**	**$ (3,737,990)**	**$ 11,378,816**
December 31, 2013					
International Program:					
Private:					
Construction	$ –	$ –	$ 4,950,438	$ –	$ 4,950,438
Operation	2,350,000	1,091,055	4,502,626	–	7,943,681
Public	–	–	–	–	–
Public-private	–	–	–	–	–
Total International Program	2,350,000	1,091,055	9,453,064	–	12,894,119
U.S. Domestic Program	23,188	–	–	–	23,188
	$ 2,373,188	$ 1,091,055	$ 9,453,064	$ –	$ 12,917,307

5. Other Assets and Other Liabilities

The following table presents the gross and net balances of other assets and other liabilities, including the result of master netting arrangements for derivatives with certain swap counterparties, at December 31, 2014 and 2013.

	Gross Amount	Master Netting Arrangements	Net Amount
December 31, 2014			
Other assets			
Cross-currency interest rate swaps	**$ 55,371,929**	**$ (18,433,614)**	**$ 36,938,315**
Interest rate swaps	**18,433,614**	**–**	**18,433,614**
Collateral from swap counterparty	**(21,900,000)**	**–**	**(21,900,000)**
Unamortized debt issuance costs	**4,267,313**	**–**	**4,267,313**
Other real estate owned	**5,953,307**	**–**	**5,953,307**
Total other assets	**$ 62,126,163**	**$ (18,433,614)**	**$ 43,692,549**
Other liabilities			
Interest rate swaps	**$ 20,426,135**	**$ –**	**$ 20,426,135**
Total other liabilities	**$ 20,426,135**	**$ –**	**$ 20,426,135**
December 31, 2013			
Other assets			
Cross-currency interest rate swaps	$ 20,413,506	$ (354,448)	$ 20,059,058
Interest rate swaps	26,962,548	–	26,962,548
Collateral from swap counterparty	(4,800,000)	–	(4,800,000)
Unamortized debt issuance costs	5,024,500	–	5,024,500
Other real estate owned	7,833,038	–	7,833,038
Total other assets	$ 55,433,592	$ (354,448)	$ 55,079,144
Other liabilities			
Cross-currency interest rate swaps	$ 7,571,012	$ (964,396)	$ 6,606,616
Interest rate swaps	51,236,082	(472,583)	50,763,499
Collateral to swap counterparty	(19,720,000)	–	(19,720,000)
Total other liabilities	$ 39,087,094	$ (1,436,979)	$ 37,650,115

6. Debt

The following table summarizes the notes payable and other borrowings as of December 31, 2014 and 2013.

			December 31, 2014			
Issue Date	Maturity Date	Fixed Rate	Principal Amount	Unamortized Discount	Fair Value of Hedged Items	Net Debt
Notes payable						
Feb. 11, 2010	Feb. 11, 2020	4.375%	$ 250,000,000	$ (333,500)	$ 18,314,050	$ 267,980,550
Oct. 26, 2012	Oct. 26, 2022	2.400	250,000,000	(672,472)	(5,714,651)	243,612,877
Dec. 17, 2012	Oct. 26, 2022	2.400	180,000,000	(2,959,082)	(6,291,382)	170,749,536
Dec. 17, 2012	Dec. 17, 2030	3.300	50,000,000	–	(1,380,301)	48,619,699
Oct. 10, 2013	Oct. 10, 2018	2.300	300,000,000	(518,603)	119,564	299,600,961
Total notes payable			1,030,000,000	(4,483,657)	5,047,280	1,030,563,623
Other borrowings						
Mar. 7, 2013	Dec. 30, 2015	1.900%	2,631,000	–	–	2,631,000
Mar. 7, 2013	Jun. 30, 2016	1.900	1,653,972	–	–	1,653,972
Aug. 15, 2013	Jun. 30, 2016	1.900	977,028	–	–	977,028
Aug. 15, 2013	Dec. 30, 2016	1.900	2,631,000	–	–	2,631,000
Aug. 15, 2013	Jun. 30, 2017	1.900	2,631,000	–	–	2,631,000
Aug. 15, 2013	Dec. 30, 2017	1.900	2,631,000	–	–	2,631,000
Aug. 15, 2013	Jun. 30, 2018	1.900	2,631,000	–	–	2,631,000
Aug. 15, 2013	Dec. 30, 2018	1.900	600,467	–	–	600,467
Apr. 11, 2014	Dec. 30, 2018	1.900	2,030,533	–	–	2,030,533
Apr. 11, 2014	Jun. 30, 2019	1.900	2,631,000	–	–	2,631,000
Apr. 11, 2014	Dec. 30, 2019	1.900	2,632,000	–	–	2,632,000
Apr. 11, 2014	Jun. 30, 2020	1.900	526,785	–	–	526,785
Aug. 14, 2014	Jun. 30, 2020	1.900	2,105,215	–	–	2,105,215
Aug. 14, 2014	Dec. 30, 2020	1.900	2,632,000	–	–	2,632,000
Aug. 14, 2014	Jun. 30, 2021	1.900	1,008,985	–	–	1,008,985
Total other borrowings			29,952,985	–	–	29,952,985
			$ 1,059,952,985	$ (4,483,657)	$ 5,047,280	$ 1,060,516,608

6. Debt (continued)

			December 31, 2013			
Issue Date	Maturity Date	Fixed Rate	Principal Amount	Unamortized Discount	Fair Value of Hedged Items	Net Debt
Notes payable						
Feb. 11, 2010	Feb. 11, 2020	4.375%	$ 250,000,000	$ (398,750)	$ 16,928,418	$ 266,529,668
Oct. 26, 2012	Oct. 26, 2022	2.400	250,000,000	(758,472)	(21,754,994)	227,486,534
Dec. 17, 2012	Oct. 26, 2022	2.400	180,000,000	(3,337,508)	(18,061,814)	158,600,678
Dec. 17, 2012	Dec. 17, 2030	3.300	50,000,000	–	(8,975,878)	41,024,122
Oct. 10, 2013	Oct. 10, 2018	2.300	300,000,000	(577,703)	(2,325,721)	297,096,576
Total notes payable			1,030,000,000	(5,072,433)	(34,189,989)	990,737,578
Other borrowings						
Mar. 7, 2013	Dec. 30, 2015	1.900%	2,631,000	–	–	2,631,000
Mar. 7, 2013	Jun. 30, 2016	1.900	1,653,972	–	–	1,653,972
Aug. 15, 2013	Jun. 30, 2016	1.900	977,028	–	–	977,028
Aug. 15, 2013	Dec. 30, 2016	1.900	2,631,000	–	–	2,631,000
Aug. 15, 2013	Jun. 30, 2017	1.900	2,631,000	–	–	2,631,000
Aug. 15, 2013	Dec. 30, 2017	1.900	2,631,000	–	–	2,631,000
Aug. 15, 2013	Jun. 30, 2018	1.900	2,631,000	–	–	2,631,000
Aug. 15, 2013	Dec. 30, 2018	1.900	600,467	–	–	600,467
Total other borrowings			16,386,467	–	–	16,386,467
			$ 1,046,386,467	$ (5,072,433)	$ (34,189,989)	$ 1,007,124,045

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. Unamortized debt issuance costs related to these notes, which are included in other assets, totaled $4,267,313 and $5,024,500 at December 31, 2014 and 2013.

The fair value of the hedges relating to interest rate swaps on a portion of the notes payable was reported at December 31, 2014 as other assets of $18,433,614 and other liabilities of $13,386,334, and at December 31, 2013 as other assets of $16,928,418 and other liabilities of $51,118,407. For additional information on the fair value of financial instruments and derivatives, see Notes 11 and 12, respectively.

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 will amortize semiannually, with the first principal payment due on December 30, 2015 and final principal payment due on December 30, 2024. As of December 31, 2014, the Bank has borrowed $29,952,985. An annual commitment fee of 0.25% was assessed on the undisbursed loan commitment beginning in May 2013. For the years ended December 31, 2014 and 2013, these fees totaled $64,447 and $46,032, respectively.

6. Debt (continued)

The following table summarizes the maturities of the notes payable and other borrowings as of December 31, 2014 and 2013.

	December 31	
	2014	2013
Less than 1 year	**$ 2,631,000**	$ –
1–2 years	**5,262,000**	2,631,000
2–3 years	**5,262,000**	5,262,000
3–4 years	**305,262,000**	5,262,000
4–5 years	**305,263,000**	303,231,467
5–10 years	**386,272,985**	680,000,000
More than 10 years	**50,000,000**	50,000,000
Total	**$ 1,059,952,985**	$ 1,046,386,467

The following table summarizes the short-term and long-term debt as of December 31, 2014 and 2013.

	December 31	
	2014	2013
Short-term debt:		
Notes payable	**$ –**	$ –
Other borrowings	**2,631,000**	–
Total short-term debt	**2,631,000**	–
Long-term debt:		
Notes payable	**1,030,000,000**	1,030,000,000
Other borrowings	**27,321,985**	16,386,467
Total long-term debt	**1,057,321,985**	1,046,386,467
Total debt	**$ 1,059,952,985**	$ 1,046,386,467

7. Equity

Subscribed Capital

At December 31, 2014 and 2013, the Bank had authorized and subscribed 300,000 shares of capital stock, with a par value of $10,000 per share. As defined in the Charter, capital is classified as callable or paid-in at December 31, 2014 and 2013 as follows.

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

The callable portion of the subscription for capital shares of the Bank will be subject to call only when required to meet obligations, as outlined in Article II, Section 3(d), of Chapter II of the Charter.

7. Equity (continued)

Retained Earnings

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

	December 31 2014	December 31 2013
Designated retained earnings		
International Program:		
Water Conservation Investment Fund (WCIF)	**$ 3,297,453**	$ 3,819,357
Technical Assistance Program (TAP)	**4,904,334**	5,284,984
Community Assistance Program (CAP)	**10,677,156**	11,473,415
Total International Program	**18,878,943**	20,577,756
U.S. Domestic Program	**(1,158,994)**	(914,068)
Total designated retained earnings	**17,719,949**	19,663,688
Reserved retained earnings		
International Program:		
Debt Service Reserve	**19,991,327**	18,431,594
Operating Expenses Reserve	**10,396,093**	9,375,607
Special Reserve	**30,000,000**	30,000,000
Capital Preservation Reserve	**34,215,583**	27,298,802
Total International Program	**94,603,003**	85,106,003
U.S. Domestic Program:		
Special Reserve	**20,752**	34,667
Total reserved retained earnings	**94,623,755**	85,140,670
Undesignated retained earnings		
International Program	**24,392,203**	16,013,735
Total undesignated retained earnings	**24,392,203**	16,013,735
Total retained earnings	**$ 136,735,907**	$ 120,818,093
Retained earnings by program		
International Program	**$ 137,874,149**	$ 121,697,494
U.S. Domestic Program	**(1,138,242)**	(879,401)
Total retained earnings	**$ 136,735,907**	$ 120,818,093

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

7. Equity (continued)

Accumulated Other Comprehensive Income

The following table presents the changes in accumulated other comprehensive income (loss) for the years ended December 31, 2014 and 2013.

	Beginning Balance	Period Activity	Ending Balance
December 31, 2014			
Unrealized gain (loss) on available-for-sale investment securities	**$ (771,259)**	**$ 729,968**	**$ (41,291)**
Foreign currency translation adjustment	**18,751**	**47,575**	**66,326**
Unrealized gain (loss) on hedging activities:			
Foreign currency translation adjustment	**(15,588,522)**	**(16,357,061)**	**(31,945,583)**
Fair value of cross-currency interest rate swaps	**8,290,675**	**23,435,855**	**31,726,530**
Net unrealized gain (loss) on hedging activities	**(7,297,847)**	**7,078,794**	**(219,053)**
Total accumulated other comprehensive gain (loss)	**$ (8,050,355)**	**$ 7,856,337**	**$ (194,018)**
December 31, 2013			
Unrealized gain (loss) on available-for-sale investment securities	$ 385,530	$ (1,156,789)	$ (771,259)
Foreign currency translation adjustment	59,935	(41,184)	18,751
Unrealized gain (loss) on hedging activities:			
Foreign currency translation adjustment	(15,582,990)	(5,532)	(15,588,522)
Fair value of cross-currency interest rate swaps	17,502,536	(9,211,861)	8,290,675
Net unrealized gain (loss) on hedging activities	1,919,546	(9,217,393)	(7,297,847)
Total accumulated other comprehensive income (loss)	$ 2,365,011	$ (10,415,366)	$ (8,050,355)

8. Domestic Programs

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

Mexico

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

United States

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

8. Domestic Programs (continued)

In accordance with the Charter and MOU with the United States, net assets of the Bank in the amounts of $3,198,834 and $4,894,188 were designated for the U.S. Domestic Program at December 31, 2014 and 2013, respectively. The revenue related to these amounts for the years ended December 31, 2014 and 2013 were $42,906 and $58,104, respectively. Additionally, expenses directly related to the operation of the U.S. Domestic Program of $301,055 and $286,147 are included in the operations of the Bank for the years ended December 31, 2014 and 2013, respectively. All expenses and disbursements are paid out of the U.S. Domestic Program funds. Deficit retained earnings on the U.S. Domestic Program capital funds as of December 31, 2014 and 2013 were $1,138,242 and $879,401, respectively. Under the U.S. Domestic Program, $2,570,194 in cash and cash equivalents was available for disbursement as of December 31, 2014.

In January 2009, the Finance Committee approved a Targeted Grant Program (TGP) to be funded with the remaining balance of the U.S. Domestic Program's allocated paid-in capital. As of December 31, 2014 and 2013, the U.S. Domestic Program's allocated paid-in capital totaled $4,337,076 and $5,773,589, respectively. For the years ended December 31, 2014 and 2013, $1,436,513 and $829,249, respectively, were disbursed through the TGP. These disbursements were reported as a deduction from allocated paid-in capital.

9. Program Activities

Program activities are comprised of the following:

	Year Ended December 31	
	2014	2013
Program income:		
EPA grant	**$ 1,041,909**	$ 1,207,801
Total program income	**1,041,909**	1,207,801
Program expenses:		
EPA grant administration	**(1,041,909)**	(1,207,801)
Technical Assistance Program	**(759,069)**	(689,865)
Water Conservation Investment Fund	**(521,904)**	(455,025)
Community Assistance Program	**(796,259)**	–
Total program expenses	**(3,119,141)**	(2,352,691)
Net program expenses	**$ (2,077,232)**	$ (1,144,890)

EPA Grants

The Bank administers grant funds from EPA through the Border Environment Infrastructure Fund (BEIF). EPA grant awards since the initial grant made in April 1997 to December 31, 2014 total $678,230,665. Under the terms of the grants, the Bank reviews and submits prospective projects to EPA, which approves the projects. EPA then disburses funds to the Bank, which directs the grant monies to the specified project. The Bank also oversees progress and compliance requirements for EPA and receives an allocation of the EPA grant funds for administrative expenses incurred.

As of December 31, 2014, EPA has approved project funding proposed by the Bank totaling $622,284,398, of which $583,931,895 has been disbursed through the Bank. The Bank recognized $1,041,909 and $1,207,801 as reimbursement of expenses incurred for the years ended December 31, 2014 and 2013, respectively. These funds have been recorded as program revenue and expenses in the consolidated statements of income.

9. Program Activities (continued)

Technical Assistance Program (TAP)

The Bank uses a portion of its retained earnings as authorized by the Board of Directors to offer technical assistance and training to project sponsors for the purpose of strengthening their financial performance and ensuring the long-term sustainability of their infrastructure. Through the TAP, assistance is provided for studies related to the design and implementation of environmental infrastructure projects, as well as for capacity-building measures aimed at achieving the effective and efficient operation of public services. For the years ended December 31, 2014 and 2013, $380,650 and $261,047, respectively, was disbursed under this program. These disbursements were funded with previously designated retained earnings and have been reported as a program expense.

As part of its technical assistance program, the Utility Management Institute (UMI) provides water utility managers and their staff with an opportunity for ongoing professional development aimed at enhancing their managerial and financial skills. For the years ended December 31, 2014 and 2013, $378,419 and $428,818, respectively, was expended under this program.

Water Conservation Investment Fund (WCIF)

In August 2002, the Board of Directors established the WCIF program 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 WCIF. Of that amount, $40,000,000 was reserved exclusively for water conservation projects in each country. For the years ended December 31, 2014 and 2013, $521,904 and $455,025, respectively, were disbursed under this fund. As of December 31, 2014, cumulative disbursements total $35,656,644 for the United States and $39,990,407 for Mexico. These disbursements were funded with previously designated retained earnings and have been reported as a program expense.

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

Community Assistance Program (CAP)

In February 2011, the Board of Directors approved a grant program to support public projects in all sectors eligible for Bank financing. The CAP program is funded from the Bank's undesignated retained earnings as authorized by the Board. As of December 31, 2014, a cumulative total of $11,473,415 has been allocated to the CAP. For the years ended December 31, 2014 and 2013, $796,259 and $0, respectively, were disbursed under this program. These disbursements were funded with previously designated retained earnings and have been reported as a program expense.

10. 401(a) Retirement Plan

The Bank has a 401(a) Retirement Plan (the Plan) for its employees. The Plan provides for employee and nondiscretionary employer contributions. For the years ended December 31, 2014 and 2013, the Bank expended $576,393 and $587,750, respectively, relating to the Plan.

11. Fair Value of Financial Instruments

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

Cash and Cash Equivalents

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

11. Fair Value of Financial Instruments (continued)

Securities Held-to-Maturity

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

Securities Available-for-Sale

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

Loans Receivable and Interest Receivable

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

Cross-currency Interest Rate Swaps

Cross-currency interest rate swaps are reported at fair value using Level 3 unobservable inputs. The fair value of these swaps is estimated based on discounting procedures, whereby each cash flow stream is discounted using the benchmark swap curve of the respective currency and converting the resulting net present value at the spot exchange rate, as well as external pricing models and counterparty pricing. The Bank’s market cross-currency swaps are all Mexican-peso for U.S.-dollar operations. Mexican-peso cash flows are discounted using the Mexico Benchmark Interbank Deposit Rate (TIIE) 28-day swap curve. U.S.-dollar cash flows are discounted using the 3-month London Interbank Offered Rate (LIBOR) swap curve.

Interest Rate Swaps

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

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 external pricing models and counterparty pricing. Mexican-peso cash flows are discounted using the TIIE 28-day swap curve. U.S.-dollar cash flows are discounted using the 3-month LIBOR swap curve.

Other Real Estate Owned

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

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 benchmark 3-month LIBOR swap curve, as well as external pricing models and counterparty pricing.

11. Fair Value of Financial Instruments (continued)

Debt and Accrued Interest Payable

The 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 benchmark swap curve. The carrying amount of accrued interest payable approximates its fair value.

The carrying amounts and fair value of the Bank's financial instruments are as follows:

	December 31, 2014		December 31, 2013	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets				
Cash and cash equivalents	**$ 87,656,071**	**$ 87,656,071**	$ 60,604,326	$ 60,604,326
Held-to-maturity securities	**53,664,254**	**58,920,540**	53,619,703	59,177,603
Available-for-sale securities	**304,203,394**	**304,203,394**	435,095,011	435,095,011
Loans, net	**1,135,098,837**	**1,149,694,238**	962,798,909	964,294,826
Interest receivable	**10,458,143**	**10,458,143**	10,331,837	10,331,837
Cross-currency interest rate swaps	**36,938,315**	**36,938,315**	20,059,058	20,059,058
Interest rate swaps	**18,433,614**	**18,433,614**	26,962,548	26,962,548
Other real estate owned	**5,953,307**	**5,953,307**	7,833,038	7,833,038
Liabilities				
Accrued interest payable	**8,394,741**	**8,394,741**	8,343,188	8,343,188
Short-term debt	**2,631,000**	**2,631,000**	–	–
Cross-currency interest rate swaps	**–**	**–**	6,606,616	6,606,616
Interest rate swaps	**20,426,135**	**20,426,135**	50,763,499	50,763,499
Long-term debt, net	**1,052,838,328**	**1,059,961,530**	1,041,314,034	1,003,770,775

The Bank's financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2014 and 2013 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.

11. Fair Value of Financial Instruments (continued)

	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total Fair Value
December 31, 2014				
Assets				
Available-for-sale (AFS) securities:				
U.S. government securities	**$ 106,169,314**	**$ –**	**$ –**	**$ 106,169,314**
U.S. agency securities	**–**	**68,827,189**	**–**	**68,827,189**
Corporate debt securities	**–**	**83,965,378**	**–**	**83,965,378**
Other fixed-income securities	**–**	**30,154,558**	**–**	**30,154,558**
Mexican government securities (UMS)	**–**	**15,063,742**	**–**	**15,063,742**
Mortgage-backed securities	**–**	**23,213**	**–**	**23,213**
Total AFS securities	**106,169,314**	**198,034,080**	**–**	**304,203,394**
Cross-currency interest rate swaps	**–**	**–**	**36,938,315**	**36,938,315**
Interest rate swaps	**–**	**–**	**18,433,614**	**18,433,614**
Hedged items for loans	**–**	**–**	**1,698,406**	**1,698,406**
Total assets at fair value	**$ 106,169,314**	**$ 198,034,080**	**$ 57,070,335**	**$ 361,273,729**
Liabilities				
Cross-currency interest rate swaps	**$ –**	**$ –**	**$ –**	**$ –**
Interest rate swaps	**–**	**–**	**20,426,135**	**20,426,135**
Hedged item for notes payable	**–**	**–**	**5,047,280**	**5,047,280**
Total liabilities at fair value	**$ –**	**$ –**	**$ 25,473,415**	**$ 25,473,415**
December 31, 2013				
Assets				
Available-for-sale (AFS) securities:				
U.S. government securities	$ 176,805,681	$ –	$ –	$ 176,805,681
U.S. agency securities	–	92,281,412	–	92,281,412
Corporate debt securities	–	104,601,368	–	104,601,368
Other fixed-income securities	–	42,955,204	–	42,955,204
Mexican government securities (UMS)	–	18,372,500	–	18,372,500
Mortgage-backed securities	–	78,846	–	78,846
Total AFS securities	176,805,681	258,289,330	–	435,095,011
Cross-currency interest rate swaps	–	–	20,059,058	20,059,058
Interest rate swaps	–	–	26,962,548	26,962,548
Hedged items for loans	–	–	(17,343,992)	(17,343,992)
Total assets at fair value	$ 176,805,681	$ 258,289,330	$ 29,677,614	$ 464,772,625
Liabilities				
Cross-currency interest rate swaps	$ –	$ –	$ 6,606,616	$ 6,606,616
Interest rate swaps	–	–	50,763,499	50,763,499
Hedged item for notes payable	–	–	(34,189,989)	(34,189,989)
Total liabilities at fair value	$ –	$ –	$ 23,180,126	$ 23,180,126

11. Fair Value of Financial Instruments (continued)

The following table summarizes the changes to the financial assets and liabilities measured at fair value on a recurring basis using unobservable inputs (Level 3) during the years ended December 31, 2014 and 2013. 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, 2014	**$ 20,059,058**	**$ 26,962,548**	**$ (17,343,992)**
Total realized and unrealized gains (losses):			
Included in earnings (expenses)	**(6,255,478)**	**(8,528,934)**	**19,042,398**
Included in other comprehensive income (loss)	**23,435,855**	**–**	**–**
Purchases	**–**	**–**	**–**
Settlements	**(301,120)**	**–**	**–**
Transfers in/out of Level 3	**–**	**–**	**–**
Ending balance, December 31, 2014	**$ 36,938,315**	**$ 18,433,614**	**$ 1,698,406**
Beginning balance, January 1, 2013	$ 22,321,693	$ 31,817,912	$ 9,451,273

8,528,934) 19,042,398

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Transfers in/out of Level 3/□T0 1 T-of Lev,855

Transfers in/out of Level 3/□

Beginning anuary 1, 2014

Assets

11. Fair Value of Financial Instruments (continued)

The Bank entered into 14 cross-currency interest rate swaps and three interest rate swaps during the year ended December 31, 2014. Upon issuance, the fair value of the swaps is $0 and, therefore, is not portrayed in the purchases line item in the preceding table. The change in fair value of these instruments is included within the total gains (losses) line item.

The Bank has no nonfinancial assets or liabilities measured at fair value on a recurring basis. Certain nonfinancial assets and liabilities measured at fair value on a nonrecurring basis include foreclosed assets (upon initial recognition or subsequent impairment) and other nonfinancial long-lived assets measured at fair value for impairment assessment. In March 2012, the Bank foreclosed on the collateral of one loan under the International Program with a net asset value of $800,000. During October 2012 and February 2013, a portion of this collateral was sold for cash for $146,693. In December 2013, the Bank foreclosed on a loan under the International Program and received as partial payment collateral with a net asset value of $7,179,731. The fair value of the collateral from the foreclosed loans is measured using Level 3 unobservable inputs and is reported in other assets as other real estate owned of $5,953,307 and $7,833,038 at December 31, 2014 and 2013, respectively. For the year ended December 31, 2014 and 2013 the Bank recorded an impairment on the other real estate owned of $1,533,203 and $0, respectively. The impairment is recorded in other expenses in the consolidated statement of income.

The fair value of these hedges was reported in the accompanying consolidated balance sheets at December 31, 2014 as other assets of $36,938,315 and other liabilities of $7,039,801 and at December 31, 2013 as other assets of $30,093,188 and other liabilities of $6,251,708.

12. Derivative Financial Instruments

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

The Bank enters into cross-currency interest rate swaps that are matched to specific fixed, variable, or adjustable rate loans denominated in Mexican pesos that the Bank has entered into directly with the borrower or with COFIDAN. In the latter case, COFIDAN then enters into loans denominated in Mexican pesos under the exact same terms with its borrowers. The 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 decrease over time to match the expected amortization of the underlying loan.

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

Neither the Bank nor the counterparty is required to post collateral to support the outstanding fair value of the swaps under its arrangement with FOAEM. Beginning in July 2009, under counterparty relationships with other financial institutions, collateral may be required to be posted by either the Bank or the counterparty. Cash collateral of $21,900,000 and $4,800,000 was posted from a counterparty to the Bank as of December 31, 2014 and 2013, respectively. Cash collateral of $0 and $19,720,000 was posted by the Bank as of December 31, 2014 and 2013, respectively.

12. Derivative Financial Instruments (continued)

The notional amounts and estimated fair values of the swaps outstanding at December 31, 2014 and 2013 are presented in the following table. The fair value of these swaps is estimated using internal valuation models with observable market data inputs.

	December 31, 2014		December 31, 2013	
	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
Cross-currency interest rate swaps	**$ 386,697,778**	**$ 36,938,315**	$ 339,577,373	$ 14,560,033
Interest rate swaps	**1,295,780,184**	**(1,992,521)**	1,190,487,286	(23,800,951)

The referenced exchange rate received for the cross-currency interest rate swaps outstanding at December 31, 2014 and 2013 was 6.77% and 7.67%, respectively.

Swaps that are no longer deemed effective because of borrower default on the hedged loans are not included in the preceding table. The fair value of these swaps was $(1,107,591) as of December 31, 2013. There were no swaps that were considered ineffective due to borrower default as of December 31, 2014.

Gains and Losses on Derivative Cash Flows

Cross-currency Interest Rate Swaps – The effective portion of the gain or loss due to changes in the fair value of cross-currency interest rate swaps designated as cash flow hedges is included in the accompanying consolidated statements of comprehensive income, while the ineffective portion is included in other income or expense. The accumulated gain (loss) is reclassified into earnings as the hedged cash flows are received to offset the foreign currency gains (losses) that would have been recognized in earnings if the Bank had not been a party to the swaps. The accumulated net loss related to the swaps included in accumulated other comprehensive income totaled $(219,053) and $(7,297,847) at December 31, 2014 and 2013, respectively.

Gains or losses due to changes in the fair value of cross-currency interest rate swaps designated as fair value hedges and ineffective swaps are reported in other income or expense. For the years ended December 31, 2014 and 2013, changes in the aforementioned swaps included in the accompanying consolidated statements of income were $2,062,718 and $(868,552), respectively.

Interest Rate Swaps – With regard to the interest rate swaps on outstanding loans and a portion of the long-term notes payable, the changes in the fair value of the swaps offset the changes in the fair value of the loans and debt due to changes in the LIBOR swap rate, while the ineffective portion is included in other income or expense. For the years ended December 31, 2014 and 2013, changes in the aforementioned swaps included in the accompanying consolidated statements of income were $(1,069,359) and $0, respectively.

13. Credit Risk Associated with Financial Instruments

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

14. Commitments

In the normal course of business, the Bank has various outstanding commitments, in addition to the loan receivables disclosed in Note 4 and the long-term borrowings disclosed in Note 6. Under agreements with consultants and contractors in effect at December 31, 2014, the Bank has obligations to make payments contingent upon the future performance of the consultants and contractors under the terms of their respective contracts and, therefore, they are not recorded in the financial statements.

15. Accounting Standards Updates

Supplementary Information

North American Development Bank

Combining Balance Sheet by Program

December 31, 2014

	International Program	U.S. Domestic Program (A)	Eliminations	Total
Assets				
Cash and cash equivalents:				
Held at other financial institutions in demand deposit accounts	$ 1,836,456	$ 34	$ –	$ 1,836,490
Held at other financial institutions in interest-bearing accounts	52,349,421	570,160	–	52,919,581
Repurchase agreements	30,900,000	2,000,000	–	32,900,000
	85,085,877	2,570,194	–	87,656,071
Held-to-maturity investment securities, at amortized cost	53,664,254	–	–	53,664,254
Available-for-sale investment securities, at fair value	304,203,394	–	–	304,203,394
Loans outstanding	1,185,514,182	691,749	–	1,186,205,931
Allowance for loan losses	(11,355,628)	(23,188)	–	(11,378,816)
Unamortized loan fees	(8,535,936)	–	–	(8,535,936)
Foreign currency exchange rate adjustment	(32,890,748)	–	–	(32,890,748)
Hedged items, at fair value	1,698,406	–	–	1,698,406
Net loans outstanding	1,134,430,276	668,561	–	1,135,098,837
Interest receivable	10,456,118	2,025	–	10,458,143
Grant and other receivable	1,631,316	–	–	1,631,316
Due from U.S. Domestic Program	29,236	–	(29,236)	–
Furniture, equipment and leasehold improvements, net	175,938	1,383	–	177,321
Other assets	43,692,549	–	–	43,692,549
Total assets	$ 1,633,368,958	$ 3,242,163	$ (29,236)	$ 1,636,581,885
Liabilities and equity				
Liabilities:				
Accounts payable	$ 1,066,206	$ –	$ –	$ 1,066,206
Accrued liabilities	278,132	14,093	–	292,225
Due to International Program	–	29,236	(29,236)	–
Accrued interest payable	8,394,741	–	–	8,394,741
Undisbursed grant funds	1,000	–	–	1,000
Other liabilities	20,426,135	–	–	20,426,135
Short-term debt	2,631,000	–	–	2,631,000
Long-term debt, net of discount	1,052,838,328	–	–	1,052,838,328
Hedged items, at fair value	5,047,280	–	–	5,047,280
Net long-term debt	1,057,885,608	–	–	1,057,885,608
Total liabilities	1,090,682,822	43,329	(29,236)	1,090,696,915
Equity:				
Paid-in capital	405,000,000	–	–	405,000,000
General Reserve:				
Allocated paid-in capital	–	4,337,076	–	4,337,076
Retained earnings:				
Designated	18,878,943	(1,158,994)	–	17,719,949
Reserved	94,603,003	20,752	–	94,623,755
Undesignated	24,392,203	–	–	24,392,203
Accumulated other comprehensive loss	(194,018)	–	–	(194,018)
Non-controlling interest	6,005	–	–	6,005
Total equity	542,686,136	3,198,834	–	545,884,970
Total liabilities and equity	$ 1,633,368,958	$ 3,242,163	$ (29,236)	$ 1,636,581,885

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

Combining Statement of Income by Program

Year Ended December 31, 2014

	International Program	U.S. Domestic Program (A)	Total
Income:			
Interest:			
Investment income	$ 5,223,619	$ 1,115	$ 5,224,734
Loan income	38,486,533	41,791	38,528,324
Gain on sales of available-for-sale investment securities, net	188,097	–	188,097
Fee income	17,257	–	17,257
Other	1,038,329	–	1,038,329
Total revenues	44,953,835	42,906	44,996,741
Operating expenses:			
Personnel	4,877,951	–	4,877,951
Consultants and contractors	2,380,353	–	2,380,353
General and administrative	1,070,094	–	1,070,094
Operational travel	238,823	–	238,823
Depreciation	49,046	692	49,738
Provision for loan losses	2,199,499	–	2,199,499
Other	2,336,949	–	2,336,949
U.S. Domestic Program	–	301,055	301,055
Total operating expenses	13,152,715	301,747	13,454,462
Interest expense	13,547,601	–	13,547,601
Income (loss) before program activities	18,253,519	(258,841)	17,994,678
Program activities:			
EPA grant income	1,041,909	–	1,041,909
EPA grant administration	(1,041,909)	–	(1,041,909)
TAP	(759,069)	–	(759,069)
CAP	(796,259)	–	(796,259)
WCIF	(521,904)	–	(521,904)
Net program expenses	(2,077,232)	–	(2,077,232)
Income (loss) before non-controlling interest	16,176,287	(258,841)	15,917,446
Net loss attributable to non-controlling interest	(368)	–	(368)
Net income (loss)	$ 16,176,655	$ (258,841)	$ 15,917,814
General Reserve, January 1, 2014			
Allocated paid-in capital	$ –	$ 5,773,589	$ 5,773,589
Retained earnings	121,697,494	(879,401)	120,818,093
Current period activity:			
Net income (loss)	16,176,655	(258,841)	15,917,814
TGP disbursements of the U.S. Domestic Program	–	(1,436,513)	(1,436,513)
General Reserve, December 31, 2014			
Allocated paid-in capital	–	4,337,076	4,337,076
Retained earnings	137,874,149	(1,138,242)	136,735,907
	$ 137,874,149	$ 3,198,834	$ 141,072,983

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

Combining Statement of Comprehensive Income by Program

Year Ended December 31, 2014

	International Program	U.S. Domestic Program (A)	Total
Net income (loss)	$ 16,176,655	$ (258,841)	$ 15,917,814
Other comprehensive income (loss):			
Available-for-sale investment securities:			
Change in unrealized gains during the period, net	918,065	–	918,065
Reclassification adjustment for net gain included in net income	(188,097)	–	(188,097)
Total unrealized gain on available-for-sale investment securities	729,968	–	729,968
Foreign currency translation adjustment	47,575	–	47,575
Unrealized gains (losses) on hedging activities:			
Foreign currency translation adjustment, net	(16,357,061)	–	(16,357,061)
Fair value of cross-currency interest rate swaps, net	23,435,855	–	23,435,855
Total unrealized gain on hedging activities	7,078,794	–	7,078,794
Total other comprehensive income	7,856,337	–	7,856,337
Total comprehensive income (loss)	$ 24,032,992	$ (258,841)	$ 23,774,151

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

Combining Statement of Cash Flows by Program

Year Ended December 31, 2014

	International Program	U.S. Domestic Program (A)	Total
Operating activities			
Net income (loss)	$ 16,176,655	$ (258,841)	$ 15,917,814
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation	49,046	692	49,738
Amortization of net premium on investments	2,582,651	–	2,582,651
Change in fair value of swaps and other non-cash items	41,396,025	–	41,396,025
Non-controlling interest	(368)	–	(368)
Gain on sales of available-for-sale investment securities, net	(188,097)	–	(188,097)
Provision for loan losses	2,199,499	–	2,199,499
Change in other assets and liabilities:			
(Increase) decrease in interest receivable	(127,767)	1,461	(126,306)
Decrease in receivable and other assets	1,425,083	–	1,425,083
Increase (decrease) in due from U.S. Domestic Program due to International Program	(3,222)	3,222	–
Increase in accounts payable	72,670	–	72,670
Increase (decrease) in accrued liabilities	(32,438)	2,307	(30,131)
Increase in accrued interest payable	51,553	–	51,553
Net cash provided by (used in) operating activities	63,601,290	(251,159)	63,350,131
Lending, investing, and development activities			
Capital expenditures	(34,109)	–	(34,109)
Loan principal repayments	76,121,947	463,819	76,585,766
Loan disbursements	(254,162,523)	–	(254,162,523)
Purchase of held-to-maturity investments	(3,224,685)	–	(3,224,685)
Purchase of available-for-sale investments	(295,316,846)	–	(295,316,846)
Proceeds from maturities of held-to-maturity investments	3,203,000	–	3,203,000
Proceeds from sales and maturities of available-for-sale investments	424,521,011	–	424,521,011
Net cash provided by (used in) lending, investing, and development activities	(48,892,205)	463,819	(48,428,386)
Financing activities			
Proceeds from other borrowings	13,566,518	–	13,566,518
Grant funds – EPA	15,672,030	–	15,672,030
Grant disbursements – EPA	(15,672,035)	–	(15,672,035)
Grant activity – U.S. Domestic Program	–	(1,436,513)	(1,436,513)
Net cash provided by (used in) financing activities	13,566,513	(1,436,513)	12,130,000
Net increase (decrease) in cash and cash equivalents	28,275,598	(1,223,853)	27,051,745
Cash and cash equivalents at January 1, 2014	56,810,279	3,794,047	60,604,326
Cash and cash equivalents at December 31, 2014	$ 85,085,877	$ 2,570,194	$ 87,656,071

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

Border Environment Infrastructure Fund (BEIF)

As of and for the Year Ended December 31, 2014

Balance Sheet

	Region 6	Region 9	Total
Assets			
Cash	$ 500	$ 500	$ 1,000
Total assets	$ 500	$ 500	$ 1,000
Liabilities			
Undisbursed grant funds	$ 500	$ 500	$ 1,000
Total liabilities	$ 500	$ 500	$ 1,000

Statement of Income

	Region 6	Region 9	Total
Income:			
U.S. Environmental Protection Agency grant income	$ 439,017	$ 602,891	$ 1,041,908
Total income	439,017	602,891	1,041,908
BEIF operating expenses:			
Personnel	276,720	278,128	554,848
Consultants	113,367	264,012	377,379
General and administrative	24,674	24,160	48,834
Operational travel	24,256	36,591	60,847
Total BEIF operating expenses	439,017	602,891	1,041,908
Net income	$ –	$ –	$ –

Statement of Cash Flows

	Region 6	Region 9	Total
Operating activities			
Net income	$ –	$ –	$ –
Net cash provided by operating activities	–	–	–
Financing activities			
Grant funds – EPA	10,262,624	5,409,406	15,672,030
Grant disbursements – EPA	(10,262,625)	(5,409,410)	(15,672,035)
Net cash provided by financing activities	(1)	(4)	(5)
Net decrease in cash and cash equivalents	(1)	(4)	(5)
Cash and cash equivalents at January 1, 2014	501	504	1,005
Cash and cash equivalents at December 31, 2014	$ 500	$ 500	$ 1,000

Region 6: EPA Regional Office located in Dallas, Texas

Region 9: EPA Regional Office located in San Francisco, California

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