Information on NADB

The information on NADB included in this section is not exclusive and potential Holders should not rely solely on such information, but should consider all information provided in this Prospectus, including the documents annexed hereto.

North American Development Bank (NADB)

NADB is a binational development financing institution established on January 1, 1994, to finance environmental infrastructure projects in the U.S.-Mexico border region. Communities eligible to receive NADB financing must be located within 100 kilometers (62 miles) north and within 300 kilometers (186 miles) south of the U.S.-Mexico borderline (the border region), which includes 41 counties within the U.S. states of Texas, New Mexico, Arizona, and California and 220 municipalities within the Mexican states of Tamaulipas, Nuevo León, Coahuila, Chihuahua, Sonora, and Baja California with a total population of approximately 22.7 million.

NADB operates under the "Agreement between the Government of the United States of America and the Government of the United Mexican States concerning the Establishment of a North American Development Bank" (the **Charter**).

NADB works to develop integrated, sustainable and financially sound projects with broad community support in a framework of close cooperation and coordination between Mexico and the United States. NADB's activities are directed towards enhancing the affordability, financing, long-term development and effective construction of infrastructure that promotes a clean, healthy environment for the citizens of the border region.

The United States and Mexico are the sole members of NADB (the "**member countries**"). After a capital increase agreed to in 2015, NADB's total authorized capital is USD $6 billion as of December 31, 2019, of which $5.1 billion is callable capital and $900 million is paid-in capital. Each of the callable and paid-in capital are further divided into qualified and unqualified. Qualified capital is subject to appropriation or budgetary action by the U.S. and Mexican governments. Of the paid-in capital, $460 million is unqualified and received, while $440 million remains qualified. Correspondingly, $2.607 billion of callable capital is unqualified and $2.493 billion is qualified callable capital (available to NADB, subject to appropriation or budgetary action by the U.S. and Mexican governments, respectively). The obligations of the United States of America and the United Mexican States, respectively, to make payment of the callable portion of their subscriptions for capital shares of NADB are independent and the failure of one member country to make payment on any such call would not excuse the other member from its obligations.

As of April 2020, both Mexico and the United States have made their first contributions to paid-in capital under the capital increase. Management has continued to work with its shareholders to receive the additional capital conditionally subscribed to in the capital increase and believes it will be available to the Bank in the near term. As of April 2020, of the paid-in capital, $470 million is unqualified and received, while $430 million remains qualified. Correspondingly, $2.663 billion of callable capital is unqualified and $2.437 billion is qualified callable capital.

This Prospectus contains forward looking statements which may be identified by such terms as "anticipates", "believes", "intends", "plans", or words of similar meaning. Such statements involve a number of assumptions and estimates that are based on current expectations, which are subject to risks and uncertainties beyond NADB's control. Consequently, actual future results could differ materially from those currently anticipated.

NADB has two offices. One office is located at 203 South St. Mary's, Suite 300, San Antonio, Texas 78205, United States of America, and the other at Boulevar Tomás Fernández 8609, Ciudad Juárez, Chihuahua, México.

The Charter

NADB's Charter sets forth its purpose and functions as a development financing bank and its capital structure and organization. The Charter outlines NADB's permissible financing activities and prescribes limitations on these activities and NADB's operations. The Charter also establishes the status, immunities and privileges of NADB as a multilateral institution and provides for the suspension and termination of NADB's operations. The Charter may be amended by agreement of the member countries. The Charter entered into force on January 1, 1994, and has been amended twice.The full text of the Charter is available on NADB's website at:

https://www.nadb.org/uploads/content/files/Policies/Charter_Eng.pdf

Purpose

Pursuant to Chapter II, Article I of the Charter, the purpose of NADB shall be:

(a) to provide financing for projects certified by the Board of Directors. These projects help preserve, protect, and enhance the environment of the border region in order to advance the well-being of the people of the United States and Mexico.

(b) to provide financing endorsed by the United States, as appropriate, for community adjustment and investment in support of the purposes of the North American Free Trade Agreement.

(c) to provide financing endorsed by Mexico, as appropriate, for community adjustment and investment in support of the purposes of the North American Free Trade Agreement.

Legal Status, Immunities and Privileges

The following is a summary of the principal provisions of the Charter relating to the legal status, immunities and privileges of NADB in the territories of its member countries:

NADB possesses juridical personality with full capacity to contract, acquire and dispose of immovable and movable property and to institute legal proceedings. Actions may be brought against NADB only in a court of competent jurisdiction in the territory of a Party in which the Bank has an office, has appointed an agent for the purpose of accepting service or notice of process, or has issued or guaranteed securities.

Assets and property of NADB are immune from legal process and cannot be subject to any seizure, attachment, or other expropriation or foreclosure prior to delivery of final judgment against NADB. In addition, NADB's Directors, Managing Director and Deputy Managing Director, officers and staff employees have immunity from legal process with respect to acts performed by them in their official capacity (except when NADB has expressly waived this immunity). These individuals are also afforded the same privileges in respect of traveling facilities as are accorded by each member country to representatives, officials and employees of comparable rank of the other member country and when not local nationals, the same immunities from immigration restrictions, alien registration requirements and national service obligations and the same facilities as are accorded by each member country to the representatives, officials, and employees of comparable rank of the other member country.

NADB, its property, other assets, income, and the operations it carries out pursuant to the Charter are also immune from all taxation and from all customs duties, including any obligation relating to the payment, withholding or collection of any tax or customs duty. No tax may be levied on or in respect of salaries and emoluments paid by NADB to officers or staff who are not U.S. nationals.

Independent Auditors

The financial statements of NADB as of December 31, 2019 and for the year then ended have been audited by BDO USA, LLP, who expressed an unqualified opinion, as stated in their report included in this Prospectus. Their address is 600 North Pearl, Suite 1700, Dallas, Texas 75201, United States of America. The financial statements of NADB as of December 31, 2018 and for the year then ended were audited by other auditors, whose report dated March 29, 2019 expressed an unqualified opinion on those statements. BDO USA, LLP was not engaged to perform a review, in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants, of the unaudited consolidated financial statements as of and for the three months ended March 31, 2020 included in this Prospectus.

The COVID-19 outbreak continues to evolve as of the date of this Prospectus. As such, the full impact that the COVID-19 outbreak could have on the Bank's financial condition, liquidity, and future results of operations is uncertain. Management is actively monitoring the potential impact on liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Bank may not be able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for 2020.

Business Operations

General

The Bank's original mandate was to finance and facilitate the development of environmental infrastructure projects aimed at creating and sustaining drinking water supplies and developing wastewater treatment and municipal solid waste management facilities. These sectors continue to comprise an important component of the Bank's financing efforts. In 2000, the Bank's mandate was expanded to encompass financing in other environmental sectors that have health and/or environmental benefits for the residents of the border region, including air quality, clean energy, energy efficiency, and public transportation. Since the expansion of the Bank's mandate, the Bank's loan portfolio has been diversified to include projects such as street paving, wind farms, solar parks, low emission buses, landfill gas-to-energy (LGE) and energy storage projects.

NADB offers loans to project sponsors to finance environmental infrastructure projects within the U.S.-Mexico border region. Loans may be made to public and private borrowers as well as public private partnerships. In its early years of operation, the vast majority of loans were made to states and local municipalities (governmental borrowers). Since 2012, NADB has increasingly worked with private borrowers due to their heavier involvement in sectors such as renewable energy. Consistent with NADB's risk management philosophy, it seeks a demonstrable assurance of repayment in all of its loans. This can take the form of general obligation or revenue financing in the U.S., pledges of federal, state or local tax participations in Mexico, irrevocable revolving lines of credit and similar guarantees in the case of corporate borrowers. Private borrower lending is subject to 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, a private contractor is the borrower and the municipality or utility serves as the source of payment and/or guarantor. As of December 31, 2019, $1,062.6 million or 81.6% of the outstanding portfolio was financed to private borrowers, $180.6 million or 13.9% financed to public borrowers and the remaining $58.5 million or 4.5% financed to public-private borrowers.

The following table sets forth certain information on the Bank's total outstanding loan portfolio:

Outstanding Loan Portfolio, by Borrower Type
(amounts in U.S.$ Million) as of December 31,

	1Q 2020		2019		2018		2017	
Governmental Borrowers	$ 175.6	15.0%	$ 180.6	13.9%	$ 195.2	15.2%	$ 252.6	19.5%
Private Borrowers	941.6	80.1%	1,062.6	81.6%	997.0	77.6%	944.8	73.0%
Public-Private Borrowers	57.6	4.9%	58.5	4.5%	92.3	7.2%	96.4	7.5%
Total Outstanding Loan Portfolio[1]	**$1,174.8**	**100.0%**	**$1,301.7**	**100.0%**	**$1,284.5**	**100.0%**	**$1,293.8**	**100.0%**

(1) Excludes loans made under USCAIP

Unless otherwise specified, all references to the Bank's outstanding loan portfolio in this Prospectus have been calculated before taking into account any allowances for loan losses, unamortized loan fees, the effect of foreign currency exchange rate adjustments, and the fair value of hedged items. In certain limited circumstances and under well-defined criteria, the Bank can make available grant or technical assistance funds to its borrowers and certain other eligible grantees. The Bank administers three grant programs and four technical assistance programs. The Bank's largest grant program, the Border Environment Infrastructure Fund (**BEIF**), is fully funded by the Environmental Protection Agency (**EPA**) and administered by the Bank. Currently, the Bank has only one active grant program funded by its retained earnings, the Community Assistance Program (**CAP**). The Bank has four technical assistance programs: the Project Development Assistance Program (**PDAP**); the Technical Assistance Program (**TAP**); the Border 2020 program (**B2020**); and the Utility Management Institute (**UMI**). PDAP and B2020 are funded by the EPA, while TAP and UMI are funded from the Bank's retained earnings and current earnings, respectively. See "Grants and Technical Assistance."

Since its inception to December 31, 2019, the Bank has contracted a total of $3.3 billion in infrastructure development financing, consisting of $2.5 billion (76.6%) in loans and $761.7 million (23.4%) in grants, to finance 262 certified projects estimated to cost a total of $9.9 billion to build. Of that amount, the Bank has disbursed over $3.1 billion to project sponsors for the implementation of 255 projects.

Recent Lending Activity

In 2019, the Bank signed loan agreements totaling $113.5 million covering 6 projects, as compared to $129.3 million signed in 2018 covering 2 projects, and the Bank disbursed $164.3 million in loan proceeds to borrowers over the course of 2019, as compared to $167.0 million in 2018. In 2019, the Bank received a total of $147.0 million in principal repayments of which $31 million were prepayments, as compared to $176.3 million principal repayments, of which $97.8 million were prepayments in 2018.

The following table sets forth certain information on the Bank's total outstanding loan portfolio since inception:

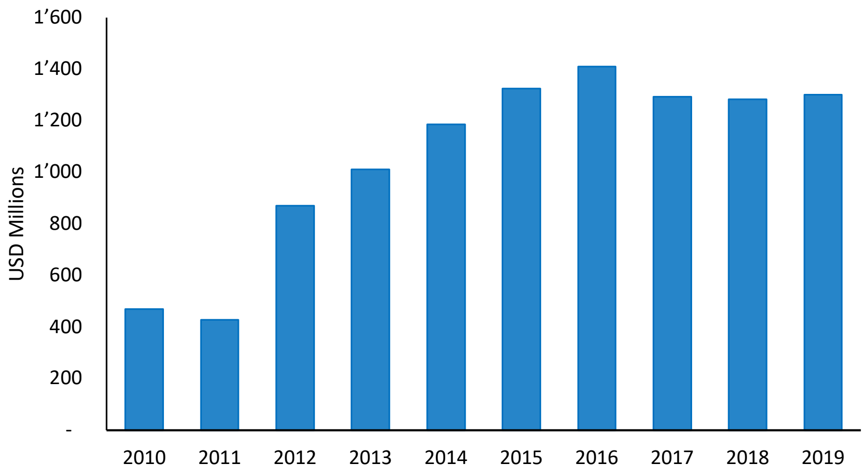
Outstanding Loan Portfolio
(in U.S.$ Million)

	As of December 31, 2019	As of December 31, 2018
Total disbursements since inception	$ 2,394.3	$ 2,230.1
Total principal repayments received*	(1,092.6)	(945.6)
Outstanding loan portfolio (at period end)	$ 1,301.7	$ 1,284.5
Total contracted loans	$ 2,494.2	$ 2,380.7
Signed commitments, not yet disbursed	$ 99.9	$ 150.6

* Since inception

The Bank's outstanding loan portfolio totaled $1,301.7 million and $1,284.5 million as of December 31, 2019, and December 31, 2018, respectively. The Bank's outstanding loan portfolio increased 1.3% from December 2019 to December 2018, but decreased 1.7% from its balance at the end of 2015. Furthermore, the Bank's outstanding loan portfolio totaled $1,174.9 million and $1,298.8 million as of March 31, 2020 and March 31, 2019, respectively. The Bank's outstanding loan portfolio decreased 9.5% from March 31, 2020 to March 31, 2019.

NADB's Outstanding Loan Portfolio (in U.S.$ Millions)



As of December 31, 2019, the Bank had 69 projects and loans in its portfolio, of which 35 were in the public sector, 30 in the private sector and 4 public private partnerships. Furthermore, as of December 31, 2018, the Bank had 70 projects and loans in its portfolio, of which 35 were in the public sector, 30 in the private sector and 5 public private partnerships.

During 2019, the Bank committed and agreed to one solar energy project, one wind energy project, one solid waste project, and one wastewater project. As of December 31, 2019, water supply and wastewater projects constituted 8.5% of the Bank's outstanding loan portfolio, storm drainage projects 0.8%, solid waste projects 0.2%, air quality projects 6.0%, public transportation projects 3.2%, clean energy wind projects 45.4%, clean energy solar projects 33.0%, clean energy other projects 0.2%, and basic urban infrastructure projects 2.7%.

The following table sets forth certain information on the Bank's total outstanding loan portfolio:

Outstanding Loan Portfolio, by Project Type
(amounts in U.S.$ Million)

	As of December 31,				
	2015	**2016**	**2017**	**2018**	**2019**
Outstanding Loan Portfolio	$ 1,324.8	$ 1,411.3	$ 1,293.8	$ 1,284.5	$ 1,301.7
Project Type (as a percentage of the total portfolio):					
Water and Wastewater	13.7	12.2	12.5	11.7	8.5
Storm Drainage	4.4	4.0	4.1	0.9	0.8
Air Quality	8.4	7.4	7.4	6.8	6.0
Basic Urban Infrastructure	2.8	2.6	2.9	2.8	2.7
Public Transportation	0.3	2.3	2.3	3.0	3.2
Water Conservation	0.6	0.5	–	–	–
Solid Waste	–	–	–	–	0.2
Clean Energy:					
Solar	22.8	20.7	22.5	24.3	33.0
Wind	46.7	50.0	48.0	50.2	45.4
Other	0.3	0.3	0.3	0.3	0.2
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

In the first quarter of 2020, the Bank entered into a U.S. $5.0 million loan agreement to finance an energy storage system in Escondido, California, United States of America. The financing is the first energy storage project financed by the Bank.

Lending Policies

General

The Bank's lending operations conform to certain practices designed to ensure that loans are made to financially sound entities and that funds are utilized as intended to implement technically and economically viable projects. These practices are described in "Box 1: Lending Operations Practices" below. The Bank negotiates individual loan agreements according to these principles 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 to governmental borrowers in Mexico are made through the *Corporación Financiera de América del Norte, S.A. de C.V. SOFOM E.N.R* (**COFIDAN**), a multi-purpose financial institution established by the Bank in 1999 to facilitate public lending activities in Mexico. COFIDAN is a consolidated subsidiary owned 99.9% by the Bank and 0.1% by the Mexican government. Of the Bank's total outstanding portfolio of $1,301.7 million as of December 31, 2019, 29 loans totaling $169.1 million were contracted through COFIDAN.

Box 1: Lending Operations Practices

1) In general, the Bank makes loans to governmental and private borrowers for environmental infrastructure projects that help preserve, protect and enhance the environment in the U.S.-Mexico border region.

2) All projects financed by the Bank must be certified by the NADB Board, as meeting certain technical, environmental and public participation criteria, and must be located within the border region. Projects located outside the border region may be approved for loan financing if the Board determines the project would remedy a transboundary environmental or health problem.

3) All loans made by NADB offer a demonstrable assurance of repayment. To comply with this requirement, NADB considers various factors related to the loan payment mechanism, the capacity of the borrower or project to generate sufficient revenues, or requests additional security arrangements, guaranties or sources of repayment. In most cases, the Bank conducts a very thorough due diligence process with top tier advisors that review legal, tax and financial, technical, and insurance aspects of the project. If needed, NADB will request a special due diligence depending on the characteristics of the project. Each advisor generates a due diligence red flag report noting major risks and recommendations for the implementation of the project.

4) In approving a financing request, the Board of Directors must find that the project/sponsor is economically/financially sound. In order to reduce NADB's credit risk the Bank has established various tools and criteria in its Loan Policies such as a Single Obligor Limit, a maximum loan participation per project, recourse to a project sponsor (in the form of general obligation or revenue financing in the U.S., pledges of federal, state or local tax participations in Mexico, irrevocable revolving lines of credit and similar guarantees in the case of corporate borrowers), minimum Debt Service Coverage Ratios and the establishment of reserves for debt service, operations and maintenance and repair and replacement.

5) Loans may be extended with full recourse to the cash flows from the operations of the project and its assets and/or full recourse to the project sponsor or guarantor, if necessary, to provide reasonable assurance of repayment. Project finance transactions are typically further secured by market standard credit enhancements, such as relevant reserve accounts, letters of credit, manufacturer warranties and guarantees.

6) To ensure loan proceeds are used appropriately by project sponsors, the Bank monitors project construction and completion.

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

Collateral and Security

The Bank's core lending principles include an emphasis on risk management and a commitment to a strong payment structure. As of December 31, 2019, approximately 74.9% of the loans in the Bank's outstanding portfolio (measured by principal amount) are with Mexican borrowers and 25.1% are with U.S. borrowers. Of the Bank's loans to Mexican borrowers, approximately 20.2% are backed by federal tax revenues that have been pledged to an irrevocable trust for the benefit of the Bank or that are held by the state government and have been pledged as credit support pursuant to a mandate contract, which serves as a source of payment and/or guaranty to service the loan. All of the Bank's loans to U.S. governmental borrowers are structured as general obligation or revenue bonds backed by specific system revenues or taxes.

Loans to private borrowers are secured by borrower cash flows, project cash flows or other dedicated sources of revenue. The Bank may require additional collateral from its borrowers, such as other project assets, including a mortgage on fixed assets (land, plant and other buildings), or fixed assets pledged into a trust, personal and corporate guarantees, a mortgage on or security interest in movable assets (equipment and other business assets), a pledge of a project sponsor's share in the project or the assignment of the sponsor's insurance policies and other contractual benefits.

Where appropriate and as permitted by law, the Bank may also require these types of credit support from its governmental borrowers. In some cases, this means sufficient tax revenues are deposited in a trust to provide for debt service and other project requirements.

With respect to clean energy projects, the sources of loan payments are typically take-or-pay purchase agreements between the project companies and utilities or well-positioned companies as off-takers. These projects are built by well-known developers. The Bank, in the U.S., is focused on projects where the off-takers are utilities that are the sole provider of energy in a community, thus mitigating the market risk.

The Bank requires a debt service coverage ratio on all its loans. A minimum debt service coverage ratio of 1.0x is required for loans with a pledge of tax revenues or general obligation bonds. For other loans, a minimum debt service coverage ratio of 1.2x is generally required. This requirement is intended to ensure that borrowers have sufficient cash flows available to cover the required debt service of NADB loans. In addition, the Bank most often requires borrowers to maintain a debt service reserve of between two months and twelve months of scheduled debt service, based on project risk mitigation requirements and prudent practices.

Lending and Borrowing Limits

To ensure the Bank has sufficient capital resources to conduct its financing activities and meet its obligations, the Bank is subject to certain lending limits. Under its Charter, the total amount of the Bank's outstanding loans (including guarantees) may not exceed, at any time, the total amount of the Bank's paid-in and callable capital, plus unimpaired reserves and undistributed surplus. As of December 31, 2019, the total amount of the Bank's paid-in and callable capital was $2.8 billion and its unimpaired reserves and undistributed surplus was $149.2 million, for a total loan limit of $2.9 billion.

In May 2013, the Bank adopted a new debt limit policy to ensure that the total principal amount of the Bank's outstanding debt will not at any time exceed the sum of the callable portion of the Bank's subscribed capital shares, plus the minimum liquidity level required by the Bank's liquidity policy. Under the debt limit policy, the Managing Director shall inform the Board when he or she reasonably estimates that the Bank's outstanding debt will reach 80% of the subscribed callable capital within the following six-month time period. By establishing a maximum amount of debt that the Bank can borrow to support its loan portfolio and meet its liquidity requirements, the Bank seeks to maintain its total debt obligations within the limits of its capacity to honor them, even during a period when the Bank may face constraints in accessing the debt markets. As of December 31, 2019, the Bank has a total debt outstanding of $1,309.3 million, or 40.3% of the policy debt limit of $3.2 billion. The Bank also has an annual borrowing program authorized by its Board of Directors. For the 2020 fiscal year, the Bank is authorized for additional borrowing up to $300 million either directly or indirectly through third party banks or by issuing debt, not including transactions for liability management.

As a prudential measure, the Bank imposes additional lending limits on a per obligor and per project basis. The Single Obligor Limit (**SOL**) provides that the maximum allowable credit exposure, net of disbursements repaid and any financing cancellations, on a per obligor is limited to 20% of the Bank's funded unimpaired paid-in capital (i.e., paid-in capital not otherwise dedicated to a specific program or investment), plus the amount of undesignated retained earnings, the special reserve, and the capital preservation reserve. The maximum allowable credit exposure on a per obligor and per project basis may be increased to 30% of the Bank's funded unimpaired paid-in capital, plus the amount of undesignated retained earnings, the special reserve, and the capital preservation reserve if (i) the loan is to a state (or political subdivision thereof) and constitutes a general obligation of the state (or political subdivision thereof), (ii) the obligor provides marketable collateral to secure its loans or (iii) payments on the loan are made through a Mexican municipal or state irrevocable trust with federal tax revenues pledged into it. As of December 31, 2019, the Bank had a SOL of $120.6 million (based on the 20% limit) and $180.9 million (based on the 30% limit for certain qualifying loans). The SOL establishes the maximum limit of potential credit risk exposure to a single obligor or single project, thereby fostering diversification in the loan portfolio, while still accommodating increases in the limit as the Bank's capacity to absorb unexpected losses increases.

NADB may provide financing for only a certain portion of a project's eligible costs. The remainder of the funding typically comes from project sponsors or other private entities in the form of equity contributions or other loans. Under the Bank's lending policies, eligible project costs include the acquisition of land and buildings, site preparation and development, design, construction, reconstruction, rehabilitation, improvement, the acquisition of necessary machinery and equipment, legal, finance and development costs, interest during construction, contingency or reserve funds, customs, taxes and other duties and other incidental costs approved by NADB.

Currently Available Loan Terms

Since 2008, all of NADB's financings are offered at market rates. Prior to 2008, on a limited basis and under stringent eligibility criteria, the Bank had offered subsidized interest rate (**LIRF**) lending, which was matched with preferential rate funding. The LIRF program was terminated in May 2013. As of December 31, 2019, LIRF loans accounted for 2.1% ($27.4 million) of the Bank's loan portfolio.

NADB loans are offered at fixed or variable rates. Loans are structured with periodic payments 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 a U.S. dollar cash flow. For loans made in Mexican pesos, the Bank seeks to hedge exchange rate risks through derivative transactions including cross-currency swaps. As of December 31, 2019, 35.8% of the outstanding balance of the Bank's loans were in pesos.

In setting its loan rates, the Bank will express its rates as a spread on a widely used interest rate in the United States or Mexico, such as the yield on U.S. Treasuries, the London Interbank Offered Rate (LIBOR), the TIIE rate(1) or other financial industry references. The spread will generally be up to a maximum 550 bps, consisting of two components, the risk spread and the administrative margin. The risk spread will vary with the size and duration of the loan, the quality of the borrower and the risk of the project. The administrative margin will consider the contribution of the loan to the Bank's operating costs. In addition, the Bank may require a commitment fee and other fees.

Project, Evaluation, Certification, Approval, and Implementation

Potential borrowers are required to submit extensive project information to NADB including, among other items, engineering reports and analyses, feasibility studies, draft agreements for key elements of the project such as equipment purchasing, borrower financial statements for the previous three to five years, where applicable, project implementation and disbursement schedules, and anticipated project costs and assumptions on financial projections. With this information, NADB collectively undertakes an in-depth risk assessment and project evaluation, forecasts project cash flows, carries out sensitivity and stress-test scenarios, performs legal review of documentation, designs collateral structure and loan payment mechanisms, as well as evaluates key project risks, including construction, operating, technology, management, input or supply, market, foreign exchange, interest rate, technical feasibility and regulatory risks. The Bank may extend loan financing only if it is satisfied, on the basis of this review, that the project is technically, environmentally, financially and economically sound and that the project sponsors have the institutional, managerial and operating capacity to carry out the project.

All project financing and certification requires the affirmative vote of a majority of the Board of Directors appointed by each member country and must include the affirmative vote of the respective representatives of the U.S. Department of Treasury (the **Treasury**), the Mexican Department of Finance and Public Credit (**SHCP**), the U.S. EPA and the Mexican Ministry of the Environment and Natural Resources.

Although project development and implementation—from design through the bidding processes and construction—is the responsibility of the project sponsors, NADB has a strong interest in ensuring that the proceeds of its loans and grants are used efficiently and for the purposes designated in the scope of the certified project. To that end, the Bank provides substantial project oversight and support during the procurement and construction phases of project implementation.

Non-Performing Loans and Loss Allowances

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 unless well secured and in process of collection. 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.

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, 2019, the Bank had one non-performing loan with an outstanding balance of $14.1 million and a specific allowance for loan losses of $2.4 million.

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(1) The TIIE rate (*Tasa de Interés Interbancaria de Equilibrio*) is the representative interest rate for lending among banks in Mexico and is calculated and published daily by the Bank of Mexico.

This loan was restructured in July 2018 as a "troubled debt restructuring" with a restructured balance of $15.0 million and an extended amortization period. There was no charge-off of principal and interest related to the restructured loan. Since its restructuring, the loan has been current.

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 terms of the loan.

As the case mentioned above to guard against the risk of delinquent and non-performing loans, the Bank allocates an allowance for expected loan losses on its financial statements by estimating probability of default for each loan using internal credit risk methodologies, along with statistical cumulative recovery rates for each loan sector. The Bank believes that its aggregate allowance (general and specific) for loan losses of $19.2 million is appropriate to provide for probable and estimated losses inherent in the loan portfolio as of December 31, 2019.

The Bank also designates certain funds from its retained earnings as reserves, which are available to cover its operating and other expenses and to offset any unexpected loan losses. See "Funding Resources—General Reserve." As of December 31, 2019, reserve coverage of $19.2 million in allowance for loan losses and $30.0 million in special reserve totals $49.2 million.

Use of Derivatives

The Bank's policies require hedging of currency risk for loans subject to it. The Bank uses derivatives for the sole purpose of hedging and does not engage in any use of derivatives for speculative purposes. For loans denominated in Mexican pesos, the Bank enters into derivative transactions, including cross-currency and interest rate swaps (**swaps**). In total, the Bank has ten (10) swap counterparties to foster competition in quotes. Among the counterparties, eight (8) are commercial financial institutions and two (2) are entities whose obligations are backed by the federal government of Mexico.

Guarantees

Under its Charter, as part of its development financing, the Bank may guarantee loans made by third parties to a project, in whole or in part, and may also guarantee securities issued in connection with a project. The Bank currently does not have an active guarantee program, and has no outstanding guarantees. If NADB were to develop an active guarantee program as part of its financing efforts in the future, the Charter permits it to charge a guarantee fee based on the amount of the loan outstanding and attach other conditions to the making of guarantees as it deems appropriate.

Grants and Technical Assistance

In addition to its loan program, the Bank administers three grant programs and four technical assistance programs.

- Grant programs: the Border Environmental Infrastructure Fund (BEIF); the Community Assistance Program (CAP) and the Water Conservation Investment Fund (WCIF, closed).

- Technical assistance programs: the Project Development Assistance Program (PDAP); the Technical Assistance Program; the Border 2020 program (B2020); and the Utility Management Institute (UMI)

Border Environment Infrastructure Fund (BEIF)

The BEIF is a program that is fully funded by the U.S. Congress through the U.S. Environmental Protection Agency (EPA). It offers grant financing exclusively for the implementation of selected municipal drinking water and wastewater infrastructure projects in the U.S. and Mexico. To be eligible to receive BEIF funds, projects in Mexico must have a transboundary impact. This program has been awarded funds annually by appropriation from the U.S. Congress. During 2019, three (3) BEIF grants were awarded totaling $9.0 million, and during 2019, $10.7 million were disbursed on these and other previously awarded grants.

Community Assistance Program (CAP)

The CAP program is funded from the Bank's designated retained earnings. In February 2011, the Board of Directors approved the Community Assistance Program (CAP) grant program to support public projects in all sectors eligible for Bank financing. From the earnings designated and authorized by the Board, for this program, $7.7 million remains available as of December 31, 2019. For the years ended December 31, 2019 and 2018, $0.3 million and $2.3 million, respectively, were disbursed under this program. The disbursements are reported under net program income.

Water Conservation Investment Fund (WCIF)

This fund was established to finance water conservation projects in 2002, with the designation of $80 million of the Bank's retained earnings and was closed out in 2013. As of December 2019, previously committed funds of $0.1 million remain to be distributed.

Technical Assistance

The Bank uses grants to provide technical assistance and training to project sponsors to strengthen their financial performance and support the long term sustainability of their environmental infrastructure projects.

Project Development Assistance Program (PDAP)

Projects selected to receive a BEIF grant are also eligible to receive technical assistance through PDAP to support development activities such as planning studies, environmental assessments, final design, financial analyses and community participation. These are aimed at facilitating successful implementation of the projects and reinforcing their long-term sustainability and proper operation. As with BEIF, PDAP is fully funded by the U.S. Congress through the EPA. During 2019, 11 PDAP grants were awarded totaling $1.0 million, and during 2019, $1.0 million were disbursed on these and other previously awarded grants.

Technical Assistance Program (TAP)

The Bank uses a portion of its retained earnings, as authorized by the Board of Directors, to offer technical assistance to project sponsors. For the years ended December 31, 2019 and 2018, $0.1 million and $0.2 million, respectively, in grant funding were disbursed under the TAP program.

Border 2020 Program

The U.S.-Mexico Border 2020 program provides logistical and administrative services to support joint efforts to improve the environment and health of residents within 100 kilometers of the border. The Border 2020 program is funded by the U.S. Congress through the EPA. The Bank provides logistical and administrative services to projects and workshops funded under the project. For the years ended December 31, 2019 and 2018, the Bank disbursed $0.5 million and $0.4 million, respectively, in technical assistance through Border 2020.

Utility Management Institute (UMI)

In 1998, NADB created the Utility Management Institute (UMI) tasked with providing a professional development curriculum for water utility managers and their staff aimed at developing managerial and financial skills. UMI is funded from the Bank's current earnings. For the years ended December 31, 2019 and 2018, the Bank disbursed $0.1 million and $0 through UMI.

As of December 31, 2019, the Bank has contracted a total of $3.3 billion in infrastructure development financings since its inception, of which $761.7 million (23.4%) was contracted in the form of grants.

Until 2007, grants represented the majority of the Bank's financing, as compared to credit operations. Over the years, the Bank has shifted its focus to financing projects through loans and grants have steadily declined as a percentage of total disbursed funds.

Total grant disbursements were $35.7 million and $11.9 million for the years ended December 31, 2001 and 2019, respectively. While grants represented 94.5% of all disbursements for the year ended December 31, 2001, they represented only 6.7% of the Bank's total disbursements for the year ended December 31, 2019.

Investments

The Bank's primary investment objective is the maintenance of liquidity sufficient to meet its needs. Investments for the Bank's portfolio are undertaken in a manner that seeks to ensure the preservation of capital. Total return, while an important consideration, is of lesser importance than liquidity and safety of principal. As of December 31, 2019, the Bank had a liquid asset portfolio of $749.5 million. See "Financial Risk and Liquidity Management—Liquidity Policies and Liquidity Risk Management" and "Financial Risk and Liquidity Management—Investment Policy" for further information about the Bank's liquidity policy, liquid asset portfolio and investment policy.

Properties

The Bank rents office space for its headquarters in San Antonio, Texas, under an operating lease that expires on February 28, 2026. The Bank also rents office space for its Juarez Office under an operating lease that expires on April 3, 2021. Rent expense totaled $.2 million for each year ended December 31, 2019 and 2018.

Funding Resources

Capital Resources

All figures relating to the Bank's capital are as of December 31, 2019, except where otherwise noted.

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

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

In 1994, the initial subscribed capital of the Bank was $3.0 billion with equal commitments from Mexico and the United States. Each government subscribed 150,000 shares of capital with a par value of $10,000 per share or $1.5 billion. By 2009, the Bank had received $225 million in paid-in capital and $1.275 billion in unqualified callable capital from each country for a total of $450 million paid-in capital and $2.55 billion in unqualified callable capital.

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

In 2015, the United States and Mexican Governments agreed to a capital increase and during 2016, each subscribed an additional 150,000 shares of capital stock with a par value of $10,000 per share, subject to the availability of budget allocations for Mexico and necessary authorizing legislation and appropriations in the United States. The additional capital is classified as 45,000 paid-in shares or $450 million and 255,000 callable shares or $2.55 billion. The subscriptions of members to paid-in capital and callable capital stock shall be in several installments.

During 2016, Mexico made its first contribution and unqualified the additional paid-in capital of $10 million or 1,000 shares of paid-in capital, and unqualified $56.7 million of callable capital shares.

During April 2020, the United States made its first contribution of $10 million in additional paid-in capital and unqualified $56.7 million of callable capital shares.

As of December 31, 2019, NADB had $415 million in paid-in capital, along with $2.61 billion in unqualified callable capital (with $1.275 billion corresponding to the United States and $1.332 billion to Mexico).

The callable capital must be provided by the two governments if and when required to meet the Bank's outstanding debt and guaranty obligations. Callable capital may not be used to make loans or acquire investments. Any capital call must be made uniformly to both member countries, but the obligations of the United States and Mexico, respectively, to make payment of the callable portion of their subscriptions for capital shares 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, to meet the Bank's obligations. 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.

If the Board of Directors deems it necessary to make a capital call, the Board must pass a resolution authorizing the capital call on the U.S. and Mexican governments. In such event, it is expected that the call would be sent to the U.S. Treasury and the Mexican Secretariat of Finance and Public Credit, the Secretaries of which are members of the Bank's Board of Directors. The Charter does not prescribe time frames by which the U.S. or Mexican governments must honor a request for callable capital. The request for callable capital can be made well in advance of its need.

General Reserve

The Bank also maintains a general reserve to cover interest and operating expenses, offset any unexpected losses on loans or guarantees and to pay expenses relating to the enforcement of the Bank's rights under outstanding loans and guarantee agreements. This reserve is distinct from the Bank's allowance for expected loan losses. As of December 31, 2019, the latter totaled $19.2 million and is available to offset losses on loans made by the Bank. See "Business Operations—Lending Policies—Non-Performing Loans and Loss Allowance."

The general reserve consists of allocated paid-in capital and retained earnings and is funded by an amount equal to the Bank's net income plus transfers from paid-in capital for the U.S. domestic program. As of December 31, 2019, the general reserve balance was $258.6 million, of which $258.6 million was retained earnings and $0.0 allocated paid-in capital.

The Bank's retained earnings consist of designated retained earnings, reserved retained earnings and undesignated retained earnings. Prior to December 2011, the Bank maintained a special reserve as part of the Bank's reserved retained earnings. As of December 31, 2019, the special reserve balance was $30.0 million relating to the Bank's lending activities.

To preserve and strengthen the Bank's financial position, in December 2011, the Board of Directors approved a retained earnings policy establishing three new reserve funds as components of the reserved retained earnings in addition to the special reserve: a debt service reserve, an operating expenses reserve and a capital preservation reserve. Under the new policy, undesignated retained earnings in excess of one percent (1%) of the total assets of NADB's international program will be allocated to fund and maintain the reserves in the following order of priority:

- debt service reserve, which will be 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, which will be maintained in an amount equal to 12 months of the operating budget expenses at each fiscal year-end;
- special reserve, which will continue to be maintained in an amount equal to the sum of: (i) 1% of undisbursed loan commitments, (ii) 3% of the outstanding balance of disbursed loans, and (iii) 3% of the outstanding balance of guaranties, less the general allowance for loan losses, with a target minimum of $30 million; and
- capital preservation reserve, which is indexed to the U.S. annual inflation rate in order to maintain the value of the paid-in capital in real terms.

The debt service and operating expense reserves are intended to help the Bank to meet its debt obligations in a time of financial difficulties. The Bank's debt service reserve was $38 million as of December 31, 2019.

Borrowings

Notes Payable

The following table summarizes the notes payable as of December 31, 2019:

Issue Date	Maturity Date	Fixed Rate	Principal Amount (in U.S.$ Million)
USD Issuances			
February 2010	February 2020	4.375%	$ 250
October 2012	October 2022	2.40%	$ 250
December 2012	October 2022	2.40%	$ 180
December 2012	December 2030	3.30%	$ 50
CHF Issuances			
April 2015	April 2025	0.25%	$ 129
April 2017	October 2027	0.20%	$ 124
July 2018	July 2026	0.30%	$ 126
NOK Issuance			
March 2017	March 2032	2.47%	$ 174
Total Notes Payable			$ 1,283

The NOK issuance has a partial maturity of $87 million in March 2031 and remaining $87 million in March 2032.

Other Borrowings

In November 2012, the Bank entered into a fixed rate loan agreement with another development bank for up to $50 million to be used specifically for eligible water supply and wastewater projects in Mexico. As of December 31, 2019, the outstanding balance was $26.3 million.

The Bank has a borrowing program authorized by the Board and is permitted for the 2020 fiscal year to borrow up to $300 million either directly or indirectly through third party banks or by issuing debt. The borrowing limit does not include transactions for debt refinancing.

Financial Risk and Liquidity Management

As a part of its development financing services, the Bank is exposed to credit risk (loan portfolio or credit and commercial credit); market risk (interest rate, spread and exchange rate); liquidity risk (funding and liquidation); and operational risk. The Bank manages its risks in accordance with its Charter and other policies approved by its Board of Directors.

Overall Risk Management

In general, the Bank manages the risks inherent in its lending activities by ensuring that its financing is made available to financially sound entities and that funds are utilized as intended. The Bank negotiates individual loan agreements according to these principles and the needs of a particular borrower or project, considering factors related to the loan payment mechanism, the capacity of the borrower or project to generate sufficient revenues. The Bank typically requests additional security arrangements, guaranties or sources of repayment, such as general obligation or revenue financing in the U.S., pledges of federal, state or local tax participations in Mexico, irrevocable revolving lines of credit and similar guarantees in the case of corporate borrowers. In addition, the Bank negotiates minimum Debt Service Coverage Ratios and the establishment of reserves for debt service, operations and maintenance and repair and replacement. The Bank's commercial risk is limited by its liquidity and investment policies. The Bank engages in derivatives transactions such as cross-currency and interest rate swaps, only for hedging purposes. In the future, the Bank will seek to utilize more swap counterparties to further foster competition and mitigate risk.

Credit Risk

The Bank is subject to certain credit risk. Credit risk is the potential loss 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 (commercial credit or counterparty risk).

Loan Portfolio Credit Risk

The Bank is exposed to loan portfolio credit risk as a result of its core business of providing infrastructure loans. Loan portfolio credit risk is the risk that the Bank may not receive payment of principal and/or interest on one or more of its loans in accordance with the agreed-upon terms. This risk is the largest financial risk faced by the Bank. This credit default risk is mitigated by the Bank by applying thorough credit risk analyses, stringent due diligence, and tailor-made loan structuring.

The Bank's loan portfolio credit risk is determined by the credit quality of, and exposure to, each borrower. The Bank's attitude towards credit risk is and will remain conservative. All of the loans in the Bank's outstanding portfolio are secured by some form of credit support, including federal tax revenues pledged to an irrevocable trust or pursuant to a mandate contract, system revenues, borrower cash flows or other forms of collateral, such as first liens on the project's equity and/or assets, step-in rights, reserves against cash flow or operation and management contingencies, and debt service coverage ratios. Since risk aversion and a commitment to strong payment structures are core principles of the Bank, NADB expects that a significant percentage of future lending will consist of secured loans.

The Bank also employs multiple operational and procedural mechanisms to further minimize its loan portfolio credit risk. These mechanisms include extensive evaluation of potential projects and borrowers, lending limits under the Charter and the Bank's loan policies, collateral and debt service requirements and policies with respect to nonperforming loans and maintenance of a loan loss allowance. The Bank also mitigates risk by monitoring project construction and completion, ensuring loan proceeds are used appropriately by project sponsors. Proposed financing projects are first presented to the Bank's funding committee and if approved, sent to the Board for final consideration. The Bank's Managing Director, Deputy Managing Director, Chief Environmental Officer, Chief Financial Officer, Director of Infrastructure Financing and Financial Services, Director of Project and Loan Administration, Director of Risk Management and Control and General Counsel serve on the Bank's funding committee. See "Business Operations—Lending Policies."

Commercial Credit and Counterparty Risks

Financial institutions such as NADB face commercial credit risk as a result of exposure to losses that 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 commercial credit risk are the financial instruments in which the Bank invests its liquidity. 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. See "Liquidity Policies and Liquidity Risk Management."

To hedge the currency risk in its loan portfolio, the Bank engages in derivatives transactions, such as cross-currency interest rate swaps, with ten (10) counterparties, two (2) of whose obligations are backed by the federal government of Mexico. The other eight (8) counterparties are commercial financial institutions, which are subject to certain collateral posting requirements under a credit support agreement with the Bank. The Bank also engages in other transactions, such as interest rate swaps in order to mitigate its interest rate risk exposure. See "Market Risk—Use of Derivatives."

Liquidity Policies and Liquidity Risk Management

Liquidity risk arises from the Bank's general funding needs and the management of its financial position. It includes the risk of being unable to fund its portfolio of assets in a timely manner at appropriate maturities and rates, the risk of being unable to liquidate a position at a reasonable price when necessary, and the intensification of these two risks by having significant portions of a portfolio of assets or liabilities allocated to a specific type of instrument. NADB maintains liquidity in order to: (i) be prepared to meet its financial obligations at all times, including under conditions leading to a lack of or limited market access or market access at unusually high rates; (ii) provide confidence to the Bank's creditors and credit ratings agencies, as well as the Bank's shareholders that the Bank has the capacity to meet its obligations; and (iii) ensure sufficient cash flows to cover the Bank's operational requirements in the normal course of business.

The Bank has adopted the following minimum liquidity policy: the minimum amount of aggregate liquid asset holdings shall equal the highest consecutive 12-months of expected debt service obligations during the following 18 months, plus committed net loan disbursements (if positive), plus projected operating expenses for the relevant fiscal year. Such minimum amount of aggregate liquid asset holdings 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. The minimum liquidity balance for the 2020 fiscal year is $482.9 million.

The Bank may decide to hold liquidity above its minimum level to take advantage of favorable borrowing opportunities and to try to maintain a regular presence in the capital markets. Although this discretionary liquidity increases the level of liquidity beyond the minimum set forth in the previous paragraph, it is intended to minimize the aggregate cost of borrowing by providing a cushion of low-cost funding. In turn this allows the Bank to pass on lower borrowing costs to its clients and generate growth in retained earnings. The Bank has established a cap on liquidity: its liquidity ordinarily shall not exceed 2.5 times the minimum liquidity balance established pursuant to its stated policy.

The Bank's investments can be classified into three categories: held-to-maturity, available-for-sale and trading securities. The Bank's liquid asset holdings are in the form of cash, cash equivalents (mainly, money market accounts and marketable securities with original maturities of up to 90 days) and investments in longer term marketable securities (fixed-income securities). While all liquid asset holdings may be designated as either trading or available-for-sale, as of the date hereof, all investments held in the Bank's liquidity portfolio are designated as available-for-sale. Securities designated as held-to-maturity are not considered liquid asset holdings for purposes of determining minimum liquidity.

The Bank's liquid assets totaled $749.5 million and $795.9 as of December 31, 2019 and 2018, respectively, in addition to new loan disbursements and principal and interest payments from the existing loan portfolio.

Liquid Assets
(in U.S.$ Million)

Type of Security:	As of December 31, 2019	As of December 31, 2018
Cash and cash equivalents	$ 121.6	$ 175.0
U.S. government and agency securities	497.6	401.0
United Mexican State securities	14.3	15.2
Corporate debt securities	90.0	149.1
Other fixed-income securities	26.0	55.6
Total liquid assets	$ 749.5	$ 795.9

As of December 31, 2019 and 2018, 82.6% and 72.4%, respectively, of the Bank's liquid asset portfolio was comprised of highly liquid assets (cash and cash equivalents and U.S. Treasuries and Agencies). The remaining 17.4% and 27.6%, respectively, were comprised of liquid assets (all other types of liquid investment securities held by the Bank) as of December 31, 2019 and 2018, respectively.

Investment Policy

The Bank's primary investment objective is the maintenance of sufficient liquidity to (i) meet all operating expenses of the Bank; (ii) fund loan demands of the Bank; (iii) meet payments of debt service on all outstanding obligations of the Bank; and (iv) ensure proper liquidity ratios required to maintain the Bank's credit rating, as published by a statistical rating organization (SRO).

The Bank invests only in securities that have readily identifiable prices. Permissible securities that otherwise meet the Bank's investment policy comprise a wide range of high quality fixed-income instruments with the goal of seeking the preservation of capital, 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's investment portfolio must contain a minimum of 25% U.S. government securities. All other securities, with the exception of corporate debt securities and Mexican government securities, must be rated AA (or its equivalent) or higher by an SRO. 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 an SRO.

In July 2012, the Board revised its investment policy to include corporate securities rated A or higher as eligible securities for a limited percentage (25% maximum) of its portfolio to increase its diversification of investments by sector with a minimal amount of increased credit risk and to increase interest yield on the investment portfolio. The Bank may invest in corporate bonds and notes, so long as such securities are (i) denominated in U.S. dollars, (ii) issued by corporations rated A (or its equivalent) or higher by an SRO, and (iii) do not represent more than ten percent (10%) of the issuing entity's total debt obligations. The Bank may invest in asset-backed securities, so long as such securities are (i) issued by domestic corporations rated AAA (or its equivalent) by an SRO, and (ii) do not represent more than ten percent (10%) of the issuing entity's total debt obligations. The Bank's policy provides that investment in the following derivative securities should be avoided at all times: inverse floaters, leveraged floaters, range floaters, dual index floaters, index amortization bonds, step-up callable bonds, and other structured notes with complex coupon formulas and/or coupons that are tied to long-term or lagging interest rate indexes.

The Bank is restricted from investing more than five percent (5%) of its investment portfolio in the securities of any one issuer, and not more than twenty-five percent (25%) may be invested in any one security type, excluding obligations of the U.S. Government, the Mexican Government and U.S. Government Agencies.

Market Risk

The Bank is exposed to market risks as a result of general market movements, primarily through changes in interest and exchange rates. These risks are mitigated through the Bank's asset and liability management program and its hedging activities.

Interest Rate Risk

The Bank is subject to interest rate risk as a result of its loan financing activities. The Bank is also subject to risk from interest rate movements that affect the rate it earns on its investment portfolio, which is another key component of NADB's interest income.

The Bank mitigates its exposure to interest rate risk through the use of derivatives transactions such as interest rate swaps.

The principal means of controlling the interest rate risk of the Bank's total investment portfolio is to control the average duration of the portfolio. To ensure the maintenance of adequate liquidity and to protect the Bank's portfolio from significant losses caused by interest rate movements, the average duration of the Bank's total investment portfolio may not exceed four years. The Bank structures its investment portfolio so that its investment securities mature concurrent with anticipated cash needs and anticipated demands, with further 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 may be available in Mexican pesos or in U.S. dollars if the project generates a U.S. dollar cash flow. If financing is extended in Mexican pesos, the Bank's policies require it to establish a currency hedge unless the source of funding for the loan is also in pesos. For U.S. dollar loans to Mexican borrowers, the Bank must obtain assurance that the borrower will be able to generate the dollars to make payment when due before making the loan.

COFIDAN is virtually wholly-owned by the Bank, and it is consolidated into the Bank for financial reporting purposes. 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 (revenues and costs are translated using average exchange rates for the period). The resulting cumulative translation adjustment is included in the Bank's accumulated other comprehensive income, typically as a loss. Because of the small asset size, such adjustments have not been material and are not expected to be in the future.

Use of Derivatives

The Bank uses derivatives for the sole purpose of hedging and does not engage in any use of derivatives for speculative purposes. The Bank's lending activities include making loans that are denominated in Mexican pesos. The Bank's policies require it to establish a currency hedge for peso-denominated loans unless the source of funding for the loan is also in pesos. For such loans, the Bank enters into derivatives transactions, such as cross-currency interest rate swaps to mitigate its economic exposure to fluctuations in currency exchange rates and interest rates.

The foreign currency translation adjustment on loans denominated in Mexican pesos for the year ended December 31, 2019, equaled an unrealized loss of $33.3 million at fiscal year-end, which was fully offset by the Bank's cross-currency interest rate swaps accounted for as cash flow hedges. Furthermore, the ending balance net unrealized gain on hedging activities for the year ending December 31, 2019 was $7.1 million.

In connection with its borrowings, the Bank is authorized to use all necessary cross-currency and/or interest rate swaps as a liability management tool. In connection with its outstanding fixed rate debt securities, the Bank utilizes interest rate swaps to mitigate its interest rate risk exposure.

Operational Risk

Operational risk is the potential loss arising from internal activities or external events, caused by breakdown in information, communication, physical safeguards, business continuity, supervision, transactions processing, pricing and cash, and securities movements and settlement systems. In addition, operational risk 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 way it is financed.

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. The Bank maintains tight internal controls on all its cash management functions, including its bank accounts, to minimize instances of fraud or theft, both internal and external. 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, in 2014, the Bank established the Risk Management and Control Department (RMC) to centralize the risk management function and continually assess and reinforce all aspects of its risk management strategies and tools. The Bank also performs continuous internal audits of its processes, which are conducted by an outside firm.

The Bank also maintains insurance to protect against operational risk, including commercial insurance, business automobile insurance, travelers' insurance and occupational accident insurance policies.

Administration and Governance Board Directors (the Board)

NADB is governed by a ten-member Board comprised of three cabinet-level federal government representatives from each country, a representative of a border state from each country, and a representative of the general public who resides in the border region from each country.

The federal government representatives on the Board include the U.S. Secretary of the Treasury, Department of State, Office of the EPA, the Mexican Secretary of Finance and Public Credit, Secretary of Foreign Affairs and Secretary of the Environment and Natural Resources. The local representatives on the Board consist of a state representative from a border state in the United States, the Director of Financial Analysis in the Ministry of Finance and Public Credit, also a border state representative, and a representative of the general public, one from the U.S. and one from Mexico, who reside in the border region. The local representatives are appointed by the relevant member country, at its discretion. Chairmanship of the Board alternates between the U.S. and Mexican treasury representatives each year.

Under its Charter, all Board decisions require the approval of a majority of the directors appointed by each member country. With respect to project certifications, the Board may vote for certification only after the public has had an opportunity to comment, during a public comment period of no less than 30 days. In addition, decisions relating to or affecting project certification or financing require the affirmative vote of the U.S. Secretary of the Treasury and Administrator of the EPA and the Mexican Secretary of Finance and Public Credit and Secretary of the Environment and Natural Resources.

Officers

Under the direction of the Board, the business of NADB is conducted by the Managing Director and Deputy Managing Director, who together with the Chief Environmental Officer, oversee the development of NADB's current and long-range objectives, policies and procedures. The Managing Director and Deputy Managing Director each may generally serve up to two (2) terms of four (4) years. The offices of Managing Director and Deputy Managing Director alternate between nationals of the two member countries and must be occupied by nationals of different member countries at all times.

Dr. Calixto Mateos, a Mexican citizen, was appointed Managing Director of NADB on November 14, 2019. As a result, on that same date, the appointment of Dr. Calixto Mateos created a vacant Deputy Managing Director position. As of December 31, 2019, the NADB is currently seeking for a qualifying Deputy Managing Director.

NADB's management team also includes Chief Environmental Officer, Salvador Lopez; Chief Financial Officer, Julio Zamora; Director of Administration, Eduardo Macias; Director of Infrastructure Financing and Financial services, Carlos Carranza; Director of Project and Loan Administration, Michael Ratliff; Director of Public Affairs, Jesse J. Hereford; Director of Technical Assistance, Mario E. Vázquez; Director of Risk Management and Control, Bernardo Salas; Grant Financing Director, Renata Manning-Gbogbo; and General Counsel, Lisa Roberts.

NADB has 105 employees in the Bank's San Antonio and Juarez offices to carry out the day-to-day operations.

The address of NADB's management is 203 South St. Mary's, Suite 300, San Antonio, Texas 78205, United States of America.

Dividends

The Board of Directors may determine periodically what part of the net profits and of the surplus of the capital resources shall be distributed. Such distributions may be made only when the reserves have reached a level which the Board of Directors considers adequate. The Board of Directors has never distributed any dividends.

Financial Reports

For information on financial reports, please refer to the Annex A and B of this Prospectus.

Audited Consolidated Financial Statements for the years ended December 31, 2019 and 2018

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North American Development Bank

Consolidated Financial Statements
(and supplementary information)
As of December 31, 2019 and 2018

The report accompanying these financial statements was issued by BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.

North American Development Bank

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(and supplementary information)
As of December 31, 2019 and 2018

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North American Development Bank

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Tel: 214-969-7007
Fax: 214-953-0722
www.bdo.com

600 North Pearl, Suite 1700
Dallas, TX 75201

Independent Auditor's Report

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

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of North American Development Bank as of December 31, 2019, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The 2018 consolidated financial statements of North American Development Bank were audited by other auditors, whose report dated March 29, 2019 expressed an unqualified opinion on those statements.

Emphasis of a Matter – COVID-19

As more fully described in Note 16 to the consolidated financial statements, the Bank could be negatively impacted by the outbreak of a novel coronavirus (COVID-19), which was declared a global pandemic by the World Health Organization in March 2020.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the 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 consolidated financial statements as a whole.

March 31, 2020

Consolidated Financial Statements

North American Development Bank

Consolidated Balance Sheets

December 31,		**2019**		2018
Assets				
Cash and cash equivalents:				
Held at other financial institutions in demand deposit accounts	$	**406,916**	$	374,898
Held at other financial institutions in interest bearing accounts		**45,890,923**		48,419,515
Repurchase agreements		**75,300,000**		126,300,000
Cash and cash equivalents		**121,597,839**		175,094,413
Held-to-maturity investment securities, at amortized cost		**4,038,722**		3,335,360
Available-for-sale investment securities, at fair value		**627,900,720**		620,823,835
Loans outstanding		**1,301,746,523**		1,284,477,904
Allowance for loan losses		**(19,216,845)**		(19,154,507)
Unamortized loan fees		**(12,284,799)**		(12,685,298)
Foreign currency exchange rate adjustment		**(33,301,924)**		(40,516,565)
Hedged items, at fair value		**(62,856,585)**		(155,900,516)
Net loans outstanding		**1,174,086,370**		1,056,221,018
Interest receivable		**15,987,916**		15,941,621
Grant and other receivable		**1,310,349**		1,499,144
Furniture, equipment and leasehold improvements, net		**167,710**		251,731
Other assets		**62,393,503**		85,890,652
Total Assets	$	**2,007,483,129**	$	1,959,057,774

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

North American Development Bank

Consolidated Balance Sheets

December 31,		2019		2018
Liabilities and Equity				
Current Liabilities				
Accounts payable	$	**814,012**	$	1,064,675
Accrued liabilities		**1,921,177**		2,560,410
Accrued interest payable		**17,487,066**		18,367,661
Undisbursed grant funds		**9,880**		1,002
Other liabilities		**1,466,112**		7,257,372
Short-term debt, net of discounts and unamortized debt issuance costs		**255,238,795**		5,263,000
Hedged item, at fair value		**357,621**		-
Net short-term debt		**255,596,416**		5,263,000
Total Current Liabilities		**277,294,663**		34,514,120
Long-term Liabilities				
Long-term post-retirement benefits payable		**2,481,519**		-
Long-term debt, net of discounts and unamortized debt issuance costs		**1,050,594,907**		1,304,721,548
Hedged items, at fair value		**(5,851,918)**		(33,204,590)
Net long-term debt		**1,044,742,989**		1,271,516,958
Total Long-term Liabilities		**1,047,224,508**		1,271,516,958
Total Liabilities		**1,324,519,171**		1,306,031,078
Equity				
Paid-in capital		**415,000,000**		415,000,000
General Reserve:				
Retained earnings:				
Designated		**10,613,305**		10,988,220
Reserved		**159,763,504**		162,065,724
Undesignated		**88,221,692**		55,843,436
Accumulated other comprehensive income		**9,360,292**		9,124,014
Non-controlling interest		**5,165**		5,302
Total Equity		**682,963,958**		653,026,696
Total Liabilities and Equity	$	**2,007,483,129**	$	1,959,057,774

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

North American Development Bank

Consolidated Statements of Income

Years Ended December 31,	**2019**	2018
Interest Income		
Loans	**$ 65,635,241**	$ 61,981,255
Investments	**18,667,228**	16,938,554
Total Interest Income	**84,302,469**	78,919,809
Interest expense	**44,647,559**	47,242,402
Net Interest Income	**39,654,910**	31,677,407
Operating Expenses (Income)		
Personnel	**14,846,765**	12,839,428
General and administrative	**2,285,686**	2,404,145
Consultants and contractors	**1,834,600**	2,175,543
Provision for loan losses	**62,338**	(1,953,438)
Other	**(9,572)**	(4,506)
Depreciation	**129,862**	156,798
U.S. Domestic Program	**-**	230,535
Total Operating Expenses	**19,149,679**	15,848,505
Net Operating Income	**20,505,231**	15,828,902
Non-interest Income and Non-operating Income (Expenses):		
U.S. State Department contribution	**2,902,000**	2,902,000
Ministry of Environment and Natural Resources (SEMARNAT) contribution	**1,793,750**	1,793,750
Gain on securities	**90,325**	5,111
Income from hedging activities, net	**4,437,134**	2,566,698
Income from foreign exchange activities, net	**-**	213,393
Fees and other income, net	**645,378**	642,284
Loss on other real estate owned	**-**	(290,300)
Total Non-interest Income and Non-operating Income	**9,868,587**	7,832,936
Income before Program Activities	**$ 30,373,818**	$ 23,661,838

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

North American Development Bank

Consolidated Statements of Income

Years Ended December 31,	**2019**	2018
Program Activities		
Border Environmental Infrastructure Fund (BEIF):		
U.S. Environmental Protection Agency (EPA) grant income	**$ 997,312**	$ 772,003
EPA grant administration expense	**(997,312)**	(772,003)
Community Assistance Program expense	**(252,438)**	(2,284,995)
Technical Assistance Program:		
EPA grant income	**2,330,796**	1,872,834
EPA grant administration expense	**(970,502)**	(844,211)
Inter-American Development Bank (IDB) Multilateral Investment Fund (MIF) grant income	**-**	10,621
Technical assistance expenses	**(1,780,690)**	(1,290,290)
Other grant income	**32,687**	13,776
Other grant administration expense	**(32,687)**	(13,776)
Net Program Expenses	**(672,834)**	**(2,536,041)**
Net Income	**29,700,984**	21,125,797
Non-controlling interest in net loss	**(137)**	(173)
Controlling Interest in Net Income	**$ 29,701,121**	$ 21,125,970

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

North American Development Bank

Consolidated Statements of Comprehensive Income

Years Ended December 31,		**2019**		2018
Net income	$	**29,700,984**	$	21,125,797
Non-controlling interest in net loss		**(137)**		(173)
Controlling interest in net income		**29,701,121**		21,125,970
Other Comprehensive Income (Loss)				
Available-for-sale investment securities:				
Change in unrealized gains (losses) during the period, net		**4,336,628**		96,684
Reclassification adjustment for net gains included in net income		**(87,852)**		(2,611)
Total unrealized gain on available-for-sale investment securities		**4,248,776**		94,073
Foreign currency translation adjustment		**(32,997)**		3,803
Unrealized gains (losses) on hedging activities:				
Foreign currency translation adjustment, net		**7,214,641**		5,480,786
Fair value of cross-currency interest rate swaps, net		**(11,194,142)**		(8,221,092)
Total unrealized loss on hedging activities		**(3,979,501)**		(2,740,306)
Total Other Comprehensive Income (Loss)		**236,278**		(2,642,430)
Total Comprehensive Income	$	**29,937,399**	$	18,483,540

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

North American Development Bank

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, 2018	$ 415,000,000	$ 2,338,897	$ 205,682,513	$ 11,766,444	$ 5,475	$ 634,793,329
Transfer to Targeted Grant Program of the U.S. Domestic Program	-	(250,000)	-	-	-	(250,000)
Closeout of U.S. Domestic Program	-	(2,088,897)	2,088,897	-	-	-
Net income	-	-	21,125,970	-	-	21,125,970
Other comprehensive income	-	-	-	(2,642,430)	-	(2,642,430)
Non-controlling interest	-	-	-	-	(173)	(173)
Ending balance, December 31, 2018	415,000,000	-	228,897,380	9,124,014	5,302	653,026,696
Net income	-	-	**29,701,121**	**-**	**-**	**29,701,121**
Other comprehensive income	-	-	**-**	**236,278**	**-**	**236,278**
Non-controlling interest	-	-	**-**	**-**	**(137)**	**(137)**
Ending Balance, December 31, 2019	**$ 415,000,000**	**$ -**	**$ 258,598,501**	**$ 9,360,292**	**$ 5,165**	**$ 682,963,958**

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

North American Development Bank

Consolidated Statements of Cash Flows

Years Ended December 31,		2019		2018
Cash Flows from Operating Activities				
Net income	$	**29,701,121**	$	21,125,970
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation		**129,862**		156,798
Amortization of net premiums (discounts) on investments		**(4,590,154)**		(3,026,257)
Change in fair value of swaps, hedged items and other non-cash items		**(58,143,283)**		(17,976,051)
Non-controlling interest		**(137)**		(173)
Gains on securities, net		**(87,852)**		(5,111)
Provision for loan losses		**62,338**		(1,953,438)
Long-term post-retirement benefits payable		**2,481,519**		-
Change in other assets and liabilities:				
(Increase) decrease in interest receivable		**(46,295)**		12,840,026
Decrease in receivable and other assets		**188,795**		6,129,434
Decrease in accounts payable		**(250,663)**		(5,684,431)
Increase (decrease) in accrued liabilities		**(639,233)**		1,174,621
Decrease in accrued interest payable		**(880,595)**		(3,330,007)
Net cash provided by (used in) operating activities		**(32,074,577)**		9,451,381
Cash Flows from Lending, Investing and Development Activities				
Capital expenditures		**(45,791)**		(53,534)
Loan principal repayments		**147,024,725**		176,337,591
Loan disbursements		**(164,293,344)**		(165,984,284)
Purchase of held-to-maturity investments		**(2,969,362)**		(610,000)
Purchase of available-for-sale investments		**(459,209,582)**		(905,827,329)
Proceeds from maturities of held-to-maturity investments		**2,266,000**		1,178,000
Proceeds from sales and maturities of available-for-sale investments		**461,059,479**		1,075,412,149
Net cash provided by (used in) by lending, investing and development activities		**(16,167,875)**		180,452,593
Cash Flows from Financing Activities				
Proceeds from note issuances		**-**		126,415,858
Principal repayment of other borrowings		**(5,263,000)**		(5,262,000)
Principal repayment of notes payable		**-**		(300,000,000)
Grant funds from the Environmental Protection Agency (EPA)		**11,607,674**		26,340,883
Grant funds from other sources		**119,708**		-
Grant disbursements - EPA		**(11,607,674)**		(26,340,883)
Grant disbursements - U.S. Domestic Program		**-**		(250,000)
Grant disbursements from other sources		**(110,830)**		-
Net cash used in financing activities		**(5,254,122)**		(179,096,142)
Net Increase (Decrease) in Cash and Cash Equivalents		**(53,496,574)**		10,807,832
Cash and Cash Equivalents, Beginning of Year		**175,094,413**		164,286,581
Cash and Cash Equivalents, End of Year	$	**121,597,839**	$	175,094,413
Supplemental Cash Information				
Cash paid during the year for interest	$	**28,707,051**		35,424,793
Significant Non-cash Transactions				
Foreign currency translation adjustment	$	**7,214,641**	$	5,480,786
Change in fair value of cross-currency interest rate swaps, net		**(11,194,142)**		(8,221,092)
Change in fair value of available-for-sales investments, net		**4,248,776**		94,073

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

1. Organization and Purpose

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

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

The Bank provides loan and grant financing and technical assistance for environmental infrastructure projects approved by the Board, as appropriate, and administers grant funding provided by other entities. In accordance with the Charter, the Bank also made available limited funds from its equity to establish the domestic program of each country and administered 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, 2019, COFIDAN is 99.90% owned by the Bank and 0.10% owned by the Government of Mexico. The accounts of COFIDAN are consolidated with the Bank, and all material intercompany accounts and transactions are eliminated in the consolidation. The non-controlling interest reflected in the consolidated balance sheets and consolidated statements of income represents the ownership of the Government of Mexico through the Ministry of Finance and Public Credit (SHCP).

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates in Financial Statements

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

2. Summary of Significant Accounting Policies (Continued)

Principles of Consolidation

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

Cash and Cash Equivalents

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

Repurchase Agreements

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

Investment Securities

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

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

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

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

The accretion of discounts and the amortization of premiums are computed using the interest method. Realized gains and losses are determined using the specific identification method. Investments in a loss position are reviewed to determine whether the unrealized loss, which is considered an impairment, is temporary or other-than-temporary. In the 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 December 31, 2019 and 2018.

2. Summary of Significant Accounting Policies (Continued)

Taxation

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

Furniture, Equipment, and Leasehold Improvements

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

General Reserve

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

2. Summary of Significant Accounting Policies (Continued)

Loans and Allowance for Loan Losses (Continued)

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

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

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

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

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

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

Loan Portfolio Risk Rating

During 2019, the Bank modified the way in which it assesses the quality of its loan portfolio by introducing internal credit risk methodologies. As a result, the risk categories expanded to nine from four (Pass, Special mention, Substandard, and Doubtful).

2. Summary of Significant Accounting Policies (Continued)

Loan Portfolio Risk Rating (Continued)

The internal portfolio risk methodologies are tailored to the characteristics of each transaction and project sector and were developed using both quantitative and qualitative variables to address both project and borrower risks. The analysis includes all financial and operating metrics relevant to the overall performance of the project, as well as any relevant credit risk mitigating measures. The variables are well defined and consistently applied to each individual loan. For each loan, the probability of default is estimated using the corresponding methodology and mapped onto the credit risk rating scale. The rating scale used in 2018 is shown for comparative purposes.

2019 Rating Scale			2018
Borrower Rating	**Scale**	**Risk Grade**	**Rating Scale**
1		A-1	
2	A	A-2	
3		A-3	Pass
4		B-1	
5	B	B-2	
6		B-3	
7	C	C	Special mention
8	D	D	Substandard
9	E	E	Doubtful

Government Contributions

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

Program Activities

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

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

Program expenses also represent grant disbursements funded with previously designated retained earnings of the Bank through its Community Assistance Program (CAP), Water Conservation Investment Fund (WCIF) and Technical Assistance Program. Grants are recognized at the date the Bank becomes obligated under the terms of the grant agreements, and associated costs are recognized as incurred.

2. Summary of Significant Accounting Policies (Continued)

Program Activities (Continued)

EPA-funded BEIF grants and U.S. Domestic Program grant receipts and disbursements reflected in the consolidated statements of cash flows are not reflected in the accompanying consolidated statements of income, as these grants are approved and funded by the respective entities noted above. The Bank's role is to administer these funds.

Foreign Currency

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

The lending activities of the Bank include making loans that are denominated in Mexican pesos. For such loans, the Bank enters into cross-currency interest rate swaps that mitigate its exposure to fluctuations in foreign currency exchange rates and interest rates. As of December 31, 2019, 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 nine (9) other financial institutions. The foreign currency translation adjustment on loans denominated in Mexican pesos as of December 31, 2019 and 2018 was $(33,301,924) and $(40,516,565), respectively. Changes in the foreign currency translation adjustment are reported through other comprehensive income.

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

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

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

2. Summary of Significant Accounting Policies (Continued)

Fair Value

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

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

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

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

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

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, 2019 and 2018.

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

		Gross Unrealized		
December 31, 2018	Amortized Cost	Gains	Losses	Fair Value
Held-to-maturity:				
U.S. agency securities	$ 3,335,360	$ 2,017	$ (23,674)	$ 3,313,703
Total held-to-maturity investment securities	3,335,360	2,017	(23,674)	3,313,703
Available-for-sale:				
U.S. government securities	282,187,720	239,637	(979,644)	281,447,713
U.S. agency securities	119,904,756	59,491	(465,849)	119,498,398
Corporate debt securities	149,796,837	52,802	(737,541)	149,112,098
Other fixed-income securities	55,678,638	1,755	(106,461)	55,573,932
Mexican government securities (UMS)	15,585,230	1,278	(394,814)	15,191,694
Total available-for-sale investment securities	623,153,181	354,963	(2,684,309)	620,823,835
Total investment securities	$ 626,488,541	$ 356,980	$ (2,707,983)	$ 624,137,538

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, 2019 and 2018.

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

	Less Than 12 Months		12 Months or More		Total	
December 31, 2018	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Held-to-maturity:						
U.S. agency securities	$ 2,705,325	$ 23,674	$ -	$ -	$ 2,705,325	$ 23,974
Available-for-sale:						
U.S. government securities	213,189,806	979,645	-	-	213,189,806	979,645
U.S. agency securities	65,854,290	465,848	-	-	65,854,290	465,848
Corporate debt securities	123,662,566	737,542	-	-	123,662,566	737,542
Other fixed-income securities	51,150,386	106,460	-	-	51,150,386	106,460
Mexican government securities (UMS)	14,196,744	394,814	-	-	14,196,744	394,814
Total available-for-sale investment securities	468,053,792	2,684,309	-	-	468,053,792	2,684,309
Total temporarily impaired securities	$ 470,759,117	$ 2,707,983	$ -	$ -	$ 470,759,117	$ 2,707,983

None of the unrealized losses identified in the preceding table are considered to be other-than-temporary or related to a credit impairment of an issuer as of December 31, 2019. As of that same date, the Bank did not have the intent to sell any of the securities with unrealized losses and believed that it was more-likely-than-not that the Bank would not be required to sell any such securities before a recovery of cost.

3. Investments (Continued)

Contractual maturities of investments as of December 31, 2019 and 2018 are summarized in the following tables.

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

	Held-to-Maturity Securities		Available-for-Sale Securities	
December 31, 2018	Fair Value	Amortized Cost	Fair Value	Amortized Cost
Less than 1 year	$ 2,248,659	$ 2,266,000	$ 309,268,703	$ 309,628,251
1-5 years	1,065,044	1,069,360	311,555,132	313,524,930
5-10 years	-	-	-	-
More than 10 years	-	-	-	-
	$ 3,313,703	$ 3,335,360	$ 620,823,835	$ 623,153,181

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, 2019 and 2018.

Year Ended December 31,	**2019**	2018
Held-to-maturity investment securities:		
Proceeds from maturities	**$ 2,266,000**	$ 1,178,000
Available-for-sale investment securities:		
Proceeds from sales and maturities	**461,059,479**	1,075,412,149
Gross realized gains	**102,627**	4,980
Gross realized losses	**14,775**	2,369

The following table sets forth the net unrealized gains (losses) on securities available-for-sale and the reclassification adjustments required for the years ended December 31, 2019 and 2018.

Year Ended December 31,	**2019**	2018
Net unrealized losses on investment securities available-for-sale, beginning of year	**$ (2,329,346)**	$ (2,423,419)
Net unrealized gains on investment securities available-for-sale, arising during the year	**4,336,628**	96,684
Reclassification adjustments for net (gains) losses on investment securities available-for-sale included in net income	**(87,852)**	(2,611)
Net unrealized gains (losses) on investment securities available-for-sale, end of year	**$ 1,919,430**	$ (2,329,346)

4. Loans

The following schedule summarizes loans outstanding as of December 31, 2019 and 2018.

December 31,	2019	2018
Loan balance	$ 1,301,746,523	$ 1,284,477,904
Allowance for loan losses:		
General	(16,834,062)	(16,827,406)
Specific	(2,382,783)	(2,327,101)
Unamortized loan fees	(12,284,799)	(12,685,298)
Foreign currency exchange rate adjustment	(33,301,924)	(40,516,565)
Fair value of hedged items	(62,856,585)	(155,900,516)
Net loans outstanding	$ 1,174,086,370	$ 1,056,221,018

At December 31, 2019 and 2018, outstanding unfunded loan commitments on signed loan agreements totaled $99,857,959 and $150,637,189, respectively. As of December 31, 2019, the Bank had loan agreements under development for an additional $128,846,885.

The Bank under certain circumstances offered below-market-rate loans. As of December 31, 2019, and 2018, the Bank had below-market-rate loans outstanding of $27,438,337 and $31,504,406, respectively.

The following table presents the loan portfolio by sector as of December 31, 2019 and 2018.

December 31,	2019	2018
Air quality	$ 78,483,962	$ 86,833,221
Basic urban infrastructure	34,525,116	36,005,319
Clean energy:		
Solar	429,095,367	312,603,682
Wind	590,585,436	644,675,776
Other	2,945,529	3,552,841
Public transportation	42,004,524	38,390,399
Solid waste	2,845,000	-
Storm drainage	10,713,740	11,974,394
Water and wastewater	110,547,849	150,442,272
	$ 1,301,746,523	$ 1,284,477,904

The following table presents the loan portfolio by borrower type as of December 31, 2019 and 2018.

December 31,	2019	2018
Private	$ 1,062,617,460	$ 996,974,427
Public	180,595,606	195,216,867
Public-private	58,533,457	92,286,610
	$ 1,301,746,523	$ 1,284,477,904

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

4. Loans (Continued)

The following table presents the loan portfolio by risk category as of December 31, 2019 and 2018. These risk categories are defined in Note 2, along with additional information on how the Bank evaluates credit quality.

December 31,	2019	2018[1]
A-1	$ **34,593,756**	$ 53,797,752
A-2	**355,904,478**	323,118,217
A-3	**610,206,818**	567,893,919
B-1	**276,452,024**	313,855,929
B-2	**9,529,283**	9,872,898
B-3	**932,135**	1,304,571
C	**-**	-
D	**14,128,029**	14,634,618
E	**-**	-
	$ **1,301,746,523**	$ 1,284,477,904

[1] The 2018 figures are presented for comparative purposes since the rating methodology became effective during 2019. Loans rated as A1 – B3 above were classified as "Pass" as of December 31, 2018 and totaled $1,269,843,286. The loan rated as "D" was classified as "Special Mention" as of December 31, 2018. Pass rated loans were not considered to have a greater than normal credit risk. Special Mention rated loans exhibited potential weaknesses that deserved the Bank's close attention.

As of December 31, 2019, and 2018, the Bank had one non-accrual loan with an outstanding balance of $14,128,029 and $14,634,618, respectively.

In July 2018, the Bank restructured a non-accrual loan as a "troubled debt restructuring" with a restructured balance of $14,976,865 and an extended amortization period. There was no charge-off of principal and interest related to the restructured loan for the year ended December 31, 2018. The specific allowance for this loan totaled $2,382,783 and $2,327,101 as of December 31, 2019 and 2018, respectively.

No non-accrual loans were restructured during the year ended December 31, 2019. The average impaired loan balance for the years ended December 31, 2019 and 2018 totaled $14,300,091 and $14,407,620, respectively.

An age analysis of past-due loans, including both accruing and non-accruing loans, as of December 31, 2019 and 2018, is shown in the following table.

	Loans 30-89 days past due	Loans 90 or more days past due	Total loans 30+ days past due
December 31, 2019	$ **-**	$ **-**	$ **-**
December 31, 2018	-	-	-

There were no loans past due 90 or more days accruing interest as of December 31, 2019 and 2018.

4. Loans (Continued)

The following table summarizes the allowance for loan losses by classification as of December 31, 2019 and 2018.

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

	Allowance for Loan Losses			
December 31, 2018	General Allowance	Specific Allowance	Total	Total Loans Outstanding
Mexico:				
Construction	$ 6,240,336	$ -	$ 6,240,336	$ 176,609,937
Operation	7,113,342	2,327,101	9,440,443	755,324,716
Total Mexico	13,353,678	2,327,101	15,680,779	931,934,653
United States:				
Construction	251,799	-	251,799	9,264,133
Operation	3,221,929	-	3,221,929	343,279,118
Total United States	3,473,728	-	3,473,728	352,543,251
	$ 16,827,406	$ 2,327,101	$ 19,154,507	$ 1,284,477,904

In 2019, the Bank redefined the manner in which it calculates the general allowance for loan losses as described in Note 2. For the year ended December 31, 2019, the general allowance calculated under the previous methodology would have totaled $17,103,121.

4. Loans (Continued)

The following schedule summarizes the allowance for loan losses for the years ended December 31, 2019 and 2018.

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

	Allowance for Loan Losses				
December 31, 2018	Beginning Balance	Specific Provisions	General Provisions	Loan (Charge-offs) Recoveries	Ending Balance
Mexico:					
Construction	$ 1,770,577	$ -	$ 4,469,759	$ -	$ 6,240,336
Operation	14,833,449	(342,446)	(5,050,560)	-	9,440,443
Total Mexico	16,604,026	(342,446	(580,801)	-	15,680,779
United States:					
Construction	90,335	-	161,464	-	251,799
Operation	4,413,584	-	(1,191,655)	-	3,221,929
Total United States	5,503,919	-	(1,030,191)	-	3,473,728
	$ 21,107,945	$ (342,446)	$ (1,610,992)	$ -	$ 19,154,507

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, 2019 and 2018.

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

December 31, 2018	Gross Amount	Master Netting Arrangements	Net Amount
Assets			
Cross-currency interest rate swaps	$ 196,524,505	$ (8,963,537)	$ 187,560,968
Interest rate swaps	(5,904,367)	5,904,367	-
Collateral from swap counterparty	(100,360,000)	-	(100,360,000)
Credit valuation adjustment for swaps	(1,310,316)	-	(1,310,316)
Total other assets	$ 88,949,822	$ (3,059,170)	$ 85,890,652
Liabilities			
Interest rate swaps	$ 7,257,372	$ -	$ 7,257,372
Total other liabilities	$ 7,257,372	$ -	$ 7,257,372

6. Debt

The following tables summarize the notes payable and other borrowings as of December 31, 2019 and 2018.

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

6. Debt (Continued)

			December 31, 2018				
Issue Date	Maturity Date	Fixed Rate	Principal Amount	Unamortized Premium/ (Discount)	Unamortized Debt Issuance Costs	Fair Value of Hedged Items	Net Debt
Notes Payable							
USD Issuance							
02/11/10	02/11/20	4.375%	$ 250,000,000	$ (72,500)	$ (179,574)	$ 2,005,955	$ 251,753,881
10/26/12	10/26/22	2.400	250,000,000	(328,472)	(568,003)	(6,889,039)	242,214,486
12/17/12	10/26/22	2.400	180,000,000	(1,445,378)	(359,787)	(6,047,843)	172,146,992
12/17/12	12/17/30	3.300	50,000,000	-	(205,600)	(2,230,811)	47,563,589
CHF Issuance							
04/30/15	04/30/25	0.250	128,706,754	515,390	(526,098)	(1,525,496)	127,170,550
04/26/17	10/26/27	0.200	124,443,117	340,008	(631,020)	(2,818,385)	121,333,720
07/24/18	07/24/26	0.300	126,415,858	141,226	(770,267)	2,591,722	128,378,539
NOK Issuance							
03/10/17	03/10/32	2.470	173,448,566	-	(522,672)	(18,290,693)	154,635,201
Total notes payable			1,283,014,295	(849,726)	(3,763,021)	(33,204,590)	1,245,196,958
Other Borrowings							
04/11/14	06/30/19	1.900	2,631,000	-	-	-	2,631,000
04/11/14	12/30/19	1.900	2,632,000	-	-	-	2,632,000
04/11/14	06/30/20	1.900	526,785	-	-	-	526,785
08/14/14	06/30/20	1.900	2,105,215	-	-	-	2,105,215
08/14/14	12/30/20	1.900	2,632,000	-	-	-	2,632,000
08/14/14	06/30/21	1.900	1,008,985	-	-	-	1,008,985
02/13/15	06/30/21	1.900	1,623,015	-	-	-	1,623,015
02/13/15	12/30/21	1.900	1,470,635	-	-	-	1,470,635
07/29/15	12/30/21	1.900	1,161,365	-	-	-	1,161,365
07/29/15	06/30/22	1.900	266,455	-	-	-	266,455
09/16/16	06/30/22	1.900	2,216,528	-	-	-	2,216,528
03/17/17	06/30/22	1.900	149,017	-	-	-	149,017
03/17/17	12/30/22	1.900	2,632,000	-	-	-	2,632,000
03/17/17	06/30/23	1.900	2,632,000	-	-	-	2,632,000
03/17/17	12/30/23	1.900	2,632,000	-	-	-	2,632,000
03/17/17	06/30/24	1.900	2,632,000	-	-	-	2,632,000
03/17/17	12/30/24	1.900	2,170,720	-	-	-	2,170,720
11/13/17	12/30/24	1.900	461,280	-	-	-	461,280
Total other borrowings			31,583,000	-	-	-	31,583,000
			$1,314,597,295	$ (849,726)	$ (3,763,021)	$ (33,204,590)	$1,276,779,958

Notes Payable

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

6. Debt (Continued)

Notes Payable (Continued)

The fair value of the hedges relating to interest rate swaps on a portion of the notes payable denominated in U.S. dollars was reported at December 31, 2019 as other assets of $2,919,106 and other liabilities of $0 and at December 31, 2018 as other assets of $(5,904,367) and other liabilities of $7,257,372. The fair value of the hedges relating to cross-currency interest rate swaps on notes payable not denominated in U.S. dollars was reported at December 31, 2019 and 2018 as other assets of $(3,394,273) and $(15,958,507), respectively. Additional information on the fair value of financial instruments and derivatives is provided in Notes 11 and 12.

Other Borrowings

On November 8, 2012, the Bank signed a loan commitment with another development bank to borrow up to $50 million to fund eligible projects in Mexico. This loan amortizes semiannually, with the first principal payment paid on December 31, 2015 and final principal payment due on December 31, 2024. As of December 31, 2019, and 2018, the outstanding balance was $26,320,000 and $31,583,000, respectively.

The following table summarizes the maturities of the notes payable and other borrowings as of December 31, 2019 and 2018.

December 31,		**2019**		2018
Less than 1 year	$	**255,264,000**	$	5,263,000
1-2 years		**5,264,000**		255,264,000
2-3 years		**435,264,000**		5,264,000
3-4 years		**5,264,000**		435,264,000
4-5 years		**5,264,000**		5,264,000
5-10 years		**379,565,729**		384,829,729
More than 10 years		**223,448,566**		223,448,566
Total	$	**1,309,334,295**	$	1,314,597,295

The following table summarizes short-term and long-term debt as of December 31, 2019 and 2018.

December 31,		**2019**		2018
Short-term debt:				
Notes payable	$	**250,000,000**	$	-
Other borrowings		**5,264,000**		5,263,000
Total short-term debt		**255,264,000**		5,263,000
Long-term debt:				
Notes payable		**1,033,014,295**		1,283,014,295
Other borrowings		**21,056,000**		26,320,000
Total long-term debt		**1,054,070,295**		1,309,334,295
Total debt	$	**1,309,334,295**	$	1,314,597,295

7. Equity

Subscribed Capital

At December 31, 2019 and 2018, the shareholders of the Bank had subscribed 600,000 shares of capital stock, with a par value of $10,000 per share. As defined in the Charter, capital includes unqualified and qualified subscribed shares. Qualified subscribed shares are subject to the necessary legal requirements of each subscribing country. Unqualified subscribed shares have either been funded or authorized for purchase by the subscribing country. Capital is further classified as callable or paid-in capital at December 31, 2019 and 2018 as shown in the following table (in USD Thousands).

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

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

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

In 2015, Mexico and the United States each agreed to subscribe 150,000 additional shares. With this new capital subscription, each government has subscribed 300,000 shares of capital with a par value of $10,000 per share or $3,000,000,000 for a total of $6,000,000,000 as of December 31, 2019 and 2018.

7. Equity (Continued)

Subscribed Capital (Continued)

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

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

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

In accordance with BR 2015-24, the remaining subscriptions shall be made in several installments by December 31, 2022, or such later dates as the Board of Directors shall determine. The callable portion of the subscription for capital shares of the Bank will be subject to call only when required to meet obligations, as outlined in Article II, Section 3(d), of Chapter II of the Charter

Retained Earnings

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

December 31,	**2019**	2018
Designated retained earnings		
Water Conservation Investment Fund (WCIF)	**$ 95,594**	$ 95,594
Technical Assistance Program (TAP)	**2,802,305**	2,924,782
Community Assistance Program (CAP)	**7,715,406**	7,967,844
Total designated retained earnings	**10,613,305**	10,988,220
Reserved retained earnings		
Debt Service Reserve	**38,290,000**	49,200,000
Operating Expenses Reserve	**21,812,376**	21,774,242
Special Reserve	**30,000,000**	30,000,000
Capital Preservation Reserve	**69,661,128**	61,091,482
Total reserved retained earnings	**159,763,504**	162,065,724
Undesignated retained earnings		
Operations	**81,145,125**	51,178,760
Mark-to-market hedge valuations	**7,076,567**	4,664,676
Total undesignated retained earnings	**88,221,692**	55,843,436
Total retained earnings	**$ 258,598,501**	$ 228,897,380

7. Equity (Continued)

Retained Earnings (Continued)

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

Accumulated Other Comprehensive Income

The following table presents the changes in accumulated other comprehensive income (loss) for years ended December 31, 2019 and 2018.

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

December 31, 2018	Beginning Balance	Period Activity	Ending Balance
Net unrealized gain (loss) on available-for-sale investment securities	$ (2,423,419)	$ 94,073	$ (2,329,346)
Foreign currency translation adjustment	333,444	3,803	337,247
Unrealized gain (loss) on hedging activities:			
Foreign currency translation adjustment	(45,997,351)	5,480,786	(40,516,565)
Fair value of cross-currency interest rate swaps	59,853,770	(8,221,092)	51,632,678
Net unrealized gain (loss) on hedging activities	13,856,419	(2,740,306)	11,116,113
Total accumulated other comprehensive income (loss)	$ 11,766,444	$ (2,642,430)	$ 9,124,014

8. Domestic Programs

As permitted in the Charter, 10% of each country's initial subscription of capital stock was set aside to finance community adjustment and investment programs. Accordingly, the Bank approved transfers in prior years of $45,000,000, equal to 10% of the initial paid-in capital of $450,000,000 from the initial subscriptions, 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.

8. Domestic Programs (Continued)

Mexico

The MOU with Mexico specified that 10% of the initial paid-in capital from its initial capital subscription and the related earnings be set aside for the community adjustment and investment program endorsed by Mexico. The Government of Mexico instituted its domestic program, entitled Programa Complementario de Apoyo a Comunidades y Empresas (Mexican Domestic Program), through the offices of SHCP. In June 1996, 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 29, 1999. Accordingly, the activities of the Mexican Domestic Program are not reflected as operations of the Bank.

United States

The MOU with the U.S. Government specified that 10% of the initial paid-in capital from its initial capital subscription and the related earnings be set aside or the U.S. Community Adjustment and Investment Program (U.S. Domestic Program). The Bank provided financing endorsed by the Finance Committee appointed by the U.S. Government for that purpose. The funds set aside for the U.S. Domestic Program were recorded as allocated paid-in capital within the General Reserve of the Bank.

For the years ended December 31, 2019 and 2018, the U.S. Domestic Program had total interest income of $0 and $2,177, respectively. Total expenses for the same periods paid from U.S. Domestic Program funds were $0 and $230,535, respectively.

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. For the years ended December 31, 2019 and 2018, $0 and $250,000, respectively, were disbursed through the TGP. These disbursements were reported as a deduction from allocated paid-in capital.

The U.S. Domestic Program was closed as of December 31, 2018 in accordance with the Finance Committee closeout plan. Remaining cash of $107,894 as of December 31, 2018 was committed to pay for retiree health insurance plan benefits and outstanding liabilities that will be liquidated by the Bank. The closeout of the program is reflected in the consolidated statement of changes in equity as of December 31, 2018. As of December 31, 2019, and 2018, the outstanding liabilities from this program totaled $51,045 and $107,894, respectively.

9. Program Activities

Program activities are comprised of the following:

Year Ended December 31,		2019		2018
Program income:				
Border Environment Infrastructure Fund (BEIF)				
EPA grant income	$	**997,312**	$	772,003
Technical Assistance Program:				
EPA grant income				
Project Development Assistance Program (PDAP)		**1,652,132**		1,368,628
U.S. Mexico Border 2020 Program (Border 2020)		**678,664**		504,206
IDB Multilateral Investment Fund (MIF) grant income		**-**		10,621
Other grant income		**32,687**		13,776
Total program income		**3,360,795**		2,669,234
Program expenses:				
BEIF:				
EPA grant administration		**997,312**		772,003
Community Assistance Program		**252,438**		2,284,995
Technical Assistance Program:				
NADB technical assistance and training expense		**261,570**		251,046
EPA grant administration		**970,502**		844,211
EPA grant expense - PDAP		**976,694**		617,111
EPA grant expense - Border 2020		**542,426**		411,512
IDB-MIF grant expense		**-**		10,621
Other grant administration		**32,687**		13,776
Total program expenses		**4,033,629**		5,205,275
Net program expenses	$	**672,834**	$	2,536,041

Border Environment Infrastructure Fund (BEIF)

The Bank administers grant funds from EPA through the BEIF. EPA grant awards since the initial grant made in April 1997 to December 31, 2019, total $721,002,335. Under the terms of the grants, the Bank reviews and submits prospective projects to EPA. EPA approves the projects and they are subsequently certified for financing by the Board of Directors. EPA then disburses funds to the Bank, which directs the grant monies to the specified project. The Bank also oversees progress and compliance requirements for EPA and receives an allocation of the EPA grant funds for administrative expenses incurred.

As of December 31, 2019, EPA has approved project funding proposed by the Bank totaling $672,499,973, of which $649,817,312 has been disbursed through the Bank. The Bank recognized $997,312 and $772,003 as reimbursement of expenses incurred for the years ended December 31, 2019 and 2018, respectively. These funds have been recorded as program revenue and expenses in the consolidated statements of income.

9. Program Activities (Continued)

Water Conservation Investment Fund (WCIF)

In August 2002, the Board of Directors established the WCIF to finance water conservation projects in the U.S.-Mexico border region and designated $80,000,000 of the Bank's undesignated retained earnings to the program. Of that amount, $40,000,000 was reserved exclusively for water conservation projects in each country. For the years ended December 31, 2019 and 2018, no funds were disbursed under this program. As of December 31, 2019 and 2018, cumulative disbursements total $38,239,378 for the United States and $39,990,407 for Mexico. These disbursements were funded with previously designated retained earnings and have been reported as a program expense.

In May 2013, the Board agreed to close out the WCIF and transfer any uncommitted funds to the CAP program. As of December 31, 2019 and 2018, a cumulative total of $1,674,621 in uncommitted WCIF funds was transferred to the CAP program.

Community Assistance Program (CAP)

In February 2011, the Board of Directors approved a grant program to support public projects in all sectors eligible for Bank financing. The CAP program is funded from the Bank's undesignated retained earnings as authorized by the Board. As of December 31, 2019, a cumulative total of $14,092,840 has been allocated to the CAP. For the years ended December 31, 2019 and 2018, $252,438 and $2,284,995, respectively, were disbursed under this program. These disbursements were funded with previously designated retained earnings and have been reported as a program expense.

Technical Assistance Program (TAP)

The Bank uses a portion of its retained earnings as authorized by the Board of Directors to offer technical assistance and training to project sponsors for the purpose of strengthening their financial performance and ensuring the long-term sustainability of their infrastructure. For the years ended December 31, 2019 and 2018, $122,477 and $251,046, 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, 2019 and 2018, $139,092 and $0, respectively were expended under this program.

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

> <u>Project Development Assistance Program (PDAP)</u>. The Bank administers grants from EPA, on a reimbursement basis, to assist communities in the development of water and wastewater projects that have been prioritized by EPA to receive BEIF grants. For the years ended December 31, 2019 and 2018, the Bank recognized $976,694 and $617,111, respectively, in technical assistance expenses. as well as $675,438 and $751,517 in grant administrative expenses, respectively. These funds have been recorded as program revenue and expenses in the consolidated statement of income.

9. Program Activities (Continued)

Technical Assistance Program (TAP) (Continued)

Border 2020: U.S.-Mexico Environmental Program. The Bank administers grants from EPA, on a reimbursement basis, to support joint efforts of the two governments to improve the environment and protect the health of residents within 100 kilometers of the U.S.-Mexico border. The Bank provides logistical and administrative services to identify, contract and manage projects and workshops funded under the program. For the years ended December 31, 2019 and 2018, the Bank recognized $542,426 and $411,512, respectively, in technical assistance expenses, as well as $295,064 and $92,694 in grant administrative expenses, respectively. The Bank recognized $678,664 and $504,206 as reimbursement of expenses incurred for the years ended December 31, 2019 and 2018, respectively. These funds have been recorded as program revenue and expenses in the consolidated statement of income.

Multilateral Investment Fund (MIF) Grant. The Bank administered grant funds provided by MIF, on a reimbursement basis, to support the development and implementation of a sustainable e-waste management and recycling system in Mexicali, Baja California. The Bank recognized $0 and $10,621 in technical assistance expense for the years ended December 31, 2019 and 2018, respectively. These funds have been recorded as program revenue and expenses in the consolidated statement of income. This grant was completed and closed as of December 31, 2018.

10. Employee Benefits

401(a) Retirement Plan

The Bank has a 401(a) Retirement Plan for its employees. This plan provides for employee and nondiscretionary employer contributions. For the years ended December 31, 2019 and 2018, the Bank expended $1,141,074 and $1,143,749, respectively, relating to the plan.

Post-retirement Health Insurance Plan

The Bank has a post-retirement health insurance plan for qualifying employees based on number of years of service and age. Qualified retirees may purchase group health insurance coverage at the current employee rate subject to the plan limits. During 2019, an actuarial study of the plan was performed by a certified third party to estimate the prior, current and long-term benefit obligation as of December 31, 2019. The plan is funded by the Bank as benefits are paid. The Bank paid benefits of $16,481 for the year ended December 31, 2019. The unfunded portion of the plan totaled $2,518,519 and is reflected in the consolidated balance sheet as of December 31, 2019 as a component of accrued liability and long-term liability of $37,000 and $2,481,519, respectively.

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

Beginning balance	$	-
Prior service expense		2,448,000
Current period service expense		67,000
Interest expense		20,000
Net benefits paid		(16,481)
Ending balance	$	2,518,519

10. Employee Benefits (Continued)

Post-retirement Health Insurance Plan (Continued)

The following table presents the change in post-retirement health plan assets as of December 31, 2019:

Beginning balance	$	-
Employer contributions		16,481
Net benefits paid		(16,481)
Ending balance	$	-

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

Current liabilities	$	37,000
Non-current liabilities		2,481,519
Total	$	2,518,519

The following table presents the net periodic benefit cost of the post-retirement health plan for the year ended December 31, 2019:

Service expense	$	67,000
Interest expense		20,000
		87,000
Prior service expense		2,082,306
Total	$	2,169,306

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

The following table presents the assumptions used to determine the benefit obligations and net periodic post-retirements benefit costs of the plan for the year ended December 31, 2019.

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

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

Year Ending:		
December 31, 2020	$	37,000
December 31, 2021		61,000
December 31, 2022		68,000
December 31, 2023		82,000
December 31, 2024		117,000
December 31, 2025 thru December 31, 2029		990,000

11. Fair Value of Financial Instruments

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

Cash and Cash Equivalents

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

Securities Held-to-Maturity

Securities classified as held-to-maturity are reported at amortized costs. The fair value of these securities is estimated using Level 1 observable inputs. For these securities, the Bank obtains fair value measurements from an independent pricing service, which are based on prices quoted for a similar instrument.

Securities Available-for-Sale

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

Loans Receivable and Interest Receivable

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

Hedged Items for Loans

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

11. Fair Value of Financial Instruments (Continued)

Cross-currency Interest Rate Swaps

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

Interest Rate Swaps

Interest rate swaps are reported at fair value using Level 2 observable inputs. The fair value of these swaps is estimated based on discounting procedures, whereby each cash flow stream is discounted using the USD OIS curve, as well as external pricing models and counterparty pricing.

Debt and Accrued Interest Payable

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

Hedged Items for Notes Payable

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

Long-term post-retirement benefits payable

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

11. Fair Value of Financial Instruments (Continued)

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

	December 31, 2019		December 31, 2018	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets				
Cash and cash equivalents	$ 121,597,839	$ 121,597,839	$ 175,094,413	$ 175,094,413
Held-to-maturity securities	4,038,722	4,048,820	3,335,360	3,313,703
Available-for-sale securities	627,900,720	627,900,720	620,823,835	620,823,835
Loans, net	1,174,086,370	1,239,969,203	1,056,221,018	1,074,690,417
Interest receivable	15,987,916	15,987,916	15,941,621	15,941,621
Cross-currency interest rate swaps	104,332,806	104,332,806	193,465,335	193,465,335
Interest rate swaps	2,919,106	2,919,106	(5,904,367)	(5,904,367)
Liabilities				
Accrued interest payable	17,487,066	17,487,066	18,367,661	18,367,661
Short-term debt, net	255,238,795	255,238,888	5,263,000	5,263,000
Long-term debt, net	1,050,594,907	1,050,357,445	1,304,721,548	1,304,693,268
Long-term post-retirement benefits payable	2,481,519	2,481,519	-	-
Cross-currency interest rate swaps	1,000,876	1,000,876	-	-
Interest rate swaps	465,236	465,236	7,257,372	7,257,372

11. Fair Value of Financial Instruments (Continued)

The Bank's financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2019 and 2018 are summarized in the following table by the valuation level of the inputs used to measure fair value. Additional information on how the Bank measures and classifies the levels of fair-value inputs is provided in Note 2.

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

	Fair Value Measurements Using			
December 31, 2018	Level 1	Level 2	Level 3	Total Fair Value
Assets				
Available-for-sale (AFS) securities:				
U.S. government securities	$ 281,447,713	$ -	$ -	$ 281,447,713
U.S. agency securities	-	119,498,398	-	119,498,398
Corporate debt securities	-	149,112,098	-	149,112,098
Other fixed-income securities	-	55,573,932	-	55,573,932
Mexican government securities (UMS)	-	15,191,694	-	15,191,694
Total AFS securities	281,447,713	339,376,122	-	620,823,835
Cross-currency interest rate swaps	-	-	193,465,335	193,465,335
Interest rate swaps	-	-	(5,904,367)	(5,904,367)
Hedged items for loans	-	-	(155,900,516)	(155,900,516)
Total assets at fair value	$ 281,447,713	$ 339,376,122	$ 31,660,452	$ 652,484,287
Liabilities				
Cross-currency interest rate swaps	$ -	$ -	$ -	$ -
Interest rate swaps	-	-	7,257,372	7,257,372
Hedged item for notes payable	-	-	(33,204,590)	(33,204,590)
Total liabilities at fair value	$ -	$ -	$ (25,947,218)	$ (25,947,218)

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, 2019 and 2018. 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, 2019	**$187,560,968**	**$ -**	**$(155,900,516)**
Total realized and unrealized gains (losses):			
Included in earnings (expenses)	**(69,989,016)**	**2,919,106**	**93,043,931**
Included in other comprehensive income (loss)	**(11,194,142)**	**-**	**-**
Purchases	**-**	**-**	**-**
Settlements	**(2,045,004)**	**-**	**-**
Transfers in/out of Level 3	**(104,332,806)**	**(2,919,106)**	**-**
Ending balance, December 31, 2019	**$ -**	**$ -**	**$ (62,856,585)**
Beginning balance, January 1, 2018	$ 201,613,458	$ -	$ (144,105,721)
Total realized and unrealized gains (losses):			
Included in earnings (expenses)	(5,831,398)	-	(11,794,795)
Included in other comprehensive income (loss)	(8,221,092)	-	-
Purchases	-	-	-
Settlements	-	-	-
Transfers in/out of Level 3	-	-	-
Ending balance, December 31, 2018	$ 187,560,968	$ -	$ (155,900,516)
Liabilities			
Beginning balance, January 1, 2019	**$ -**	**$ 7,257,372**	**$ (33,204,590)**
Total realized and unrealized (gains) losses:			
Included in (earnings) expenses	**1,000,876**	**(6,792,136)**	**27,710,293**
Included in other comprehensive income	**-**	**-**	**-**
Purchases	**-**	**-**	**-**
Settlements	**-**	**-**	**-**
Transfers in/out of Level 3	**(1,000,876)**	**(465,236)**	**-**
Ending balance, December 31, 2019	**$ -**	**$ -**	**$ (5,494,297)**
Beginning balance, January 1, 2018	$ -	$ -	$ (6,311,088)
Total realized and unrealized (gains) losses:			
Included in (earnings) expenses	-	8,083,214	(26,893,502)
Included in other comprehensive income	-	-	-
Purchases	-	-	-
Settlements	-	(825,842)	-
Transfers in/out of Level 3	-	-	-
Ending balance, December 31, 2018	$ -	$ 7,257,372	$ (33,204,590)

11. Fair Value of Financial Instruments (Continued)

The Bank entered into four (4) cross-currency interest rate swaps and no interest rate swaps during the year ended December 31, 2019. Upon issuance, the fair value of the swaps is $0 and, therefore, is not portrayed in the purchases line item in the preceding table. The change in fair value of these instruments is included within the total gains (losses) line item.

The Bank has no nonfinancial assets or liabilities measured at fair value on a recurring or non-recurring basis of December 31, 2019 and 2018.

12. Derivative Financial Instruments

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

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

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

Under its arrangement with FOAEM, neither the Bank nor the counterparty is required to post collateral to support the outstanding fair value of the swaps. Beginning in July 2009, under counterparty relationships with other financial institutions, collateral may be required to be posted by either the Bank or the counterparty. Cash collateral of $43,950,000 and $100,360,000 was posted from counterparties to the Bank as of December 31, 2019 and 2018, respectively. No collateral was posted by the Bank as of those same dates.

12. Derivative Financial Instruments (Continued)

The notional amounts and estimated fair values of the swaps outstanding at December 31, 2019 and 2018 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, 2019		December 31, 2018	
	Notional Amount	**Estimated Fair Value**	Notional Amount	Estimated Fair Value
Cross-currency interest rate swaps	**$ 1,018,903,740**	**$ 103,331,930**	$ 1,071,857,976	$ 193,465,335
Interest rate swaps	**951,401,589**	**2,453,870**	951,701,197	(13,161,739)

The referenced exchange rate received for the cross-currency interest rate swaps outstanding at December 31, 2019 and 2018 was 5.28% and 5.09%, respectively.

Swaps that are no longer deemed effective because of borrower default on the hedged loans are not included in the preceding table. There were no swaps that were considered ineffective due to borrower default as of December 31, 2019 and 2018.

Gains and Losses on Derivative Cash Flows

Cross-currency Interest Rate Swaps – The effective portion of the gain or loss due to changes in the fair value of cross-currency interest rate swaps designated as cash flow hedges is included in the accompanying consolidated statements of comprehensive income, while the ineffective portion is included in income (expense) from net hedging activities. The accumulated gain (loss) is reclassified into earnings as the hedged cash flows are received to offset the foreign currency gains (losses) that would have been recognized in earnings if the Bank had not been a party to the swaps. The accumulated net gain (loss) related to the swaps included in accumulated other comprehensive income totaled $7,136,612 and $11,116,113 at December 31, 2019 and 2018, respectively.

Gains or losses due to changes in the fair value of cross-currency interest rate swaps designated as fair value hedges and ineffective swaps are reported in income (expense) from net hedging activities. For the years ended December 31, 2019 and 2018, changes in the aforementioned swaps included in the accompanying consolidated statements of income were $4,035,953 and $2,009,937, respectively.

Interest Rate Swaps – With regard to the interest rate swaps on outstanding loans and a portion of the long-term notes payable, the changes in the fair value of the swaps offset the changes in the fair value of the loans and debt due to changes in the USD OIS curve, while the ineffective portion is included in income (expense) from net hedging activities. For the years ended December 31, 2019 and 2018, changes in the aforementioned swaps included the accompanying consolidated statements of income were $(725) and $790,508, 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 and cash equivalents, investments, loans receivable and swaps. The Bank maintains cash and cash equivalents, investments and certain other financial instruments with various major financial institutions. The Bank performs periodic evaluations of the relative credit standing of these financial institutions and limits the amount of credit exposure with any one institution. The Bank evaluates the creditworthiness of each customer on a case-by-case basis and continually monitors the financial stability of each borrower

14. Commitments

In the normal course of business, the Bank has various outstanding commitments, in addition to the loans receivable disclosed in Note 4 and the long-term borrowings disclosed in Note 6. Under agreements with consultants and contractors in effect at December 31, 2019, the Bank has obligations to make payments contingent upon the future performance of the consultants and contractors under the terms of their respective contracts and, therefore, they are not recorded in the financial statements.

Lease Commitments

The Bank rents office space for its headquarter in San Antonio, Texas, under an operating lease that expires on February 28, 2026. The Bank also rents office space for its Juarez Office under an operating lease that expires on April 3, 2020. Rent expense totaled $251,196 and $255,444 for the years ended December 31, 2019 and 2018, respectively. The following schedule summarizes the minimum future expenses for the forgoing leases.

Year Ending December 31,	
2020	$ 233,622
2021	223,064
2022	229,712
2023	232,493
2024	239,436
Thereafter	280,853
	$ 1,439,180

15. Accounting Standards Updates

Accounting Standards Update (ASU) 2016-02, Leases (Topic 842). ASU 2016-02, among other things, require lessees to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. ASU 2016-02 does not significantly change lease accounting requirements applicable to lessors; however, certain changes were made to align, where necessary, lessor accounting with the lessee accounting model and ASC Topic 606: Revenue from Contracts with Customers. ASU 2016-02 will be effective for the Bank on January 1, 2021 and will require transition using a modified retrospective approach for leases existing at or entered into after, the beginning of the earliest comparative period presented in the financial statements.

15. Accounting Standards Updates (Continued)

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

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

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

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

16. Subsequent Events

The Bank has evaluated the events subsequent to December 31, 2019 and through March 31, 2020, the date the consolidated financial statements were available to be issued.

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

On January 30, 2020, the World Health Organization (WHO) declared a global health emergency because of a new strain of coronavirus (the "COVID-19 outbreak") and the risks to the international community as the virus spreads globally. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic.

16. Subsequent Events (Continued)

The COVID-19 outbreak continues to evolve as of the date of this report. As such, the full impact that the COVID-19 outbreak could have on the Bank's financial condition, liquidity, and future results of operations is uncertain. Management is actively monitoring the potential impact on liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Bank may not be able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for 2020.

The outbreak could have a continued material adverse impact on economic and market conditions and trigger a period of global economic slowdown. Although management cannot estimate the length or gravity of the impact of the COVID-19 outbreak at this time, if the pandemic continues, it could have a material adverse effect on the Bank's results of future operations, financial position, and liquidity in 2020. In addition to the Bank's underwriting standards, as well as low counterparty risk concentration, most of the Bank's loans are project finance, with repayment dependent upon cash flows generated by infrastructure facilities or guaranteed by Mexican Federal government transfers. Management believes these characteristics may help protect the loan portfolio from the risk of economic deterioration. Moreover, debtors give preference to supranational lenders versus other creditors in their choices of debt repayment, as supported by Fitch Ratings' "Evidence of supranationals' preferred creditor status" (Special Report, March 16, 2020). If the Bank's operations are impacted from the effects of the COVID-19 outbreak, the Bank's capitalization structure and liquidity (both ranked in the "excellent" range by outside rating agencies) are expected to mitigate potential adverse effects to the Bank in 2020, as discussed in Note 7.

Supplementary Information

North American Development Bank

Statement of Income of NADB Office in Juarez, Chihuahua

	EPA				
Year Ended December 31, 2019	PDAP	Border 2020	Other	Operation	Total
Income					
U.S. State Department contribution	$ -	$ -	$ -	$ 2,902,000	$ 2,902,000
SEMARNAT contribution	-	-	-	1,793,750	1,793,750
U.S. Environmental Protection Agency:					
Project Development Assistance Program (PDAP) grant income	1,652,132	-	-	-	1,652,132
U.S.-Mexico Border 2020 Program grant income	-	678,664	-	-	678,664
Other grant income	-	-	32,687	-	32,687
Interest income	-	-	-	2,622	2,622
Other income	-	-	-	7,327	7,327
Total Income	1,652,132	678,664	32,687	4,705,699	7,069,182
Operating Expenses					
Personnel	535,262	224,174	25,050	3,284,626	4,069,112
General and administrative	136,388	52,781	7,637	488,384	685,190
Consultants	3,788	18,109	-	169,376	191,273
Depreciation	-	-	-	11,318	11,318
Total Operating Expenses	675,438	295,064	32,687	3,953,704	4,956,893
Income before Program Activities	976,694	383,600	-	751,995	2,112,289
Technical assistance expenses	976,694	542,426	-	257,648	1,776,768
Net Income (Loss)	$ -	$ (158,826)	$ -	$ 494,347	$ 335,521

North American Development Bank

Border Environment Infrastructure Fund (BEIF)

Balance Sheet

December 31, 2019	Region 6	Region 9	Total
Assets			
Cash	$ 501	$ 501	$ 1,002
Total Assets	$ 501	$ 501	$ 1,002
Liabilities			
Undisbursed grant funds	$ 501	$ 501	$ 1,002
Total Liabilities	$ 501	$ 501	$ 1,002

Statement of Income

Year Ended December 31, 2019	Region 6	Region 9	Total
Income			
U.S. Environmental Protection Agency grant income	$ 735,107	$ 262,205	$ 997,312
Total income	735,107	262,205	997,312
BEIF Operating Expenses			
Personnel	421,761	208,990	630,751
Consultants	291,414	36,718	328,132
General and administrative	10,767	66	10,833
Operational travel	11,165	16,431	27,596
Total BEIF operating expenses	735,107	262,205	997,312
Net Income	$ -	$ -	$ -

Statement of Cash Flows

Year Ended December 31, 2019	Region 6	Region 9	Total
Cash Flows from Operating Activities			
Net income	$ -	$ -	$ -
Net cash provided by operating activities	-	-	-
Cash Flows from Financing Activities:			
Grant funds - EPA	9,038,385	2,569,289	11,607,674
Grant disbursements - EPA	(9,038,385)	(2,569,289)	(11,607,674)
Net cash provided by financing activities	-	-	-
Net increase in cash and cash equivalents	-	-	-
Cash and cash equivalents at January 1, 2019	501	501	1,002
Cash and cash equivalents at December 31, 2019	$ 501	$ 501	$ 1,002

Region 6: EPA Regional Office located in Dallas, Texas.
Region 9: EPA Regional Office located in San Francisco, California.

Unaudited Consolidated Financial Statements as of March 31, 2020

North American Development Bank

Consolidated Financial Statements
And Supplementary Information
(Unaudited)

March 31, 2020

North American Development Bank (NADB)

Consolidated Financial Statements and Supplementary Information (Unaudited)
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North American Development Bank
Consolidated Balance Sheets
As of March 31, 2020 and December 31, 2019

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

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

North American Development Bank
Consolidated Statements of Income (Unaudited)
For the Three Months Ended March 31, 2020 and 2019

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

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

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

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

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

North American Development Bank
Consolidated Statement of Changes in Equity
For the Three Months Ended March 31, 2020 and Year Ended December 31, 2019

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

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

North American Development Bank
Consolidated Statements of Cash Flows (Unaudited)
For the Three Months Ended March 31, 2020 and 2019

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

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

1. Organization and Purpose

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

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

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

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

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates in Financial Statements

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

2. Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

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

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

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

2. Summary of Significant Accounting Policies (continued)

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

Taxation

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

Furniture, Equipment, and Leasehold Improvements

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

Retained Earnings

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

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

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

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

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

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

Loans and Allowance for Loan Losses

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

2. Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

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

2. Summary of Significant Accounting Policies (continued)

Loan Portfolio Risk Rating

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

Rating Scale

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

Government Contributions

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

Program Activities

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

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

2. Summary of Significant Accounting Policies (continued)

Program expenses also represent grant disbursements funded with previously designated retained earnings of the Bank through its Community Assistance Program (CAP), Water Conservation Investment Fund (WCIF) and Technical Assistance Program (TAP). Grants are recognized at the date the Bank becomes obligated under the terms of the grant agreements, and associated costs are recognized as incurred.

EPA-funded BEIF grant receipts and disbursements reflected in the consolidated statements of cash flows are not reflected in the accompanying consolidated statements of income, as these grants are approved and funded by EPA. The Bank's role is to administer these funds.

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

Foreign Currency

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

The lending activities of the Bank include making loans that are denominated in Mexican pesos. For such loans, the Bank enters into cross-currency interest rate swaps that mitigate its exposure to fluctuations in foreign currency exchange rates and interest rates. As of March 31, 2020, the Bank had entered into swap counterparty agreements with Fondo de Apoyo a Estados y Municipios (FOAEM), a fund owned by the Government of Mexico and administered by the federally run development bank, Banco Nacional de Obras y Servicios Publicos, S.N.C. (Banobras); directly with Banobras outside the FOAEM arrangement; and with nine (9) other financial institutions. The foreign currency translation adjustment on loans denominated in Mexican pesos as of March 31, 2020 and December 31, 2019 was $(43,257,140) and $(33,301,924), respectively. Changes in the foreign currency translation adjustment are reported through other comprehensive income.

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

The Bank discontinues hedge accounting prospectively if it determines that the derivative is no longer highly effective in offsetting changes in the fair value or cash flows of the hedged item, or if it is no longer probable that the hedged loan repayment will occur. If hedge accounting is discontinued because the hedge ceases to be effective, the Bank will continue to record the swap at fair value with changes in value reflected in earnings for

2. Summary of Significant Accounting Policies (continued)

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

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

Fair Value

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

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

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

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

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

2. Summary of Significant Accounting Policies (continued)

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

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

3. Investments

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

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

3. Investments (continued)

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

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

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

3. Investments (continued)

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

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

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

The following table summarizes sale, call, and maturity activity of investment securities for the three months ended March 31, 2020 and 2019.

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

3. Investments (continued)

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

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

4. Loans

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

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

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

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

4. Loans (continued)

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

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

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

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

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

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

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

4. Loans (continued)

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

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

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

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

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

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

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

4. Loans (continued)

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

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

4. Loans (continued)

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

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

5. Other Assets

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

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

6. Debt

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

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

6. Debt (continued)

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

Notes Payable

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

6. Debt (continued)

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

Other Borrowings

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

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

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

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

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

7. Equity

Subscribed Capital

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

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

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

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

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

7. Equity (continued)

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

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

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

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

In accordance with BR 2015-24, the remaining subscriptions shall be made in several installments by December 31, 2022, or such later dates as the Board of Directors shall determine. The callable portion of the subscription for capital shares of the Bank will be subject to call only when required to meet obligations, as outlined in Article II, Section 3(d), of Chapter II of the Charter.

7. Equity (continued)

Retained Earnings

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

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

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

7. Equity (continued)

Accumulated Other Comprehensive Income

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

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

8. Program Activities

Program activities are comprised of the following:

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

Border Environment Infrastructure Fund (BEIF)

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

8. Program Activities (continued)

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

Water Conservation Investment Fund (WCIF)
In August 2002, the Board of Directors established the WCIF to finance water conservation projects in the U.S.-Mexico border region and designated $80,000,000 of the Bank's undesignated retained earnings to the program. Of that amount, $40,000,000 was reserved exclusively for water conservation projects in each country. For the three months ended March 31, 2020 and 2019, no funds were disbursed under this program. As of March 31, 2020 and December 31, 2019, cumulative disbursements total $38,239,378 for the United States and $39,990,407 for Mexico. These disbursements were funded with previously designated retained earnings and have been reported as a program expense.

In May 2013, the Board agreed to close out the WCIF and transfer any uncommitted funds to the CAP program. As of March 31, 2020 and December 31, 2019, a cumulative total of $1,674,621 in uncommitted WCIF funds was transferred to the CAP program.

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

Technical Assistance Program (TAP)
The Bank uses a portion of its retained earnings as authorized by the Board of Directors to offer technical assistance and training to project sponsors for the purpose of strengthening their financial performance and ensuring the long-term sustainability of their infrastructure. For the three months ended March 31, 2020 and 2019, $154,459 and $18,014, respectively, was disbursed under this program. These disbursements were funded with previously designated retained earnings and have been reported as a program expense.

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

8. Program Activities (continued)

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

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

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

9. Employee Benefits

401(a) Retirement Plan

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

Post-retirement Health Insurance Plan

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

9. Employee Benefits (continued)

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

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

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

	March 31, 2020	December 31, 2019
Beginning balance	$ **–**	$ –
Employer contributions	**5,935**	16,481
Net benefits paid	**(5,935)**	(16,481)
Ending balance	$ **–**	$ –

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

	March 31, 2020	December 31, 2019
Current liabilities	$ **31,065**	$ 37,000
Non-current liabilities	**2,568,519**	2,481,519
Total	$ **2,599,584**	$ 2,518,519

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

	Three Months Ended March 31,	
	2020	2019
Service expense	$ **66,750**	$ -
Interest expense	**20,250**	-
Total	$ **87,000**	$ -

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

9. Employee Benefits (continued)

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

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

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

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

10. Fair Value of Financial Instruments

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

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

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

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

10. Fair Value of Financial Instruments (continued)

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

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

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

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

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

10. Fair Value of Financial Instruments (continued)

Hedged Items for Notes Payable

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

Long-term post-retirement benefits payable

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

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

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

10. Fair Value of Financial Instruments (continued)

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

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

10. Fair Value of Financial Instruments (continued)

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

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

10. Fair Value of Financial Instruments (continued)

The Bank did not enter into any cross-currency interest rate swaps or interest rate swaps during the three months ended March 31, 2020. Upon issuance, the fair value of the swaps is $0 and, therefore, is not portrayed in the purchases line item in the preceding table. The change in fair value of these instruments is included within the total gains (losses) line item.

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

11. Derivative Financial Instruments

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

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

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

Under its arrangement with FOAEM, neither the Bank nor the counterparty is required to post collateral to support the outstanding fair value of the swaps. Beginning in July 2009, under counterparty relationships with other financial institutions, collateral may be required to be posted by either the Bank or the counterparty. Cash collateral of $91,310,000 and $43,950,000 was posted from counterparties to the Bank as of March 31, 2020 and December 31, 2019, respectively. No collateral was posted by the Bank as of those same dates.

11. Derivative Financial Instruments (continued)

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

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

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

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

Gains and Losses on Derivative Cash Flows

Cross-currency Interest Rate Swaps – The effective portion of the gain or loss due to changes in the fair value of cross-currency interest rate swaps designated as cash flow hedges is included in the accompanying consolidated statements of comprehensive income, while the ineffective portion is included in income (expense) from net hedging activities. The accumulated gain (loss) is reclassified into earnings as the hedged cash flows are received to offset the foreign currency gains (losses) that would have been recognized in earnings if the Bank had not been a party to the swaps. The accumulated net gain (loss) related to the swaps included in accumulated other comprehensive income totaled $12,447,853 and $7,136,612 at March 31, 2020 and December 31, 2019, respectively.

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

Interest Rate Swaps – With regard to the interest rate swaps on outstanding loans and a portion of the long-term notes payable, the changes in the fair value of the swaps offset the changes in the fair value of the loans and debt due to changes in the USD OIS curve, while the ineffective portion is included in income (expense) from net hedging activities. For the three months ended March 31, 2020 and 2019, changes in the aforementioned swaps included in the accompanying consolidated statements of income were $0.

12. Credit Risk Associated with Financial Instruments

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

13. Commitments

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

Lease Commitments

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

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

14. Accounting Standards Updates

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

14. Accounting Standards Updates (continued)

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

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

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

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

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

15. Subsequent Event

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

Supplementary Information

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

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

North American Development Bank