Information Statement

North American Development Bank

Banco de Desarrollo de América del Norte

The North American Development Bank (the "Bank" or "NADB") intends from time to time to issue its debt securities with maturities and on terms based on market conditions at the time of sale. The debt securities may be sold to dealers or underwriters, who may resell them in public offerings or otherwise, or they may be sold by the Bank directly or through agents. The terms of the debt securities being offered at a particular time and the manner of their distribution will be described in a prospectus, offering memorandum or supplemental information statement.

Unless otherwise stated, all information in this Information Statement is provided as of June 30, 2012, and all amounts are expressed in current United States dollars.

AVAILABILITY OF INFORMATION

NADB will provide, upon request, copies of this Information Statement without charge. Written or telephone requests should be directed to the principal office of the Bank located at 203 South St. Mary's, Suite 300, San Antonio, Texas, Attention: Juan Antonio Flores, telephone: +1 (210) 231-8000.

The Information Statement is also available on the Bank's website at http://www.nadb.org/BondsAndInvestment. Other documents and information on this website are not intended to be incorporated by reference in this Information Statement.

Recipients of this Information Statement should retain it for future reference, since it is intended that each prospectus or offering memorandum and any supplemental information statement issued after the date hereof will refer to this Information Statement for a description of NADB and its results of operations and financial condition, until a subsequent Information Statement is issued. Recipients are also directed to any prospectus or offering memorandum which refers to this Information Statement for additional information on NADB and any offered securities.

October 11, 2012

SUMMARY

General. The North American Development Bank is a binational development financing institution established by the United States of America ("United States" or "U.S.") and the United Mexican States ("UMS" or "Mexico") to finance environmental infrastructure projects in the U.S.-Mexico border region. The Bank's financing activities historically focused on creating and sustaining drinking water supplies and developing wastewater treatment and municipal solid waste management facilities. In 2000, its mandate was expanded by the Bank's Board of Directors (the "Board") to include other sectors that have environmental and/or health benefits for the residents of the border region, including air quality, clean energy, energy efficiency, public transportation and water management. As part of this expanded mandate, the Bank participated in its first loan to a solar energy project in 2011, followed in the first half of 2012 by two additional solar energy project loans. Additionally, the Bank is currently working on financing four additional projects (two wind energy, one solar energy, and one air quality project) with the financing agreements for these projects expected to be signed by the end of 2012. The technical feasibility and environmental impact of, and public participation with respect to, all projects to be financed by the Bank are required to be evaluated and certified by the Border Environment Cooperation Commission ("BECC").

Capitalization. NADB's total authorized capital is $3 billion, consisting of $450 million in paid-in capital and $2.55 billion in associated callable capital with equal commitments from the United States and Mexico. Callable capital may be called if and when required to meet the Bank's debt or guarantee obligations, subject to certain procedural requirements, and may not be used to make loans. Since May 2009, the Bank has received all paid-in capital contributions. As of June 30, 2012, the Bank had $281.16 million in outstanding indebtedness (net of discount and fair value of hedged item) primarily attributable to the Bank's issuance of $250.00 million of debt securities in 2010.

Recent Lending Activity. In 2011, the Bank signed two loan agreements totaling $105.91 million, and disbursed $80.35 million in loans. The Bank's outstanding loan balance totaled $430.99 million as of December 31, 2011. During the six months ended June 30, 2012, the Bank signed financing agreements totaling $89.12 million, and disbursed $60.16 million in loans. The Bank's outstanding loan balance totaled $466.98 million as of June 30, 2012.

Lending Policies. The Bank's lending operations are 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. Although the majority of the Bank's outstanding portfolio consists of loans to state and local municipalities in Mexico and the United States, in 2011 more than half of the borrowers approved for financing were for private sector projects, mainly in the renewable energy industry in the United States. NADB's loan policies and procedures are designed to embody prudent practices for both public and private borrowers, with more stringent credit enhancement requirements for the latter. Approximately ninety-seven percent of the Bank's portfolio is secured by some form of credit support, which may include federal tax revenues pledged to an irrevocable trust or pursuant to a mandate contract, system revenues, borrower cash flows, first liens on the project's equity and/or assets, and step-in rights. NADB's loans are generally offered at fixed market rates with maturities of up to 25 years.

Administration and Governance. The Bank is governed by its ten-member Board, comprised of federal government and local representatives from the United States and Mexico. The federal government representatives include the U.S. Secretary of the Treasury, Secretary of State and Administrator of the Environmental Protection Agency (the "EPA"), and the Mexican Secretary of Finance and Public Credit, Secretary of Foreign Relations 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, a governor from a border state in Mexico and a representative of the general public in Mexico who resides in the border region. The U.S. border region representative position is currently vacant. The Bank is managed on a day-to-day basis by its Managing Director and Chief Executive Officer, Gerónimo Gutiérrez Fernández, and its Deputy Managing Director and Chief Operating Officer, Alex Hinojosa.

Risk Management. The Bank evaluates the creditworthiness of its borrowers on a case-by-case basis and continually monitors the financial stability of each borrower throughout the life of its loans. Proposed loans must be approved by Bank's funding committee and by its Board of Directors. To mitigate its exchange rate risk, the Bank hedges its exposure through cross-currency interest rate swaps with respect to its peso-denominated loans. The Bank also seeks to mitigate its interest rate risk with respect to its outstanding fixed rate debt securities through interest rate swaps.

Earnings. For the year ended December 31, 2011 and the six months ended June 30, 2012, the Bank had total revenues of $37.47 million and $12.39 million, respectively, and net income of $21.44 million and $3.76 million, respectively.

Liquidity Management. NADB maintains a portfolio of liquid investments to ensure that it can meet its obligations to disburse loans and satisfy its operating liabilities at all times and has sufficient cash flows to cover its operational needs. The Bank has established a minimum liquidity balance of $160.00 million for the 2012 fiscal year. NADB's liquid asset portfolio totaled $268.64 million as of June 30, 2012.

THE BANK

The Bank is a binational development financing institution established in 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 border (the "border region"), which includes the U.S. states of Texas, New Mexico, Arizona and California and the Mexican states of Tamaulipas, Nuevo León, Coahuila, Chihuahua, Sonora, and Baja California. NADB was created under the auspices of the North American Free Trade Agreement (NAFTA) and 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 Border Environment Cooperation Commission and a North American Development Bank, as amended (the "Charter"). At the same time, the United States and Mexico created the BECC to evaluate and certify the technical feasibility and environmental impact of, and elicit public participation with respect to, all infrastructure projects to be financed by the Bank. NADB and the BECC are each governed by a common board of directors comprised of, among others, federal government officials from each country. See "Administration and Governance—Board of Directors."

Together with the BECC, 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. The Bank'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 the Bank (the "member countries"). NADB's total authorized capital is $3 billion, consisting of $450 million in paid-in capital and $2.55 billion in associated callable capital (available to the Bank upon request, subject to certain procedural requirements) with equal commitments from each member country. As of June 30, 2012, the Bank has received all paid-in capital contributions. The obligations of the United States and Mexico, respectively, to make payment of the callable portion of their subscriptions for capital shares of the Bank 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.

Pursuant to the Bank's Charter, 10% of the Bank's capital has been set aside to fund domestic community adjustment and investment programs in each country. NADB has fully disbursed the funds for the Mexican domestic program, but continues to administer the funds allocated to the U.S. domestic program, the Community Adjustment and Investment Program ("USCAIP"). See "Business Operations—The Domestic Programs." USCAIP is funded entirely from this allocated capital and any net income earned by the program and its profits, losses, expenses and disbursements do not affect the Bank's retained earnings or paid-in capital nor would any USCAIP net income be available to support the Bank's obligations, including those under any of the Bank's debt securities or other borrowings.

This Information Statement 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 the Bank's control. Consequently, actual future results could differ materially from those currently anticipated.

The Bank's principal office is located at 203 South St. Mary's, Suite 300, San Antonio, Texas. Its telephone number is +1 (210) 231-8000.

USE OF PROCEEDS

Unless otherwise disclosed in the prospectus, offering memorandum or supplemental information statement relating to a particular offering of securities of NADB, the net proceeds to the Bank from offerings of its debt securities will be used to fund the Bank's loan disbursements from time to time in the ordinary course of our business and, if necessary, to maintain the level of investments at or above the minimum required liquidity level. Pending their application to this purpose, the proceeds will be invested in accordance with the Bank's investment policy.

BUSINESS OPERATIONS

General

NADB offers loans to project sponsors to finance environmental infrastructure within the U.S.-Mexico border region. Historically, the Bank has focused its lending principally on states and local municipalities ("governmental borrowers"). As of June 30, 2012, approximately 75% of the Bank's outstanding loan portfolio, measured by principal amount, represented loans to governmental borrowers. For recent loans, private borrowers have become just as relevant as governmental borrowers since they have a more prominent participation in some of the newly addressed sectors, notably the renewable energy sector, including wind and solar energy. Unless otherwise specified, all references to the Bank's outstanding loan portfolio in this Information Statement have been calculated before taking into account any allowances for loan losses,the effect of foreign currency exchange rate adjustments and the fair value of hedged items, excluding loans (and any associated reserves) made under USCAIP. See "—The Domestic Programs—U.S. Domestic Program."

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)

	Total Outstanding Loan Portfolio(1)	Governmental Borrowers	% of Total Portfolio	Private Borrowers	% of Total Portfolio
As of December 31, 2010	$470.21	$450.74	95.86%	$19.47	4.14%
As of December 31, 2011	427.75	354.21	82.81	73.54	17.19
As of June 30, 2012	464.04	348.33	75.06	115.71	24.94

(1) Excludes loans made under USCAIP.

In certain limited circumstances and under well defined criteria, the Bank can make available grant funds to its borrowers and certain other eligible grantees. The Bank's largest grant program is fully funded by the EPA and administered by the Bank. The Bank's Solid Waste Environmental Program ("SWEP"), Water Conservation Investment Fund ("WCIF") and Technical Assistance Program ("TAP") are funded out of the Bank's retained earnings. In 2011, one of those smaller grant programs, the SWEP, was replaced by the Community Assistance Program ("CAP"), a grant program launched by NADB in November 2011 and funded solely from a portion of undesignated retained earnings. See "—Grants"

As of June 30, 2012, the Bank has contracted a total of $1.41 billion in infrastructure development financing, consisting of $756.51 million (53.48%) in loans and $658.06 million (46.52%) in grants, to finance 155 BECC-certified projects estimated to cost a total of $3.33 billion to build. Of that amount, the Bank has disbursed over $1.29 billion to project sponsors for the implementation of 150 projects.

Business Objectives

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 its mandate, the Bank's portfolio has been diversified to include projects such as paving, biodiesel production, and solar energy projects.

Recent Lending Activity

In 2011, the Bank signed two loan agreements totaling $105.91 million, as compared to the $129.01 million signed in 2010. In total, the Bank disbursed $80.35 million in loan proceeds to borrowers over the course of the year and received a total of $122.81 million in principal repayments. The significant increase in principal repayments in 2011, compared to approximately $12.14 million of principal repayments in 2010, is attributable to the prepayment of two loans by the City of Tijuana, B.C., Mexico totaling $100.11 million. During the six months ended June 30, 2012, the Bank signed three new loan agreements totaling $89.12 million and disbursed a total of $60.16 million, including the initial disbursement for one of the loan agreements signed during that period. The Bank received $17.36 million in principal repayments during the first six months of 2012.

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

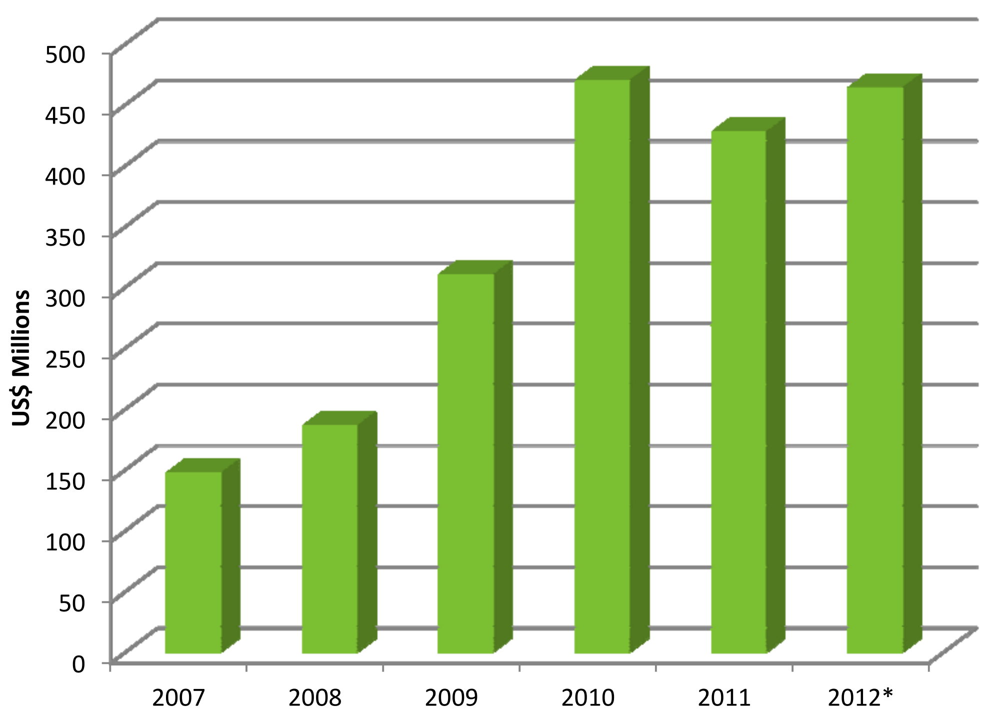
Outstanding Loan Portfolio

(in U.S. $ Million)

	As of June 30, 2012	As of December 31, 2011
Total disbursements made	$665.35	$605.19
Total principal repayments received	$(201.31)	$(177.44)
Outstanding loan portfolio (at period end)............	$464.04	$427.75
Total contracted loans	$756.51	$667.39
Signed commitments, not yet disbursed................	$91.16	$62.20

The Bank's outstanding loan portfolio equaled $427.75 million and $464.04 million as of December 31, 2011 and June 30, 2012, respectively. The strong growth of the Bank's loan portfolio is demonstrated by the increase in the outstanding balance, which has almost tripled from its balance at the end of 2007. This represents an average compound annual growth rate of 29.05% for the period from December 31, 2007 to June 30, 2012. With its ongoing expansion into new environmental sectors and significant unmet needs remaining in its original sectors, NADB expects the balance of its total loan portfolio to continue to grow significantly in the coming years.

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



*As of June 30.

During 2011 and the first six months of 2012, NADB has made significant strides in diversifying the sectors in which it operates and the borrowers to which it lends. The Bank expanded its portfolio to include three solar energy projects, encompassed in the clean energy category. Projects under the Bank's expanded portfolio represented 100% of its signed loans during this period, whereas, during the initial years of the Bank's operations, 100% of NADB's financing was to support drinking water supply and wastewater projects. As of June 30, 2012, water supply and wastewater projects constituted 28.45% of the Bank's outstanding loan portfolio, storm drainage projects 15.04 %, air quality projects 29.80%, clean energy projects 22.75%, basic urban infrastructure projects 3.52%, and solid waste projects 0.44%.

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,					
	2007	**2008**	**2009**	**2010**	**2011**	**2012***
Outstanding Loan Portfolio	$147.27	$186.41	$310.56	$470.21	$427.75	$464.04
Project Type (as a percentage of the total portfolio):						
Water and Wastewater	74.26%	68.54%	42.11%	31.38%	33.79%	28.45%
Storm Drainage	–	10.47	24.37	15.96	16.87	15.04
Air Quality	23.61	17.42	31.11	47.79	32.04	29.80
Solid Waste	2.13	1.59	1.34	0.76	0.51	0.44
Clean Energy	–	1.98	1.07	0.60	13.30	22.75
Basic Urban Infrastructure	–	–	–	3.51	3.49	3.52

* As of June 30.

Lending Policies

General

The Bank's lending operations conform to certain principles 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 principles are described in "Box 1: Lending Operations Principles" 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 lending activities in the Mexican territory. COFIDAN is a consolidated subsidiary owned 99.90% by the Bank and 0.10% by the Mexican government. Of the Bank's total outstanding portfolio of $427.75 million as of December 31, 2011, 39 loans totaling over $266.95 million were contracted through COFIDAN. As of June 30, 2012, 38 of the Bank's outstanding loans, over $267.61 million, have been made through COFIDAN.

Box 1: Lending Operations Principles

(1) In general, the Bank makes loans to governmental and private borrowers for environmental infrastructure projects intended to prevent, control or reduce environmental pollutants, protect flora and fauna, improve human health, and promote sustainable development in the U.S.-Mexico border region.

(2) All projects financed by the Bank must be certified by the BECC 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) Project sponsors must submit a detailed proposal to the Bank specifying the technical, economic and financial feasibility of the project.

(4) In making loans, the Bank evaluates the borrower's ability to repay its obligations in accordance with the applicable loan repayment schedule. In making this determination, the Bank generally considers the loan payment mechanism, as well as the capacity of the borrower and/or project to generate sufficient revenues through various sources of cash flows to service its debt, the characteristics of the individual borrower and the nature and size of the project being financed.

(5) The Bank usually requires additional security arrangements, guarantees or sources of repayment or additional equity support to ensure repayment of the obligation.

(6) Loans may be extended with limited recourse to the cash flows from the operations of the project and its assets and/or full recourse to the project sponsor or a 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.

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

Generally, the Bank acts as sole lender in the substantial majority of the projects it finances. When appropriate for a given project, the Bank may provide financing in conjunction with another public or private financier. Almost all of the Bank's co-financed projects have been financed in a consortium with other governmental lenders, mainly in the wastewater sector. However, the Bank is currently working on four 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. In the upcoming years, the Bank expects to participate more often in projects with such co-financing structures, allowing the Bank to finance larger projects while limiting its credit exposure to a percentage of the total loan size.

Traditionally, the Bank's lending activity has mainly been with governmental borrowers. Private sector lending increased from $19.47 million or 4.14% of the total outstanding portfolio at December 31, 2010 to $73.54 million or 17.19% of the total outstanding portfolio at December 31, 2011 and to $115.71 million or 24.94% of the total outstanding portfolio at June 30, 2012. As the Bank expands its financing activities in sectors such as clean energy and energy efficiency, it expects that loans to private borrowers will represent an increasing portion of its lending portfolio. The Bank also expects to expand its financing activities to include projects with public-private partnerships, mainly in Mexico, given current market conditions as government spending is tightened and more private funding is made available for infrastructure financing. Consistent with NADB's risk management philosophy, private lending is subject to a stringent credit, legal and technical analysis.

Collateral and Security

The Bank's core lending principles include an emphasis on risk aversion and a commitment to a strong payment structure. As of June 30, 2012, approximately 59.85% of the loans in the Bank's outstanding portfolio (measured by principal amount) are with Mexican borrowers and 40.15% are with U.S. borrowers. Of the Bank's loans to Mexican borrowers, approximately 74.90% 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 revenue bonds and are backed by specific system revenues.

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), 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, the Bank may also require these types of credit support from its governmental borrowers.

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

The Bank requires a customary debt service coverage ratio on all its loans. The debt service coverage ratio is the ratio of the total annual net cash flow divided by the total fixed obligations of a project. A minimum debt service coverage ratio of 1.0x is required for loans with a pledge of tax revenues. For all other loans, a minimum 1.2x debt service coverage ratio 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, for loans not secured by a pledge of tax revenues, the Bank generally requires borrowers to maintain a debt service reserve of between two months and twelve months of scheduled debt service, based on project risk mitigating requirements and prudent practices.

Lastly, the Bank usually requires a guarantee of the principal and interest payments under the loan by the borrower and limited or general guarantees from project sponsors, borrowers, equity investors or other relevant parties to guarantee the technical or financial performance and project completion.

Lending Limits

To ensure the Bank has capital resources sufficient to meet its financing activities and obligations, the Bank is subject to certain lending limits. Under its Charter, the total amount of NADB's outstanding loans (including guarantees) may not exceed, at any time, the total amount of unimpaired subscribed capital of the Bank, plus the unimpaired reserves and undistributed surplus that are included in the capital resources of the Bank. The Charter defines "capital resources" to include (i) all authorized capital of the Bank, including paid-in and callable shares, (ii) funds raised by borrowings, (iii) funds received in repayment of loans and income derived from loans (or guarantees) made by the Bank from its authorized capital or borrowings, and (iv) the Bank's retained earnings. As of June 30, 2012, the total unimpaired subscribed capital of the Bank was $2.70 billion (paid-in capital and callable capital allocated to the Bank's financing activities) and its unimpaired reserves were $88.31 million, for a resulting total loan limit of $2.79 billion. This limit does not include income on capital resources that are specifically assigned by the Board to reserves not available for loans (or guarantees), for example, amounts relating to USCAIP.

As a matter of prudent risk management, the Bank imposes additional limits on a per obligor and per project basis. The maximum allowable credit exposure, net of disbursements repaid and any financing cancellations, to any single borrower is limited to 15% of the Bank's "available capital resources," which for this purpose is the sum of the Bank's funded unimpaired paid-in capital (*i.e.,* paid-in capital not otherwise dedicated to a specific program or investment), plus undesignated retained earnings, plus callable capital corresponding to the Bank's borrowings. Since May 2009, the Bank had $405.00 million in funded unimpaired paid-in capital, and as of June 30, 2012, $46.36 million in undesignated retained earnings and $250.00 million in callable capital corresponding to the Bank's borrowings, for a total of $701.36 million in "available capital resources." This exposure limit may be increased by an amount equal to an additional 10% of NADB's available capital resources 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.

NADB may only provide financing for up to 85% of a project's eligible costs, and may require project sponsors or other private entities to provide a portion of the funding necessary for a project 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 and other duties and other incidental costs approved by NADB.

Currently Available Loan Terms

NADB's loans generally are offered at market rates. On a limited basis and under stringent eligibility criteria, the Bank may also offer subsidized interest rate lending. Market rate loans represented 100% ($105.91 million) of the new loans contracted by the Bank in 2011, and 100% ($89.12 million) of the new loans contracted during the first six months of 2012.

The following table provides the composition of the Bank's total outstanding loan portfolio with respect to market rate loans and subsidized interest rate loans ("LIRF") as of December 31, 2010 and 2011 and as of June 30, 2012.

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

Outstanding Loan Portfolio, by Loan Type

(amounts in U.S. $ Million)

	Total Outstanding Loan Portfolio(1)	Market Rate Loans	% of Total Portfolio	LIRF Loans(2)	% of Total Portfolio
As of December 31, 2010	$470.21	$404.86	86.10%	$65.34	13.90%
As of December 31, 2011	427.75	366.09	85.58	61.66	14.42
As of June 30, 2012	464.04	408.48	88.03	55.55	11.97

(1) Excludes loans made under USCAIP.

(2) Since November 2007, there have been no new approvals of loans under the subsidized interest rate program, although $9.92 million of LIRF loans were approved prior to November 2007 and contracted in 2008. As of June 30, 2012, only $23.85 million of funding remains available under this program.

Loans are generally offered at fixed rates although variable rates are also available. Loans can be structured with monthly, quarterly or semi-annual 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's exchange rate risk is fully hedged through cross-currency swaps. As of June 30, 2012, 59.85% of the outstanding balance of the Bank's loans were in pesos. For information on the Bank's currently available market rate loan terms and applicable fees see "Box 2: Currently Available Market Rate Loan Terms" below.

Box 2: Currently Available Market Rate Loan Terms[1]

Base Rate	Available base rates include the yield on U.S. treasury securities, London Interbank Offered Rate ("LIBOR"), TIIE rate[2], or any other U.S. dollar ("USD") or Mexican peso ("MXN") reference rate, depending on the terms of the loan.[3]
Administrative Margin[4]	Based on the aggregate principal loan amount of: • Less than $5 million: 100-150 basis points ("bps") • Greater than $5 million but less than $17 million: 60-150 bps • Greater than $17 million but less than $50 million: 40-150 bps • Greater than $50 million: 25-150 bps
Risk Exposure Spread[5]	0-400 bps[6]
Commitment Fee	0.75% per annum on the undisbursed balance of the loan

(1) In lieu of a portion of the basis points payable as interest on the loan, a borrower under a market rate loan may pay points up front. The total amount of basis points over the benchmark in the all-in interest costs of the loan, excluding commitment fee, may not exceed 550 bps.
(2) The TIIE (*Tasa de Interés Interbancaria de Equilibrio*) rate is the representative rate for credit among banks in Mexico, and is calculated and published daily by the Bank of Mexico.
(3) Prior to June 2009, the Bank only offered base rates based on the yield on U.S. treasury securities.
(4) Prior to 2008, the minimum administrative margin applicable to market rate loans was 100 bps, regardless of the size of the loan.
(5) From 2006 to 2008, the applicable range of risk exposure spread was 0-75 bps. In 2008, the Bank increased its risk exposure spread to 0-150 bps and increased it again in 2009 to its current level (0-400 bps).
(6) The amount of risk exposure spread varies depending on credit worthiness of the borrower (or guarantor, if applicable) for direct recourse loans, or of the project, for limited recourse financing.

Project Evaluation, Certification and Implementation

Contemporaneously with the creation of the Bank, the United States and Mexico created the BECC to evaluate and certify the technical feasibility and environmental impact of, and elicits public participation with respect to, all infrastructure projects to be financed by the Bank. Certification of projects requires the affirmative vote of a majority of the 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 EPA and the Mexican Ministry of the Environment and Natural Resources.

As a result of this process, potential borrowers are required to submit extensive project information to the BECC and NADB that includes, among other items, engineering reports and analyses, feasibility studies, draft agreements for key elements of the project, borrower financials for the previous three to five years, project implementation and disbursement schedules, and anticipated project costs and assumptions on financial projections. With this information, BECC and NADB collectively undertake an in-depth risk assessment and project evaluation, forecast project cash flows, carry out sensitivity and stress-test scenarios, perform legal review of documentation, design collateral structure and loan payment mechanisms, as well as evaluate key project risks, including construction, operating, technology, management, input or supply, market, foreign exchange, interest rate, technical feasibility and regulatory risks. The Bank may only extend loan financing 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.

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 classifies loans as non-performing when payments of principal or interest on the loan are delinquent for 90 days or more, or where reasonable doubt exists as to timely collection. Loans are generally placed in non-accrual status when principal or interest is delinquent for 180 days or more, or where reasonable doubt exists as to timely collection.

To guard against the risk of delinquent and non-performing loans, the Bank allocates an allowance for expected loan losses on its financial statements. The Bank believes that its aggregate allowance for loan losses is adequate to cover all known losses at June 30, 2012. Of the 49 loans in its outstanding portfolio, the Bank had only two non-performing loans, with outstanding balances of $3.69 million and $10.13 million as of June 30, 2012. In March 2012, the Bank concluded litigation on a non-accrual loan in the original principal amount of $6.52 million with foreclosure on the collateral pledged to the Bank. The net loan value was $0.80 million after an allowance for loss of $5.72 million. In May 2012, NADB commenced litigation against the borrower under a $10.13 million loan in non-accrual status. 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 and Special Reserves."

In certain cases where a borrower experiences financial difficulties, the Bank will seek to restructure or modify the contractual terms of the loan. NADB is currently negotiating with one borrower seeking to restructure a loan with an outstanding balance of $3.69 million that has been in non-accrual status since June 2009.

Use of Derivatives

The Bank's policies require full hedging for loans subject to currency risk. 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 cross-currency interest rate swaps ("swaps"), which virtually eliminate exposure to fluctuations in foreign currency exchange rates and interest rates. Beginning in October 1996, the Bank benefitted from access to the swap products offered by the 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"). In July 2009, the Bank entered into a direct relationship with Banobras to serve as the swap counterparty, outside the FOAEM arrangement. The obligations of Banobras are fully backed by the Mexican federal government. In addition, in February 2010, the Bank entered into an interest rate swap with a commercial financial institution rated A2/A+ by two nationally-recognized statistical rating organizations to mitigate its interest rate risk exposure in connection with outstanding fixed rate debt securities issued by the Bank in 2010. The Bank has also included this commercial financial institution within its swap counterparties to foster competition on cross-currency swap quotes. In the future, the Bank will seek more swap counterparties to further foster competition and mitigate risk.

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, has no outstanding guarantees and does not currently anticipate instituting a guarantee program in the near future. 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

In addition to its loan program, NADB administers a grant program that is fully funded by the EPA, the Border Environment Infrastructure Fund ("BEIF"), for the implementation of selected drinking water supply 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 the first six months of 2012, no BEIF grants were signed. While the BEIF program was historically the core of the Bank's activities, BEIF grants have significantly decreased over the past four years, by 64.98%, comparing the average BEIF award from 1997-2007 of $58.29 million versus the average BEIF award from 2008-2011 of $20.41 million, due to decreased appropriations from the U.S. Congress to fund EPA programs.

In previous years, the Bank had funded two grant programs out of its retained earnings, the SWEP and the WCIF. In February 2011, the SWEP was discontinued, and the uncommitted funds were rolled over to the CAP, a new grant program for the implementation of critical environmental infrastructure projects designed for sponsors with limited or no capacity to incur debt. The CAP provides grants of up to $500,000 for projects in underserved communities, with priority given to drinking water, wastewater and solid waste infrastructure. CAP grants are available for public projects in all sectors eligible for NADB financing. As of June 30, 2012, $10.50 million in retained earnings was designated for CAP to be disbursed over the next five years. At the close of 2011, all approved SWEP grants had been contracted.

As of June 30, 2012, the Bank has contracted a total of $1.41 billion in infrastructure development financing since its inception, of which $658.06 million (46.52%) was contracted in the form of grants. During the initial years of the Bank's operations, disbursed grants represented the majority of the Bank's financing, as compared to its outstanding loan portfolio. Although the total amounts of grants disbursed by the Bank have grown as the Bank's financing activities and funding resources have increased over the years, grants as a percentage of total disbursed funds have steadily decreased since 2001. Total grant disbursements were $35.70 million, $27.16 million and $18.80 million as of the years ended December 31, 2001, 2010 and 2011, respectively. While grants represented 94.51% of all disbursements for the year ended December 31, 2001, disbursed grants represented only 18.96% of the Bank's total disbursements for the year ended December 31, 2011. Disbursed grants represented 10.22% of the Bank's total disbursements for the six months ended June 30, 2012.

Investments

The Bank's primary investment objective is the maintenance of sufficient liquidity. 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 June 30, 2012, the Bank had a liquid asset portfolio (excluding USCAIP's liquid assets) of $264.82 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.

Technical Assistance Program

The Bank uses a limited portion of its retained earnings to provide technical assistance and training to project sponsors to support the development of environmental infrastructure projects. The project sponsors are required to contribute at least 25% of the cost of technical assistance program funded by the Bank. During fiscal year 2011, $0.89 million in grant funding was approved for TAP. In the six months ended June 30, 2012, $0.23 million in grant financing was approved for TAP.

The Domestic Programs

General

When NADB was established in 1994, the U.S. and the Mexican governments agreed that 10% of NADB's capital would be set aside to fund community adjustment and investment programs in the U.S. and Mexico. Unlike the Bank's environmental infrastructure financing activities, the projects funded under these domestic programs are not limited to communities located within the border region and do not require BECC certification.

In addition to the financing limits established by the Bank's Charter and described under "Lending Policies—Lending Limits" above, limits to the Bank's funding of domestic programs apply. NADB's Charter provides that the total amount of loans, guarantees and grants may not exceed ten percent (10%) of the sum of the paid-in capital paid by the member country, plus the amount of such member country's unqualified subscription for callable shares.

U.S. Domestic Program

NADB assists the United States in administering the U.S. domestic program, USCAIP. USCAIP is designed to assist communities and the private sector in creating new jobs and preserving existing jobs in areas adjusting to changes in their economies as a result of NAFTA. USCAIP operates under the direction of a Finance Committee comprised of representatives of the U.S. Departments of the Treasury, Agriculture and Housing and Urban Development, and the U.S. Small Business Administration, along with other agencies selected by the Department of the Treasury, which serves as Finance Committee chair. Since its inception, more than $8.31 million in loans and $19.63 million in grants have been authorized under USCAIP and $17.13 million has been disbursed by the Bank to support 64 projects, serving over 43 communities in 19 states.

NADB holds and administers funds for the USCAIP. Accordingly, USCAIP accounts are reported with and included in the accounts for the Bank's financing activities and in NADB's consolidated financial statements. However, the Bank is not involved in decisions regarding the use of USCAIP funds. As of June 30, 2012, USCAIP had available $6.73 million in equity (consisting of $7.23 million of allocated paid-in capital, $(0.59) million in designated retained earnings and $0.09 million for its special reserve) and $3.82 million in cash and cash equivalents. USCAIP is funded entirely from these allocated sources (and any net income earned by the program). Profits, losses, expenses, disbursements and other activities relating to USCAIP are funded through USCAIP's designated retained earnings and do not affect the Bank's retained earnings or paid-in capital nor would any USCAIP net income be available to support the Bank's obligations, including those under any of the Bank's debt securities or other borrowings.

More detailed information with respect to USCAIP's financial information may be found in the financial statements appended hereto.

Mexican Domestic Program

In June 1996, the Mexican federal government, through the SHCP, entered into a mandate agreement with the Mexican federal development bank, Banobras, to operate the Mexican domestic program and administer its funds. Accordingly, the Bank disbursed $22.50 million to Banobras, representing all of Mexico's paid-in capital for its domestic program. The Bank is not directly involved in, nor does it track or report on, the Mexican domestic program.

Properties

The Bank's office is located at 203 South St. Mary's, Suite 300, San Antonio, Texas and is leased from the City of San Antonio. Pursuant to its 1995 lease with the City of San Antonio, the Bank does not pay rent on the substantial majority of its leased premises, and pays a nominal amount of rent for additional space in the same office building leased by the Bank in 2000.

Litigation

In March 2012, one of the Bank's borrower instituted litigation against the Bank, contending that when the borrower refinanced its debt and prepaid a loan to the Bank, it overpaid interest and breakage costs due on the loan. Although the amount in controversy is disputed, the Bank believes it to be no more than $2 million.

Also, NADB concluded litigation in March 2012 relating to a non-accrual loan in the original principal amount of $6.52 million with foreclosure on the collateral pledged to the Bank. The net loan value was $0.80 million after an allowance for loss of $5.72 million. Sufficient loan allowance provisions have been made with respect to this non-accrual loan.

As of June 30, 2012, the Bank had only two non-performing loans, with outstanding balances of $3.69 million and $10.13 million. In May 2012, NADB instituted litigation against the borrower of the $10.13 million loan due to a default on its loan.

To the knowledge of the Bank's management, the Bank is not engaged in or aware of any other litigation, pending or threatened, that is material to the Bank's business or that is likely to have any impact on its business, financial condition or results of operations.

FUNDING RESOURCES

Capital Resources

NADB's total authorized capital is $3 billion, with equal commitments from the United States and Mexico. Each country has authorized the subscription of 150,000 shares of the Bank's capital stock with a par value of $10,000 per share: $225.00 million in paid-in capital, payable in installments as agreed to by the two member countries, and $1.275 billion in callable capital.

Since May 2009, the Bank has received all installments of paid-in capital contributions from the U.S. and Mexico, totaling $450 million. The remaining $2.55 billion in callable capital is callable by NADB and 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 of 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. The United States' subscription of $1.275 billion of callable capital stock has been authorized by the U.S. Congress but not yet appropriated. Further action by Congress would be required to enable the Secretary of the U.S. Treasury to pay any portion of this amount. Similarly, Mexico's subscription of $1.275 billion of callable capital stock has been fully authorized by its legislature, but payment upon a call would be subject to an allocation of Mexican budgetary resources for such purposes.

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 Department 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.

As set forth in its Charter, ninety percent (90%) of NADB's authorized capital is used to finance environmental infrastructure projects in the border region, and ten percent (10%) of the capital subscribed by each country was set aside to finance the member countries' domestic programs. As a result, $405.00 million in paid-in capital is available to support the Bank's financing activities and the remaining $45.00 million of the Bank's paid-in capital (and $255.00 million in associated callable capital) was allocated to the domestic programs at the Bank's inception.

General and Special Reserves

The Bank also maintains general and special reserves to cover 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. These reserves are distinct from the Bank's allowance for expected loan losses, which as of June 30, 2012 totaled $2.37 million. Of this amount, $0.02 million is allocated to USCAIP and the remaining $2.35 million 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 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, 2011 and June 30, 2012, the general reserve balance was $115.16 million and $118.04 million, respectively, with approximately $7.23 million and $(0.50) million, representing the allocated paid-in capital and retained earnings, respectively, of USCAIP as of June 30, 2012 and the remaining balances relating to the Bank's lending activities.

The special reserve is funded out of the Bank's retained earnings. The Bank's policy is to maintain this reserve at 3% of the outstanding amount of loans disbursed and 1% of the undisbursed loan commitments. As of December 31, 2011 and June 30, 2012, the special reserve balance was $13.55 million and $14.92 million, respectively, with approximately $13.45 million and $14.83 million, respectively, relating to the Bank's lending activities. Special reserves allocated to USCAIP were $0.10 million as of December 31, 2011 and $0.09 million as of June 30, 2012.

The USCAIP portions of the general and special reserves are not available to cover NADB's operating expenses, offset losses or pay expenses relating to the Bank's financing activities. In addition, expenses and losses relating to USCAIP are limited to its general and special reserve amounts; if those reserves were depleted, the remainder of the Bank's reserves would not be available to satisfy USCAIP's obligations.

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 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; 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 NADB meet its debt obligations in a time of financial difficulties. In the remote event that the Bank should have a need to call on its callable capital to meet its debt obligations, the Bank believes its reserves would provide a "time cushion" of one full year for the U.S. Congress to authorize the appropriation of the U.S. callable capital and for Mexico to allocate its callable capital from the corresponding budgetary resources. As of June 30, 2012, the Bank's debt service reserve was $6.23 million.

Borrowings

In February 2010, the Bank issued $250.00 million aggregate principal amount of fixed rate debt securities. As of June 30, 2012, the Bank's notes payable, net of discount and fair value of hedged item was $281.16 million. The Bank has a borrowing program for the 2012 fiscal year that permits it to borrow up to $490.00 million either directly or indirectly through third party banks or by issuing debt.

SELECTED FINANCIAL DATA

The following selected financial information as of and for the years ended December 31, 2011 and 2010 has been derived from our audited consolidated financial statements for those periods, which were audited by Ernst & Young LLP. The report of Ernst & Young LLP has been included on page F-2 of this document. The following selected financial information as of and for the six-month periods ended June 30, 2012 and 2011 has been derived from our unaudited condensed interim financial information and includes all adjustments, consisting of normal recurring adjustments, that we consider necessary for a fair presentation of our financial position at such dates and our results of operations for such periods. The results of the six-month period ended June 30, 2012 are not necessarily indicative of results to be expected for the full year 2012. Our audited consolidated financial statements and unaudited condensed interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States. The selected financial information should be read in conjunction with our audited annual financial statements and unaudited interim financial statements and accompanying notes thereto and the section titled "Management's Discussion and Analysis of Results of Operations and Financial Condition" herein.

The Bank's consolidated financial statements include amounts for the U.S. domestic program, USCAIP, and for the EPA-funded BEIF grant program, each of which is administered by the Bank. Although USCAIP is consolidated in the Bank's financial statements, including its retained earnings, USCAIP is funded entirely from its allocated paid-in capital and any net income earned by the program. Profits, losses, expenses and disbursements for the USCAIP program affect USCAIP's designated retained earnings, but do not affect the Bank's retained earnings or paid-in capital nor would any USCAIP net income be available to support the Bank's obligations, including those under any of the Bank's debt securities or other borrowings. Similarly, although funds relating to the BEIF program are consolidated in the Bank's financial statements, funds disbursed for grants under the BEIF program are received from the EPA prior to disbursement by the Bank to the grantees, and any BEIF-related operating expenses incurred by the Bank are reimbursed by the EPA. More detailed information with respect to USCAIP and BEIF may be found in the financial statements and accompanying notes appended hereto.

	For the Six Months Ended June 30,		For the Year Ended December 31,	
	2012	**2011**	**2011**	**2010**
	Unaudited		**Audited**	
Consolidated Statements of Income:				
Income:				
Interest:				
Investment income	$ 2,718,913	$ 2,614,274	$ 5,428,346	$ 5,888,012
Loan income	9,206,572	11,549,490	21,137,520	20,689,910
Gain on sales of available-for-sale investment securities, net	160,294	3,117	1,479,029	5,513,905
Fee income	182,105	12,550	216,751	20,661
Other	118,337	53,707	9,203,825	508,003
Total revenues	**$** 12,386,221	**$** 14,233,138	**$** 37,465,471	$ 32,620,491
Total operating expenses	**$** 5,683,735	**$** 5,381,485	**$** 10,758,287	$ 9,151,284
Interest expense	2,430,315	2,235,715	4,531,644	4,094,686
Income before program activities	$ 4,272,171	$ 6,615,938	**$** 22,175,540	$ 19,374,521
Program activities:				
U.S. Environmental Protection Agency (EPA) grant income	798,326	786,805	1,731,827	1,758,468
EPA grant administration expense	(798,326)	(786,805)	(1,731,827)	(1,758,468)
Technical Assistance Program expense	(175,690)	(142,963)	(337,444)	(703,454)
Solid Waste Environmental Program[(1)] expense	(337,707)	–	(399,309)	(673,248)
Water Conservation Investment Fund expense	–	–	–	(744,025)
Community Assistance Program[(1)] expense	–	–	–	–
Net program expenses	**$** (513,397)	**$** (142,963)	**$** (736,753)	$ (2,120,727)

Income before minority interest	$ 3,758,774	$ 6,472,975	$ 21,438,787	$ 17,253,794
Net income attributable to minority interest	121	83	170	114
Net income attributable to NADB	**$** 3,758,653	**$** 6,472,892	**$** 21,438,617	$ 17,253,680

	As of the Six Months Ended June 30,		As of the Year Ended December 31,	
	2012	**2011**	**2011**	**2010**
	Unaudited			**Audited**
Consolidated Balance Sheets:				
Assets:				
Cash and cash equivalents	$ 48,361,244	$ 45,067,624	$ 41,285,680	$ 43,156,304
Held-to-maturity investment securities, at amortized cost	53,572,581	52,079,531	52,919,513	53,523,294
Available-for-sale investment securities, at fair value	220,277,719	180,752,839	260,871,578	182,516,403
Loans outstanding	466,980,786	482,273,035	430,991,455	474,034,861
Allowance for loan losses	(2,373,188)	(5,739,860)	(8,089,860)	(5,759,639)
Foreign currency exchange rate adjustments and fair value of hedged items	(14,547,622)	11,804,585	(31,442,093)	(7,183,183)
Net loans outstanding	$ 450,059,976	488,337,760	$ 391,459,502	$ 461,092,039
Interest receivables	8,796,530	6,677,180	8,654,935	7,107,253
Grant and other receivable	6,317,450	1,523,507	4,539,420	329,414
Furniture, equipment and leasehold improvements, net	112,937	135,184	116,709	148,197
Other assets	45,669,139	11,139,178	67,900,162	15,051,451
Total assets	**$** 833,167,576	**$** 785,712,803	**$** 827,747,499	$ 762,924,355
Liabilities:				
Accounts payable	4,718,884	42,829	$ 3,720,998	$ 246,520
Accrued liabilities	355,486	320,434	258,713	251,393
Accrued interest payable	5,480,838	4,483,555	5,363,636	4,519,377
Undisbursed grant funds	218,166	2,265	1,004	1,270
Other liabilities	14,268,110	20,613,047	–	–
Notes payable, net of discount and fair value of hedged item	281,161,354	259,184,961	277,503,262	256,424,301
Total liabilities	**$** 306,202,838	**$** 284,647,091	**$** 286,847,613	$ 261,442,861
Equity:				
Paid-in capital	405,000,000	405,000,000	$ 405,000,000	$ 405,000,000
General Reserve:				
Allocated paid-in capital(2)	7,234,092	8,294,224	8,111,717	8,695,322
Retained earnings:(3)				
Designated	22,411,760	16,900,452	22,838,159	16,715,971
Reserved	42,038,234	14,817,806	40,035,060	14,670,080
Undesignated	46,356,212	60,363,570	44,174,334	54,222,885
Accumulated other comprehensive income	3,917,981	(4,316,591)	20,734,278	2,171,068
Minority interest	6,459	6,251	6,338	6,168
Total equity	$ 526,964,738	$ 501,065,712	$ 540,899,886	$ 501,481,494
Total liabilities and equity	**$** 833,167,576	**$** 785,712,803	**$** 827,747,499	$ 762,924,355

	For the Six Months Ended June 30,		For the Year Ended December 31,	
	2012	2011	2011	2010
	Unaudited		Audited	
Consolidated Statements of Cash Flows:				
Net income	$ 3,758,653	$ 6,472,892	$ 21,438,617	$ 17,253,680
Net cash provided by operating activities	10,445,006	7,106,872	32,506,475	13,662,961
Net cash (used in) provided by lending, investing, and development activities	(2,708,979)	(4,795,449)	(33,793,228)	(258,975,202)
Net cash (used in) provided by financing activities	(660,463)	(400,103)	(583,871)	247,003,334
Net increase (decrease) in cash and cash equivalents	7,075,564	1,911,320	(1,870,624)	1,691,093
Cash and cash equivalents	$ 48,361,244	$ 45,067,624	$ 41,285,680	$ 43,156,304

	As of and For the Six Months Ended June 30,		As of and For the Year Ended December 31,	
	2012	2011	2011	2010
	Unaudited		Audited	
Performance Ratios:				
Return on average shareholders' equity[(4)]	0.87%	1.39%	4.61%	4.17%
Return on paid-in capital[(5)]	1.05	1.63	5.48	4.78
Return on average assets[(6)]	0.51	0.85	2.79	3.06
Administrative expenses divided by average assets[(7)]	0.68	0.69	1.35	1.45
Non-performing loan(s)[(8)*]	$ 13,822,487	$ 10,210,410	$ 20,339,159	$ 10,210,410
Allowance for losses[*]	2,373,188	5,739,860	8,089,860	5,759,639
Average net assets[*]	830,457,538	774,318,579	795,335,927	632,321,162
Average net funded paid-in capital[*]	405,000,000	405,000,000	405,000,000	405,000,000

(1) In February 2011, the Bank's grant financing activities for solid waste projects were consolidated under a new program, the CAP, which replaced the SWEP.

(2) Represents paid-in capital allocated to USCAIP. See "Business Operations—The Domestic Programs."

(3) Retained earnings allocated as USCAIP retained earnings equaled $(0.50) million as of June 30, 2012, $(0.29) million as of June 30, 2011, $(0.41) million as of December 31, 2011 and $(0.19) million as of December 31, 2010, respectively.

(4) Calculated as income before program activities, divided by the sum of the average net funded paid-in capital, undesignated retained earnings, and reserved retained earnings.

(5) Calculated as income before program activities divided by average net funded paid-in capital.

(6) Calculated as income before program activities divided by average net assets.

(7) Calculated as total operating expenses divided by average net assets.

(8) As of June 30, 2012, the Bank had two non-performing loans. See "Business Operations—Lending Policies—Non-Performing Loans and Loss Allowances."

* As of the respective period.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Overview

The Bank's total revenues are derived from interest income from loans and interest income and gains (net of any loss) on investment securities, less any interest paid on borrowed funds. From its inception to February 2010, the Bank has made loans by selling investments purchased with its funds from equity and disbursing the proceeds into loans. Since 2010, NADB has followed the same disbursement procedure by selling investments purchased with its funds from borrowed monies. Expenses to date are principally related to interest paid on borrowed funds, expenditures for personnel and related administrative expenses. The Bank has experienced positive income before program expenses (grants) in each year since its inception.

For the six month period ended June 30, 2012, the Bank had total revenues of $12.39 million, total operating expenses of $5.68 million, interest expense of $2.43 million, and income before program activities of $4.27 million. Net income after program expenses was $3.76 million.

Significant Accounting Policies

General

The Notes to the Bank's financial statements contain a summary of NADB's significant accounting policies, including a discussion of recently issued rules and regulations. The Bank's financial statements are prepared in accordance with accounting principles generally accepted in the United States ("GAAP"), and are consistent with that of an international organization.

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions that may affect reported results, including amounts of assets and liabilities, and revenues and expenses. Certain of these policies are considered to be critical to the portrayal of the Bank's financial condition, because they require NADB's management to make difficult, complex or subjective judgments, or relate to matters that are inherently uncertain. These policies include (i) the use of fair value accounting and (ii) the determination of the level of loss allowances and reserves in the Bank's loan portfolio. Additional information about these policies can be found in Notes 2, 4 and 12 to the unaudited consolidated financial statements for the six months ended June 30, 2012.

Fair Value Accounting

The Bank uses fair value measurement to account for the value of its cross-currency interest rate swaps and available-for-sale debt securities. The Bank determines the fair market values of these instruments based on the fair value hierarchy established in FAS 157, *Fair Value Measurements*, which when measuring fair value requires an entity to maximize the use of observable inputs based on market data obtained from sources independent of the reporting entity and minimize the use of unobservable inputs based on the reporting entity's own assumptions about market participant assumptions developed on the best information available in the circumstances.

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

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. This category generally includes agency securities, corporate debt securities, other fixed income securities, UMS securities, and mortgaged-backed debt securities, all of which are classified as available-for-sale investments.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category includes cross-currency interest rate swaps, interest rate swaps, and fair value of hedged items where independent pricing information is not available for a significant portion of the underlying assets.

When possible, fair value is determined by reference to quoted market prices. If quoted market prices are unavailable, then fair value is based on pricing and discounted cash flow estimate models. Selection of data included in pricing and cash flow models involves a significant degree of judgment, and changes in the assumptions and measurements underlying this data could have a substantial impact on the amounts the Bank reports as its assets, liabilities, and the related unrealized gains and losses reported on its income statement. The Bank believes that its estimates of fair value are reasonable in light of its established processes for obtaining data for use in its models, periodic evaluation, review and validation of its models and consistent approach from period to period.

Loss Allowances

The Bank's loans are reported in its financial statements at the principal amount of the loans outstanding, net of allowance for loan losses and net of the effect of foreign currency exchange rate adjustments and the fair value of hedged items on the portion of loans hedged with a fixed-to-variable interest rate swap. The determination of the allowance for loan losses is based on management's current judgments about the credit quality of its loan portfolio, and the allowance is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. Determining the appropriate allowance for loan losses involves significant judgment about when a loss has been incurred and the amount of that loss. Actual losses may differ from expected losses due to unforeseen changes in a variety of factors that affect borrowers' creditworthiness and the accuracy of the Bank's allocated allowance.

Results of Operations

General

The following discussion of the Bank's results of operation are from the Bank's consolidated combined balance sheets, statements of income and statements of cash flows and, accordingly, include amounts for the U.S. domestic program, USCAIP, and for the EPA-funded BEIF grant program, each of which are administered by the Bank. USCAIP is funded entirely from its allocated paid-in capital and any net income earned by the program. Profits, losses, expenses and disbursements for the USCAIP program affect USCAIP's designated retained earnings, but do not affect the Bank's retained earnings or paid-in capital nor would any USCAIP net income be available to support the Bank's obligations, including those under any of the Bank's debt securities or other borrowings. As of June 30, 2012, $7.23 million in allocated paid-in capital was allocated to USCAIP and held in the Bank's general reserves.

The BEIF grant program, fully funded by the EPA, is also reflected on the Bank's consolidated combined balance sheets, statements of income and statements of cash flows, but has no economic effect on the Bank's operations. Funds disbursed for grants under the BEIF program are received from the EPA prior to disbursement by the Bank to the grantees, and any BEIF-related operating expenses incurred by the Bank are reimbursed by the EPA.

More detailed information with respect to USCAIP and BEIF may be found in the financial statements appended hereto.

Interest Income

<u>June 30, 2012 as compared to June 30, 2011</u>

The main source of income for the Bank is interest earnings on its loan portfolio and investment holdings. For the six months ended June 30, 2012, total interest income, consisting of investment income and loan income, was $11.93 million as compared to $14.16 million for the six months ended June 30, 2011, representing a $2.23 million or 15.75% decrease for the six-month period. This decrease was primarily attributable to loan prepayments of $100.11 million during July 2011 that yielded higher interest rates than the new loans disbursed in the period from January 1, 2011 to June 30, 2012, a period of declining market interest rates. Loans outstanding as of June 30, 2012 as compared to June 30, 2011 were $466.98 million and $482.27 million, respectively, for a net decrease of $15.29 million or 3.17% resulting from the principal repayments in excess of loan disbursements.

Of the Bank's total interest income, investment income for the six-month period ended June 30, 2012 totaled $2.72 million, representing an increase of $0.10 million or 3.82% over the six-month period ended June 30, 2011. This increase was primarily attributable to the funds from the loan prepayments of $100.11 million during July 2011 being invested in investments until disbursed into new loans offset by the effect of a lower interest rate environment.

Loan income for the six month period ended June 30, 2012 totaled $9.21 million, a decrease of $2.34 million or 20.26% over the six-month period ended June 30, 2011. This decrease in loan income was primarily attributable to the loan prepayments as described above.

December 31, 2011 as compared to December 31, 2010

Total interest income for the fiscal year ended December 31, 2011 was $26.57 million, essentially unchanged from $26.58 million for the fiscal year ended December 31, 2010, representing a $0.01 million or 0.04% decrease in 2011. A decrease in interest earnings from investments was offset by continued growth of the Bank's loan portfolio during the first part of the year before the loan prepayments in July 2011.

Investment income for the fiscal year ended December 31, 2011 was $5.43 million as compared to $5.89 million for the fiscal year ended December 31, 2010, resulting in a decrease of $0.46 million or 7.81% for 2011. This decrease was primarily attributable to a declining interest rate environment during the year.

Loan income for the fiscal year ended December 31, 2011 totaled $21.14 million, as compared to $20.69 million for the fiscal year ended December 31, 2010, representing an increase of $0.45 million or 2.17% for 2011. This small increase in loan income was due to a $54.74 million increase in the Bank's average loan portfolio, which was significantly offset by the loan principal prepayments of $100.11 million in July 2011. As of December 31, 2011, the Bank's outstanding loan portfolio totaled $430.99 million, representing a decrease of $43.04 million or 9.08% from its outstanding balance of $474.03 million as of December 31, 2010. During the fiscal years ended December 31, 2011 and 2010, 86% of the Bank's outstanding loans had been made at market rates. Currently, NADB's market rates range from a base rate plus an administrative margin of 25-150 bps and a risk exposure spread of up to 400 bps. Available base rates include the yield on U.S. treasury securities, LIBOR, TIIE rate or any other USD or MXN reference rate, depending on the terms of the loan.

Gain on Sales of Available-For-Sale Investment Securities

June 30, 2012 as compared to June 30, 2011

For the six months ended June 30, 2012, total gain on sales of available-for-sale investment securities was $0.16 million, as compared to $3,117 for the six months ended June 30 2011, representing an increase of $0.16 million.

Available-for-sale investment securities totaled $220.28 million as of June 30, 2012 and $180.75 million as of June 30, 2011, representing an increase of $39.53 million or 21.87%. This increase was primarily attributable to the purchase of investment securities from the loan prepayments until disbursed into new loans.

December 31, 2011 as compared to December 31, 2010

For the year ended December 31, 2011, total gain on sales of available-for-sale investment securities was $1.48 million as compared to $5.51 million for the year ended December 31, 2010, and representing a decrease of $4.03 million or 73.14%.

Available-for-sale investment securities totaled $260.87 million as of December 31, 2011 and $182.52 million as of December 31, 2010, representing an increase of $78.35 million or 42.93%. This increase was primarily attributable to the purchase of investment securities from loan prepayments until disbursed into new loans.

Fee Income

Fee income includes loan application, loan commitment, loan penalty and other loan fees, and generally is not material to the Bank's results of operations.

The Bank generally charges a loan application fee of $1,500 for loans less than $5 million and $2,500 for loans over $5 million. The Bank assesses a 0.75% annual commitment fee only if actual disbursements are delayed from the agreed-upon disbursement schedule. The Bank also charges fees to offset development costs as well as other fees in line with industry standards.

Other Income and Expenses

<u>June 30, 2012 as compared to June 30, 2011</u>

Other income and expenses consist primarily of net foreign exchange gains/losses and net gains/losses from swaps. During the six months ended June 30, 2012, other income totaled $0.12 million as compared to $0.05 million for the six months ended June 30, 2011. The increase was primarily attributable to foreign exchange gains on some MXN transactions relating to the operations of the Bank. During the six months ended June 30, 2012 and 2011, other expenses remained the same and totaled $1.33 million for each of the six months ended June 30, 2012 and 2011.

<u>December 31, 2011 as compared to December 31, 2010</u>

For the year ended December 31, 2011, other income totaled $9.20 million, as compared to $0.51 million for the year ended December 31, 2010. The increase of $8.69 million is attributable to net foreign exchange gains of $7.82 million and a net increase in the fair value of swaps of $0.87 million for the year.

For the year ended December 31, 2011, other expenses were $0 as compared to $1.01 million for the year ended December 31, 2010. The decrease was attributable to zero net swap expenses for 2011 and a $0.86 million net decrease in the fair value of swaps and net foreign exchange losses of $0.15 million for the year ended December 31, 2010.

Operating Expenses

The annual operating budget for the Bank's financing activities is developed by NADB management and reviewed and approved by the Board. Operating expenses include salaries and personnel costs, including contracts with consultants, operational travel costs, equipment, furniture and leasehold improvements for NADB's properties and other assets maintained by the Bank, and general and administrative costs. For the year ended December 31, 2011, actual operating expenditures for the Bank's activities (excluding USCAIP operating expenses and depreciation and amortization costs, but including expenses for capitalized fixed assets) equaled $8.04 million, out of a total authorized operating budget of $8.10 million. For the year ending December 31, 2012, the Board authorized an operating budget of $8.74 million. As of June 30, 2012, actual operating expenditures for the Bank's activities (excluding USCAIP operating expenses and depreciation and amortization costs, but including expenses for capitalized fixed assets) totaled $3.98 million.

USCAIP is consolidated into the Bank for financial reporting purposes and, accordingly, its operating expenses are reflected in the Bank's consolidated statements of income as a separate line item. Any operating expenses relating to USCAIP are offset by a corresponding decrease in USCAIP's designated retained earnings. See "Selected Financial Data." In addition, the USCAIP budget is developed and approved by USCAIP staff; the Bank is not involved in developing or approving the USCAIP budget.

<u>June 30, 2012 as compared to June 30, 2011</u>

For the six months ended June 30, 2012, total operating expenses (excluding other expenses) were $4.35 million as compared to $4.05 million for the six months ended June 30, 2011, representing a $0.30 million or 7.41% increase. This increase was primarily attributable to increased costs for personnel, consultants, and general and administrative expenses, resulting from increased lending activities of the Bank. Two of the 49 loans in the Bank's loan portfolio were non-performing with aggregate outstanding balances of US$13.82 million as of June 30, 2012. NADB believes that its allowance for loan losses, $2.35 million as of June 30, 2012 (excluding the $23,188 allowance allocated to USCAIP), is sufficient to cover known losses on its loan portfolio. See "Business Operations—Lending Policies—Non-Performing Loans and Loss Allowances."

<u>December 31, 2011 as compared to December 31, 2010</u>

For the year ended December 31, 2011, total operating expenses (excluding other expenses) were $10.76 million as compared to $8.14 million for the year ended December 31, 2010, representing a $2.62 million or 32.19% increase. The increase was primarily attributable to an increase of $1.45 million in the provision for loan losses for the year. The remainder of the increase was attributable to increased costs for personnel, consultants, and general and administrative expenses, resulting from the lending activities of the Bank.

Program Activities

NADB uses a portion of its retained earnings to finance its grant and technical assistance programs. These funds are designated by the Board as needed and are subject to availability. As of December 31, 2011, retained earnings relating to the Bank's financing activities equaled $107.05 million and 21.34% of this amount, or $22.84 million, was designated to specific grant programs. Retained earnings increased in the first six months of 2012 by $3.76 million or 3.51%, providing a total of $110.81 million of retained earnings for the Bank's financing activities, of which $22.41 million was designated to specific grant programs. Although no new funding was allocated for grant financing during 2010, $6.80 million in undesignated retained earnings was allocated to the Bank's new CAP program in 2011, in addition to the $3.70 million rolled over from SWEP.

Although reflected on the Bank's consolidated statements of income, funds disbursed for program expenses relating to disbursements under the BEIF grant program, fully funded by the EPA, have no economic effect on the Bank's operations and are reimbursed by the EPA.

<u>June 30, 2012 as compared to June 30, 2011</u>

For the six months ended June 30, 2012, net program expenses (grant disbursements made by the Bank and administrative costs associated with EPA grant activities) were $0.51 million as compared to $0.14 million for the six months ended June 30, 2011 representing a $0.37 million or 264.29% increase for the six-month period. This increase was primarily attributable to $0.34 million increase in SWEP expenses for the six month period.

<u>December 31, 2011 as compared to December 31, 2010</u>

Net program expenses for the year ended December 31, 2011 totaled $0.74 million, as compared to $2.12 million for the year ended December 31, 2010, representing a $1.38 million or 65.09% decrease in 2011. This decrease was primarily attributable to decreased program expenses for SWEP and TAP (totaling $0.64 million for 2011) and $0 program expenses for WCIF in 2011 compared to $0.74 million in 2010.

Tax

Pursuant to the Charter, the Bank, its property, other assets, income, and the operations it carries out are immune from taxation, 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 the Bank to officers or staff who are not U.S. nationals.

Cash Flows

The following discussion of the Bank's cash flows is based on the Bank's consolidated statements of cash flows and, accordingly, includes amounts for the U.S. domestic program, USCAIP, and for the EPA-funded BEIF grant program, each of which are administered by the Bank. USCAIP is funded entirely from its allocated capital and any net income earned by the program. Profits, losses, expenses and disbursements for the USCAIP program affect USCAIP's designated retained earnings, but do not affect the Bank's retained earnings or paid-in capital nor would any USCAIP net income be available to support the Bank's obligations, including those under any of the

Bank's debt securities or other borrowings. The BEIF grant program, fully funded by the EPA, is also reflected on the Bank's consolidated combined balance sheets, statements of income and statements of cash flows, but has no economic effect on the Bank's operations. Funds disbursed for grants under the BEIF program are received from the EPA prior to disbursement by the Bank to the grantees, and any BEIF-related operating expenses incurred by the Bank are reimbursed by the EPA.

Net Cash Provided by Operating Activities

June 30, 2012 as compared to June 30, 2011

Cash flows provided by the Banks' operating activities totaled $10.45 million for the six months ended June 30, 2012, which represented an increase of $3.34 million over the corresponding cash flows from operating activities for the six months ended June 30, 2011 when operating activities provided cash of $7.11 million. This increase in net cash provided by operating activities was primarily the result of an increase of $4.69 million in the fair value of swaps, an increase of $1.20 million in accounts payable and a decrease of $2.71 million in net income for the six months ended June 30, 2012 compared to the corresponding period in 2011. This decrease in net income is primarily attributable to a decrease of $2.34 million in loan income for the six months ended June 30, 2012 as compared to the six months ended June 30, 2011.

December 31, 2011 as compared to December 31, 2010

Cash provided by the Bank's operating activities increased substantially to a total of $32.51 million for the year ended December 31, 2011, as compared to $13.66 million in cash provided by operating activities for the year ended December 31, 2010. This increase in net cash provided by operating activities was largely due to $4.18 million increase in net income, $9.82 million increase in the fair value of swaps, $4.03 million decrease in gain on sales of available-for-sale investment securities, and $1.45 million increase in provision for loan losses for 2011 compared to 2010.

Net Cash (Used in) Provided by Financing Activities

Although reflected on the Bank's consolidated statement of cash flows, funds disbursed for the BEIF program, fully funded by the EPA, have no economic effect on the Bank's operations since EPA provides grant funding one business day prior to the grant disbursement by the Bank.

June 30, 2012 as compared to June 30, 2011

Net cash used in the Bank's financing activities increased by $0.26 million for the six months ended June 30, 2012, from $0.40 million for the six months ended June 30, 2011 to $0.66 million for the six months ended June 30, 2012. This increase in net cash used in the Bank's financing activities was primarily the result of increased USCAIP grant disbursement over the prior period of $0.48 million and $0.22 million in funds received from the EPA for grants under the BEIF program prior to disbursement by the Bank to the grantees.

December 31, 2011 as compared to December 31, 2010

Net cash used in financing activities was $0.58 million for the year ended December 31, 2011 compared with net cash of $247.0 million provided by financing activities for the year ended December 31, 2010. This decrease in net cash provided by the Bank's financing activities in 2011 was primarily attributable to the net proceeds from the Bank's issuance of $250.00 million of debt securities in 2010 and a decrease of $1.76 million in USCAIP grant disbursements in 2011.

Net Cash (Used in) Provided by Lending, Investing and Development Activities

June 30, 2012 as compared to June 30, 2011

Net cash used in lending, investing and development activities decreased by $2.09 million for the six months ended June 30, 2012 from $4.80 million for the six months ended June 30, 2011 to $2.71 million for the six months ended June 30, 2012. This decrease in net cash used in the Bank's lending, investing and development activities was primarily the result of increased loan principal repayments of $4.10 million offset by the net increase of purchases of and proceeds from held-to-maturity investments of $2.08 million for the six months ended June 30, 2012 as compared with the six months ended June 30, 2011.

December 31, 2011 as compared to December 31, 2010

Net cash used in lending, investing and development activities for the year ended December 31, 2011 was $33.79 million, representing a decrease of $225.18 million or 86.95% in net cash used for such activities for the year ended December 31, 2010. This decrease is partially attributable to reduced proceeds from the sales and maturity of the Bank's investments, which provided only $331.00 million in cash proceeds in 2011, as compared to nearly $387.06 million in cash from investments realized in 2010. In addition, the Bank received two prepayments of loans totaling $100.11 million in 2011, which resulted in a total principal repayment in 2011 of $123.39 million compared with $80.35 million in loan disbursements. Proceeds from NADB's investments (together with loan repayments) represent the Bank's positive financing and development cash flows, loan disbursements, and the purchase of new investments and financial instruments. As a result, the Bank's overall cash outflows from lending, investing and development activities in 2011 represented a significant decrease as compared to 2010. The Bank's capital expenditures are immaterial to the Bank and are comprised of furniture and equipment purchases.

Off-Balance Sheet Arrangements

The Bank does not currently have any guarantees or other off-balance sheet financing arrangements. In addition, the Bank does not engage in any related-party transactions that would materially affect the results of its operations, cash flow or financial condition.

Contractual Obligations

The Bank is obligated to make future payments (other than loan disbursements) under various contracts, such as lease agreements and unconditional purchase agreements. The Bank has outstanding $250 million aggregate principal amount of debt securities that mature in February 2020, with semi-annual interest payments thereon until maturity. The following table represents the contractual obligations of the Bank as of June 30, 2012.

Contractual Obligation Payments Due, by Period

(in U.S. $ Million)

	Less than 1 year	1-3 years	3-5 years	More than 5 years	Total
4.375% Notes due 2020	–	–	–	$250.00	$250.00
Operating lease obligations	–	$0.05	–	–	$0.05
Total(1)	–	**$0.05**	–	**$250.00**	**$250.05**

(1) The Bank has no capital lease or purchase obligations.

The Bank is obligated to make payments in pesos under its cross currency swaps and concurrently receives dollar payments in exchange. Such swaps are made on the date of disbursement for the life of each loan. During the year ended December 31, 2011 and the six months ended June 30, 2012, the Bank received $38.14 million and $18.07 million, respectively, pursuant to such swap obligations in exchange for payments made by the Bank of MXN 622.22 million and MXN 282.55 million, respectively. The notional amount of the Bank's outstanding cross-currency swaps on December 31, 2011 and June 30, 2012 was $276.04 million and $276.46 million, respectively (with an estimated fair value of $58.37 million and $24.98 million, respectively).

Under its interest rate swaps, the Bank is obligated to make periodic payments to its counterparty based on LIBOR and receives from the counterparty payments equal to periodic interest owed on a portion of the Bank's outstanding fixed rate debt securities. The notional amount of the Bank's outstanding interest rate swaps on December 31, 2011 and June 30, 2012, was $251.60 million and $251.60 million, respectively (with an estimated fair value of $20.04 million and $21.99 million, respectively).

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 the projects it finances meet certain economic and feasibility criteria and by requiring some form of credit support, in the majority of cases, in the form of governmental revenues or other forms of collateral. NADB's commercial risk is limited by its liquidity and investment policies, and although the Bank engages in cross-currency and interest rate swaps for hedging purposes, it engages in swaps with only three counterparties, two of which are backed by the federal government of Mexico and the other of which is a commercial financial institution rated A2 and A+ by Moody's Investors Service Inc. and Standard & Poor's Financial Services LLC, respectively, and subject to certain collateral posting requirements under a credit support agreement with the Bank. 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 development 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 callable capital of $2.55 billion is available as a backstop, to be contributed by the member countries if necessary to meet the Bank's outstanding debt or guarantee obligations and upon request, subject to certain procedural requirements.

The Bank's loan portfolio credit risk is determined by the credit quality of, and exposure to, each borrower. NADB'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, or in very limited instances, project cash flows. 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 NADB 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 non-performing loans and maintenance of a loan loss allowance. Proposed financing projects are first presented to the Bank's funding committee and, if approved, sent to the Board for final consideration. NADB's Managing Director, Deputy Managing Director, Chief Financial Officer, Director of Project Development, Director of Technical Services 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 its peso-denominated loan portfolio, the Bank engages in cross-currency interest rate swaps with two entities that are backed by the federal government of Mexico and with a commercial financial institution. The Bank's counterparties are FOAEM, a fund owned by the government of Mexico and administered by Banobras, Banobras, itself, and a commercial financial institution. The obligations of Banobras are backed by the full faith and credit of the Mexican federal government. In addition, the Bank engages in interest rate swaps related to its outstanding fixed rate debt securities, as well as its fixed interest rate loans that are not funded with equity 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 for credit ratings agencies, the Bank's creditors, and the Bank's shareholders that the Bank has the capacity to meet its obligations during periods of constrained market access; 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 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 2012 fiscal year is $160.00 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 policy 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, which in turn would allow 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. Currently, the Bank has no investments in 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 as designated as available-for-sale. Securities designated as held-to-maturity are not considered liquid asset holdings for purposes of determining minimum liquidity.

As of December 31, 2011, the Bank's liquid assets equaled $302.16 million, $297.65 million of which related to the Bank's financing activities with the remainder relating to USCAIP. As of June 30, 2012, NADB's liquid assets totaled $268.64 million, $264.82 million of which relates to the Bank's financing activities. This $32.83 million decrease relating to the Bank's financing activities in the Bank's liquid asset portfolio was the result of sales of investments fund new loan disbursements.

Liquid Assets

(in U.S. $ Million)

Type of Security:	As of June 30, 2012	As of December 31, 2011
Cash and cash equivalents	$ 48.36	$ 41.29
U.S. government and agency securities	131.42	160.09
United Mexican State securities	16.07	21.23
Corporate debt securities	37.31	57.71
Mortgaged-backed securities	9.84	3.64
Other fixed-income securities	25.64	18.20
Total liquid assets	**$ 268.64**	**$ 302.16**
Less: USCAIP	3.82	4.51
NADB's total liquid asset portfolio:	**$ 264.82**	**$ 297.65**

As of June 30, 2012 and December 31, 2011, 66.92% and 66.65%, 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 33.08% and 33.35%, respectively, were comprised of liquid assets (all other types of liquid investment securities held by the Bank) as of June 30, 2012 and December 31, 2011, 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 recognized statistical rating organizations ("SRO").

The Bank only invests in securities which have readily identifiable prices. Permissible securities that otherwise meet the Bank's investment policy comprise a wide range of high quality fixed-income instruments, including U.S. Treasury and governmental agency securities, Mexican government securities, bank deposits, repurchase agreements (pursuant to master purchase agreements and fully collateralized by U.S. treasury securities), certificates of deposit, commercial paper and money market funds. The Bank's investment portfolio must contain a minimum of 25% U.S. government securities. All other securities, with the exception of 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.

The Bank may invest in corporate bonds and notes, so long as such securities are (i) rated AA (or its equivalent) or higher by an SRO, and (ii) 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, excluding obligations of the U.S. Government, the Mexican Government and U.S. Government Agencies.

The Bank has a conservative investment policy that requires all of its investments to be rated AA or higher by an SRO with the exception of investments in the direct obligations of the UMS. The economic downturn in the past few years has resulted in a significant decrease in the number of available investment securities rated AA or higher, which in turn resulted in decreased diversification of the Bank's investments and increased concentration of credit in certain investment sectors, particularly the financial sector. In July 2012, the Bank's Board revised its investment policy to include corporate debt rated A or higher as eligible securities for a limited percentage (25% maximum) of its investment 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.

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 has minimized its exposure to a principal source of interest rate risk—the risk associated with the spread between the rate a development bank earns on its assets and the costs of its external borrowings. The Bank has been able to minimize such risk by swapping a large portion of its fixed interest rate borrowings into a floating interest rate. The remainder of the Bank's fixed interest rate borrowings was invested in a fixed rate, held-to-maturity security with a maturity matching the debt. When fixed rate loans are made with the proceeds of the swapped debt, fixed rate loans are in turn swapped to a floating rate. As a result, floating rate loans are financed with floating rate debt. The Bank is also exposed to interest rate risk to a certain extent as a function of the level of its current and future outstanding borrowings and the terms of those borrowings in relation to the terms of the assets funded by those borrowings.

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 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 NADB'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 cross-currency interest rate swaps which virtually eliminate its economic exposure to fluctuations in foreign currency exchange rates and interest rates. The Bank currently has three swap providers.

The foreign currency translation adjustment on loans denominated in Mexican pesos for the year ended December 31, 2011, was a decrease of $27.07 million from the year ended December 31, 2010, which equaled an unrealized loss of $33.92 million at fiscal year end, which was fully offset by the Bank's cross-currency interest rate swaps accounted for as cash flow hedges.

In connection with its borrowings, the Bank is authorized to use all necessary 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 has an internal audit staff that reviews the Bank's operations and finances based on a continual risk assessment, with direction from the Bank's senior management. The internal audit staff is also vested with the responsibility of tracking loan and grant covenant compliance and for reviewing monthly and quarterly statistical reports. Internal audit reports directly to the Bank's Managing Director and Deputy Managing Director and provides a semiannual report to the Board. The Board does not have a separate audit committee.

The Bank's internal audit staff makes a key internal audit finding if it discovers anything that significantly impairs the achievement of the Bank's mission, the Bank's internal control system, the effective and efficient utilization of the Bank's assets or the safeguarding of the Bank's assets. The semiannual report to the Board includes an assessment of the effectiveness of NADB's internal control framework and any key internal audit findings.

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 of Directors

The Bank and the BECC are governed by a common, 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, Secretary of State and Administrator of the EPA and the Mexican Secretary of Finance and Public Credit, Secretary of Foreign Relations 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, a governor from a border state in Mexico and a representative of the general public in Mexico who resides in the border region. The U.S. border region representative position is currently vacant. The local representatives are appointed by the relevant member country, in its discretion. Chairmanship of the Board alternates between the U.S. and Mexican treasury representatives each year. The U.S. Secretary of the Treasury is the current Board chair and is expected to serve until the end of 2012.

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 the Bank is conducted by the Managing Director and Deputy Managing Director, who oversee development of NADB's current and long-range objectives, policies and procedures. The Managing Director and Deputy Managing Director generally serve nonrenewable terms of 5 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.

Mr. Gerónimo Gutiérrez Fernández, a Mexican citizen, is currently serving as the Bank's Managing Director and Chief Executive Officer, and Mr. Alex Hinojosa, a U.S. citizen, is the Deputy Managing Director and Chief Operating Officer. They are assisted by a compact staff of 54 employees who carry out the day-to-day operations of the Bank.

The Bank's management team also includes its Chief Financial Officer, Héctor M. Camacho, its Director of Administration, Henry E. Sauvignet, its Director of Project Development, Jose Júan Ruiz, its Director of Program Administration and Technical Services, Rafael Escandón, its Associate Director of Public Affairs, Juan Antonio Flores, and its General Counsel, Lisa Roberts.

Auditors

The Bank's external auditors are appointed by the Board following a competitive bidding process. In 2007, Ernst & Young LLP ("E&Y") was appointed as NADB's external auditor. E&Y's audit engagement is renewed annually for up to five years, with a possibility of extension for up to ten years. Fees paid by the Bank to E&Y for contracted audit services in 2011, in connection with the preparation of the Bank's audited consolidated financial statements, totaled $107,500. No non-audit services have been provided by E&Y to the Bank. Within the next quarter, the Bank expects the Board to select the independent external auditor for the 2012 audit.

The Charter

The Bank'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 the Bank'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 the Bank's operations. The Charter may be amended by agreement of the member countries. The Charter entered into force on January 1, 1994, and was amended by the U.S. and Mexico on August 6, 2004.

Copies of the Charter are available for inspection and distribution at the Bank's offices in San Antonio, Texas. The full text of the Charter is also available on the Bank's website at http://www.nadb.org/pdfs/publications/Charter_2004_Eng.pdf.

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 the Bank in the territories of its member countries:

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

Assets and property of the Bank 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 the Bank. In addition, the Bank'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 the Bank 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.

The Bank, 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 the Bank to officers or staff who are not U.S. nationals.

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CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

North American Development Bank
Years Ended December 31, 2011 and 2010
With Report of Independent Auditors

Report of Independent Auditors

The Board of Directors
North American Development Bank

We have audited the accompanying consolidated balance sheets of North American Development Bank (the Bank) as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in equity, and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Bank's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of North American Development Bank at December 31, 2011 and 2010, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as whole.

Ernst & Young LLP

March 30, 2012

North American Development Bank

Consolidated Balance Sheets

	December 31 2011	December 31 2010
Assets		
Cash and cash equivalents:		
Held at other financial institutions in demand deposit accounts	**$ 39,763**	$ 215,717
Held at other financial institutions in interest-bearing accounts	**38,245,917**	39,940,587
Repurchase agreements	**3,000,000**	3,000,000
	41,285,680	43,156,304
Held-to-maturity investment securities, at amortized cost	**52,919,513**	53,523,294
Available-for-sale investment securities, at fair value	**260,871,578**	182,516,403
Loans outstanding	**430,991,455**	474,034,861
Allowance for loan losses	**(8,089,860)**	(5,759,639)
Foreign currency exchange rate adjustment and fair value of hedged items	**(31,442,093)**	(7,183,183)
Net loans outstanding	**391,459,502**	461,092,039
Interest receivables	**8,654,935**	7,107,253
Grant and other receivable	**4,539,420**	329,414
Furniture, equipment, and leasehold improvements, net	**116,709**	148,197
Other assets	**67,900,162**	15,051,451
Total assets	**$ 827,747,499**	$ 762,924,355
Liabilities and equity		
Liabilities:		
Accounts payable	**$ 3,720,998**	$ 246,520
Accrued liabilities	**258,713**	251,393
Accrued interest payable	**5,363,636**	4,519,377
Undisbursed grant funds	**1,004**	1,270
Notes payable, net of discount and fair value of hedged item	**277,503,262**	256,424,301
Total liabilities	**286,847,613**	261,442,861
Equity:		
Paid-in capital	**405,000,000**	405,000,000
General Reserve:		
Allocated paid-in capital	**8,111,717**	8,695,322
Retained earnings:		
Designated	**22,838,159**	16,715,971
Reserved	**40,035,060**	14,670,080
Undesignated	**44,174,334**	54,222,885
Accumulated other comprehensive income	**20,734,278**	2,171,068
Minority interest	**6,338**	6,168
Total equity	**540,899,886**	501,481,494
Total liabilities and equity	**$ 827,747,499**	$ 762,924,355

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

North American Development Bank

Consolidated Statements of Income

	Years Ended December 31	
	2011	**2010**
Income:		
Interest:		
Investment income	**$ 5,428,346**	$ 5,888,012
Loan income	**21,137,520**	20,689,910
Gains on sales of available-for-sale investment securities, net	**1,479,029**	5,513,905
Fee income	**216,751**	20,661
Other	**9,203,825**	508,003
Total revenues	**37,465,471**	32,620,491
Operating expenses:		
Personnel	**5,720,424**	4,697,500
Consultants	**1,189,682**	986,835
General and administrative	**745,966**	774,009
Operational travel	**327,001**	236,247
Depreciation and amortization	**49,924**	55,455
Provision for loan losses	**2,350,000**	900,000
Relocation	**15,416**	73,086
Other	**–**	1,011,308
U.S. Domestic Program	**359,874**	416,844
Total operating expenses	**10,758,287**	9,151,284
Interest expense	**4,531,644**	4,094,686
Income before program activities	**22,175,540**	19,374,521
Program activities:		
U.S. Environmental Protection Agency (EPA) grant income	**1,731,827**	1,758,468
EPA grant administration expense	**(1,731,827)**	(1,758,468)
Technical Assistance Program expense	**(337,444)**	(703,454)
Solid Waste Environmental Program expense	**(399,309)**	(673,248)
Water Conservation Investment Fund expense	**–**	(744,025)
Net program expenses	**(736,753)**	(2,120,727)
Income before minority interest	**21,438,787**	17,253,794
Net income attributable to minority interest	**170**	114
Net income attributable to NADB	**$ 21,438,617**	$ 17,253,680

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

North American Development Bank

Consolidated Statements of Changes in Equity

	Paid-In Capital	General Reserve: Allocated Paid-In Capital	General Reserve: Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Minority Interest	Total Equity
Beginning balance, January 1, 2010	$ 405,000,000	$ 10,935,510	$ 68,355,256	$ 16,171,175	$ 6,054	$ 500,467,995
Transfer to Targeted Grant Program of the U.S. Domestic Program	–	(2,240,188)	–	–	–	(2,240,188)
Comprehensive income:						
Net income	–	–	17,253,680	–	–	17,253,680
Unrealized loss on available-for-sale investment securities, net	–	–	–	(4,489,044)	–	(4,489,044)
Foreign currency translation adjustment	–	–	–	(20,977)	–	(20,977)
Unrealized gain (loss) on hedging activities:						
Foreign currency translation adjustment	–	–	–	16,391,288	–	16,391,288
Fair value of cross-currency interest rate swaps	–	–	–	(25,881,374)	–	(25,881,374)
Total comprehensive income						3,253,573
Minority interest	–	–	–	–	114	114
Ending balance, December 31, 2010	405,000,000	8,695,322	85,608,936	2,171,068	6,168	501,481,494
Transfer to Targeted Grant Program of the U.S. Domestic Program	**–**	**(583,605)**	**–**	**–**	**–**	**(583,605)**
Comprehensive income:						
Net income	**–**	**–**	**21,438,617**	**–**	**–**	**21,438,617**
Unrealized loss on available-for-sale investment securities, net	**–**	**–**	**–**	**(15,968)**	**–**	**(15,968)**
Foreign currency translation adjustment	**–**	**–**	**–**	**52,711**	**–**	**52,711**
Unrealized gain (loss) on hedging activities:						
Foreign currency translation adjustment	**–**	**–**	**–**	**(26,850,206)**	**–**	**(26,850,206)**
Fair value of cross-currency interest rate swaps	**–**	**–**	**–**	**45,376,673**	**–**	**45,376,673**
Total comprehensive income						**40,001,827**
Minority interest	**–**	**–**	**–**	**–**	**170**	**170**
Ending balance, December 31, 2011	**$ 405,000,000**	**$ 8,111,717**	**$ 107,047,553**	**$ 20,734,278**	**$ 6,338**	**$ 540,899,886**

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	
	2011	**2010**
Cash flows from operating activities:		
Net income	**$ 21,438,617**	$ 17,253,680
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**49,924**	55,455
Amortization of net premium on investments	**529,865**	360,000
Change in fair value of swaps (discounts) and other noncash items	**10,886,940**	1,070,234
Minority interest	**170**	114
Gain on sales of available-for-sale investment securities, net	**(1,479,029)**	(5,513,905)
Provision for loan losses	**2,350,000**	900,000
Change in other assets and liabilities:		
Increase in interest receivable	**(1,547,682)**	(3,952,716)
Increase in receivable and other assets	**(4,048,387)**	(382,465)
Increase (decrease) in accounts payable	**3,474,478**	(289,811)
Increase (decrease) in accrued liabilities	**7,320**	(357,002)
Increase in accrued interest payable	**844,259**	4,519,377
Net cash provided by operating activities	**32,506,475**	13,662,961
Cash flows from lending, investing, and development activities:		
Capital expenditures	**(18,436)**	(23,410)
Loan principal repayments	**123,390,271**	12,783,553
Loan disbursements	**(80,346,865)**	(172,272,929)
Purchase of held-to-maturity investments	**(3,120,000)**	(55,887,371)
Purchase of available-for-sale investments	**(404,699,587)**	(430,630,650)
Proceeds from maturities of held-to-maturity investments	**3,727,000**	6,036,000
Proceeds from sales and maturities of available-for-sale investments	**327,274,389**	381,019,605
Net cash used in lending, investing, and development activities	**(33,793,228)**	(258,975,202)
Cash flows from financing activities:		
Proceeds from note issuance	**–**	249,347,500
Grant funds from the Environmental Protection Agency (EPA)	**18,400,526**	25,738,814
Grant disbursements – EPA	**(18,400,792)**	(25,742,547)
Grant activity – U.S. Domestic Program	**(583,605)**	(2,340,433)
Net cash (used in) provided by financing activities	**(583,871)**	247,003,334
Net (decrease) increase in cash and cash equivalents	**(1,870,624)**	1,691,093
Cash and cash equivalents at January 1, 2011 and 2010	**43,156,304**	41,465,211
Cash and cash equivalents at December 31, 2011 and 2010	**$ 41,285,680**	$ 43,156,304
Supplemental cash information:		
Cash paid during the year for interest	**$ 10,937,500**	$ 5,468,750
Significant noncash transactions:		
Foreign currency translation adjustment	**$ (26,850,206)**	$ 16,391,288
Change in fair value of cross-currency interest rate swaps	**$ 45,376,673**	$ (25,881,374)
Change in fair value of available-for-sale investments, net	**$ (15,968)**	$ (4,489,044)

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

North American Development Bank

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

1. Organization and Purpose

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

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

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

On June 2, 1998, the Bank's Board of Directors adopted a resolution authorizing the Bank to establish a 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 nonregulated, 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, 2011, COFIDAN is 99.90% owned by the Bank and 0.10% owned by the Mexican government. The accounts of COFIDAN are consolidated with the Bank, and all material intercompany accounts and transactions are eliminated in the consolidation. The minority interest reflected in the consolidated financial statements represents the ownership of the Mexican government through the Ministry of Finance and Public Credit (SHCP).

1. Organization and Purpose (continued)

The Bank is located in San Antonio, Texas. An additional office has been established in Los Angeles, California, to assist the United States in administering the U.S. Domestic Program.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates in Financial Statements

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The financial statements 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 revenues and expenses during the reporting period. These estimates include investments, allowance for loan loss, the fair value of derivative instruments included in other assets, and notes payable. 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.

Cash and Cash Equivalents

For purposes of the consolidated statement of cash flows, all highly liquid investments with an original maturity of three months or less are considered to be cash equivalents.

Repurchase Agreements

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

2. Summary of Significant Accounting Policies (continued)

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 income statement.

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

The accretion of discounts and the amortization of premiums are computed using the interest method. Realized gains and losses are determined using the specific identification method. Investments in a loss position are reviewed in order to determine whether the unrealized loss, which is considered an impairment, is temporary or other-than-temporary. In the event of other-than-temporary impairment, the cost basis of the investment would be written down to its fair value, and the credit component of the loss would be included in current earnings. The Bank had no securities classified as other-than-temporarily impaired as of December 31, 2011 and 2010.

Taxation

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

Furniture, Equipment, and Leasehold Improvements

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

2. Summary of Significant Accounting Policies (continued)

General Reserve

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

In December 2011, the Board of Directors approved a retained earnings policy establishing new reserve funds, in addition to the Special Reserve. Under the policy, undesignated retained earnings in excess of one percent (1.0%) of total assets of the International Program shall be held in reserve as indicated below and these reserves will be funded 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 the undisbursed loan commitments, 3% of the outstanding balance of disbursed loans, and 3% of the outstanding balance of guaranties. 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 as such 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. Interest income on loans and commitment fees are recognized in the period earned.

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

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

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

The allowance for loan losses is a valuation account used to reasonably estimate loan losses incurred as of the financial statement date. Determining the appropriate allowance for loan losses involves significant judgment about when a loss has been incurred and the amount of that loss. The determination of the allowance for loan losses is based on management's current judgments about the credit quality of its loan portfolio. A specific allowance may be established for impaired loans. 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 fair value of the collateral if the loan is collateral-dependent.

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

2. Summary of Significant Accounting Policies (continued)

Program Activities

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

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

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 revenues and costs are translated using average exchange rates for the period. The resulting cumulative translation adjustment is included in accumulated other comprehensive income (loss).

The Bank's lending activities include making loans that are denominated in Mexican pesos. For such loans, the Bank enters into cross-currency interest rate swaps (swaps) that mitigate its exposure to fluctuations in foreign currency exchange rates and interest rates. Since October 1996, the swap counterparty has been 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). In July 2009, the Bank entered into a direct relationship with Banobras to serve as a swap counterparty, outside the FOAEM arrangement. In July 2010, the Bank entered into a direct relationship with another financial institution as a swap counterparty. The foreign currency translation adjustment on loans denominated in Mexican pesos as of December 31, 2011 and 2010, was $(33,917,470) and $(6,849,894), respectively. Changes in the foreign currency translation adjustment are reported through other comprehensive income.

2. Summary of Significant Accounting Policies (continued)

All swaps relating to the Bank's lending activities have been designated as cash flow or fair value hedges and recognized in the accompanying consolidated balance sheets at their fair value. Changes in the fair value of the cash flow hedges are reported in other comprehensive income and are reclassified to earnings at the time of the hedged loan repayment. Changes in the fair value of the fair value hedges are reported in other income. The fair value of these hedges was reported in the accompanying consolidated balance sheets at December 31, 2011 and 2010, as other assets of $50,556,747 and $6,560,128, respectively.

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

Derivatives executed with certain counterparties are subject to a master netting arrangement. Fair value amounts recognized for derivatives and fair value amounts recognized for the right or obligation to reclaim or return cash collateral are offset for financial reporting purposes.

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, and available-for-sale debt securities at fair value. The Bank determines the fair market values of its financial instruments based on the fair value hierarchy, which requires an entity to maximize the use of observable inputs based on market data obtained from sources independent of the reporting

2. Summary of Significant Accounting Policies (continued)

entity and minimize the use of unobservable inputs based on the reporting entity's own assumptions about market participant assumptions developed on the best information available in the circumstances. The three levels of inputs that may be used to measure fair value are:

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

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

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant in determining the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category includes cross-currency interest rate swaps and interest rate swaps where independent pricing information is not available for a significant portion of the underlying assets.

Additional information on the fair value of the Bank's financial instruments is provided in Note 12.

Accumulated Other Comprehensive Income

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

Other Income and Other Expenses

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

2. Summary of Significant Accounting Policies (continued)

Reclassifications

Certain amounts in the prior-year consolidated financial statements have been reclassified to conform to the current-year consolidated financial statement presentation. As of December 31, 2010, the Special Reserve was recorded as a separate component of equity. During 2011, this reserve was reclassified to be reflected as part of retained earnings.

3. Investments

All investments held by the Bank are classified as either held-to-maturity or available-for-sale securities. The following schedules summarize investments as of December 31, 2011 and 2010.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2011				
Held-to-maturity:				
U.S. agency securities	**$ 3,120,089**	**$ –**	**$ (3,215)**	**$ 3,116,874**
Mexican government securities (UMS)	**49,799,424**	**7,325,576**	**–**	**57,125,000**
Total held-to-maturity investment securities	**52,919,513**	**7,325,576**	**(3,215)**	**60,241,874**
Available-for-sale:				
U.S. government securities	**91,243,059**	**361,683**	**(32)**	**91,604,710**
U.S. agency securities	**68,090,505**	**391,190**	**–**	**68,481,695**
Corporate debt securities	**56,651,998**	**1,056,333**	**(882)**	**57,707,449**
Other fixed income securities	**17,879,003**	**323,578**	**(4,208)**	**18,198,373**
Mexican government securities (UMS)	**21,209,594**	**135,724**	**(112,818)**	**21,232,500**
Mortgage-backed securities	**3,414,883**	**231,968**	**–**	**3,646,851**
Total available-for-sale investment securities	**258,489,042**	**2,500,476**	**(117,940)**	**260,871,578**
Total investment securities	**$ 311,408,555**	**$ 9,826,052**	**$ (121,155)**	**$ 321,113,452**

3. Investments (continued)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2010				
Held-to-maturity:				
U.S. agency securities	$ 3,743,399	$ –	$ (33,443)	$ 3,709,956
Mexican government securities (UMS)	49,779,895	2,345,105	–	52,125,000
Total held-to-maturity investment securities	53,523,294	2,345,105	(33,443)	55,834,956
Available-for-sale:				
U.S. government securities	66,509,962	39,908	–	66,549,870
U.S. agency securities	22,196,164	479,130	(1,309)	22,673,985
Corporate debt securities	53,276,576	1,205,891	–	54,482,467
Other fixed income securities	12,837,161	258,360	(3,468)	13,092,053
Mexican government securities (UMS)	10,057,947	179,733	(22,680)	10,215,000
Mortgage-backed securities	15,240,088	306,156	(43,216)	15,503,028
Total available-for-sale investment securities	180,117,898	2,469,178	(70,673)	182,516,403
Total investment securities	$ 233,641,192	$ 4,814,283	$ (104,116)	$ 238,351,359

3. Investments (continued)

The following schedule summarizes unrealized losses and fair value of investments, aggregated by category and length of individual securities that have been in a continuous unrealized loss position, as of December 31, 2011.

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government securities	$ 6,512,935	$ 32	$ –	$ –	$ 6,512,935	$ 32
U.S. agency securities	–	–	–	–	–	–
Corporate debt securities	3,849,840	882	–	–	3,849,840	882
Other fixed income securities	6,933,814	4,208	–	–	6,933,814	4,208
Mexican government securities (UMS)	19,072,500	112,818	–	–	19,072,500	112,818
Mortgaged-backed securities	–	–	–	–	–	–
Total temporarily impaired securities	$ 36,369,089	$ 117,940	$ –	$ –	$ 36,369,089	$ 117,940

None of the unrealized losses identified above are considered to be other-than-temporary since, as of December 31, 2011, the Bank did not have the intent to sell any of the securities in the table above 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.

Contractual maturities of investments as of December 31, 2011, are summarized in the following table.

	Held-to-maturity Securities		Available-for-sale Securities	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
Less than 1 year	$ –	$ –	$ 102,021,688	$ 101,904,815
1–5 years	3,116,874	3,120,089	151,580,899	150,172,513
5–10 years	57,125,000	49,799,424	3,622,140	2,996,831
More than 10 years	–	–	–	–
Mortgage-backed securities	–	–	3,646,851	3,414,883
	$ 60,241,874	$ 52,919,513	$ 260,871,578	$ 258,489,042

3. Investments (continued)

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, 2011 and 2010.

	Years Ended December 31, 2011	2010
Held-to-maturity investment securities:		
Proceeds from maturities	**$ 3,727,000**	$ 6,036,000
Available-for-sale investment securities:		
Proceeds from sales and maturities	**327,274,389**	381,019,605
Gross realized gains	**1,487,472**	5,650,827
Gross realized losses	**8,443**	136,922

The following table sets forth the unrealized gains (losses) on available-for-sale securities and the reclassification adjustments required for the years ended December 31, 2011 and 2010.

	Years Ended December 31, 2011	2010
Unrealized gains on available-for-sale investment securities, beginning of year	**$ 2,398,505**	$ 6,887,549
Unrealized gains on available-for-sale investment securities, arising during the year	**1,463,060**	1,024,861
Reclassification adjustments for (gains) losses on available-for-sale investment securities included in net income	**(1,479,029)**	(5,513,905)
Unrealized gains on available-for-sale investment securities, end of year	**$ 2,382,536**	$ 2,398,505

4. Loans

The following schedule summarizes loans outstanding as of December 31, 2011 and 2010.

	Loan Balance	Allowance for Loan Loss	Foreign Currency Exchange Rate Adjustment	Fair Value of Hedged Items	Net Loan Balance
December 31, 2011					
International Program	**$ 427,750,111**	**$ (8,066,672)**	**$ (33,917,470)**	**$ 2,475,377**	**$ 388,241,346**
U.S. Domestic Program	**3,241,344**	**(23,188)**	**–**	**–**	**3,218,156**
	$ 430,991,455	**$ (8,089,860)**	**$ (33,917,470)**	**$ 2,475,377**	**$ 391,459,502**
December 31, 2010					
International Program	$ 470,214,056	$ (5,716,672)	$ (6,849,894)	$ (333,289)	$ 457,314,201
U.S. Domestic Program	3,820,805	(42,967)	–	–	3,777,838
	$ 474,034,861	$ (5,759,639)	$ (6,849,894)	$ (333,289)	$ 461,092,039

At December 31, 2011, the Bank has outstanding loan commitments on signed loan agreements totaling $62,199,161 and $-0- for the International Program and U.S. Domestic Program, respectively. The Board has also approved an additional $183,922,008 in loans for the International Program, for which loan agreements are in development.

Consistent with its development nature, the Bank under certain circumstances offers below-market-rate loans. As of December 31, 2011 and 2010, the Bank had below-market-rate loans outstanding for the International Program of $61,663,796 and $65,354,821, respectively, and for the U.S. Domestic Program of $1,772,698 and $1,933,067, respectively.

Credit Quality

The Bank monitors the credit quality of its loan portfolio on an ongoing basis by tracking certain credit quality indicators related to the borrower's: (i) payment history, (ii) strength of management, (iii) financial performance, (iv) appropriateness and effectiveness of project technology, and (v) loan covenant compliance, as well as (vi) general economic conditions in the

4. Loans (continued)

borrower's geographic location, (vii) the legal and regulatory environment, and (viii) effects, if any, of the current political environment. Based on this evaluation, each loan is assigned to one of the following risk categories:

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

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

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

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

4. Loans (continued)

The following table presents the Bank's loan portfolio by risk category as of December 31, 2011 and 2010.

	December 31, 2011	December 31, 2010
International Program		
Pass	**$ 411,104,690**	$ 463,697,384
Special Mention	**–**	–
Substandard	**–**	–
Doubtful	**16,645,421**	6,516,672
Total International Program	**427,750,111**	470,214,056
U.S. Domestic Program		
Pass	**2,841,344**	3,420,805
Special Mention	**–**	–
Substandard	**400,000**	400,000
Doubtful	**–**	–
Total U.S. Domestic Program	**3,241,344**	3,820,805
	$ 430,991,455	$ 474,034,861

The International Program had three nonaccrual loans with an outstanding balance of $20,339,159 as of December 31, 2011, and two nonaccrual loans with an outstanding balance of $10,210,410 as of December 31, 2010. The average impaired loan balance for the year ended December 31, 2011 and 2010, totaled $11,054,472 and $8,363,541, respectively. No interest income was recognized on the impaired loans for the years ended December 31, 2011 and 2010.

The outstanding balance of loans that were past due 90 days or more that were still accruing interest was $98,216 and $-0- as of December 31, 2011 and 2010, respectively.

4. Loans (continued)

An age analysis of past-due loans, including both accruing and nonaccruing loans, as of December 31, 2011, is shown in the following table.

	Loans 30–89 Days Past Due	**Loans 90 or More Days Past Due**	**Total Past-due Loans**
International Program	$ –	$ 20,437,375	$ 20,437,375
U.S. Domestic Program	–	–	–
	$ –	$ 20,437,375	$ 20,437,375

The following schedule summarizes the allowance for loan losses as of December 31, 2011 and 2010.

	December 31, 2011	**2010**
Beginning balance	**$ 5,759,639**	$ 4,859,639
Provision for loan losses	**2,350,000**	900,000
Loan charge-offs/recoveries	**(19,779)**	–
Ending balance	**$ 8,089,860**	$ 5,759,639

The provision for loan losses in the above table for the years ended December 31, 2011 and 2010, pertains to the International Program. The loan charge-off for the year ended December 31, 2011, pertains to the U.S. Domestic Program.

5. Other Assets

Other assets at December 31, 2011 and 2010, is comprised of the following:

	December 31, 2011	December 31, 2010
Cross-currency interest rate swaps	**$ 58,554,240**	$ 6,560,129
Interest rate swaps	**20,035,019**	7,018,801
Collateral from swap counterparty	**(12,000,000)**	–
Unamortized debt issuance costs	**1,310,903**	1,472,521
	$ 67,900,162	$ 15,051,451

6. Long-term Notes Payable

In February 2010, the Bank issued $250,000,000 in nonamortizing notes due February 11, 2020. The notes bear interest at the rate of 4.375% per annum, payable semiannually on each February 11 and August 11, commencing on August 11, 2010, until February 11, 2020. The notes are unsecured and rank equally with all other unsecured indebtedness. The notes cannot be redeemed prior to their maturity on February 11, 2020, at which time they will be redeemed at 100% of their principal amount. Unamortized debt issuance costs related to these notes, which are included in other assets, totaled $1,310,903 and $1,472,521 at December 31, 2011 and 2010, respectively.

The fair value of the hedges relating to interest rate swaps on a portion of the Bank's notes payable, which are included in other assets, totaled $28,032,512 and $7,018,801 as of December 31, 2011 and 2010, respectively.

The notes payable at December 31, 2011 and 2010, is comprised of the following:

	December 31, 2011	December 31, 2010
Notes payable	**$ 250,000,000**	$ 250,000,000
Discount on notes payable	**(529,250)**	(594,500)
Fair value of hedged item	**28,032,512**	7,018,801
Notes payable, net	**$ 277,503,262**	$ 256,424,301

6. Long-term Notes Payable (continued)

See Notes 12 and 13 for additional information on the fair value of financial instruments and derivatives, respectively.

7. Equity

Subscribed Capital

At December 31, 2011 and 2010, the Bank had authorized and subscribed 300,000 shares of capital stock, with a par value of $10,000 per share. As defined in the Charter, capital is classified as callable or paid-in at December 31, 2011 and 2010, as follows:

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

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

On June 21, 2006, the Board of Directors authorized the development of a program to use up to $50,000,000 of the Bank's paid-in capital for stand-alone grants and for grants that subsidize interest rates on loans. On February 8, 2011, the Board approved a resolution that replaced the capital grant program with a new grant program to be funded solely with undesignated retained earnings, and canceled the allocation of $50,000,000 in paid-in capital for use as grants (see Note 9, Community Assistance Program). Therefore, net funded paid-in capital is further classified as follows:

	December 31,	
	2011	**2010**
Designated for grant program	**$ –**	$ 50,000,000
Undesignated	**405,000,000**	355,000,000
Total net funded paid-in capital	**$ 405,000,000**	$ 405,000,000

7. Equity (continued)

Retained Earnings

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

	December 31, 2011	December 31, 2010
Designated retained earnings		
International Program:		
Water Conservation Investment Fund (WCIF):		
United States	**$ 6,018,407**	$ 6,018,407
Mexico	**9,593**	9,593
Total WCIF	**6,028,000**	6,028,000
Water Conservation Technical Assistance (WCTA)	**–**	13,821
Technical Assistance Program (TAP)	**5,847,014**	5,913,193
Solid Waste Environmental Program (SWEP)	**968,910**	5,067,244
Community Assistance Program (CAP)	**10,500,000**	–
Total International Program	**23,343,924**	17,022,258
U.S. Domestic Program	**(505,765)**	(306,287)
Total designated retained earnings	**22,838,159**	16,715,971
Reserved retained earnings		
International Program:		
Debt Service Reserve	**6,230,625**	–
Operating Reserve	**8,102,700**	–
Special Reserve	**13,454,495**	14,555,456
Capital Preservation Reserve	**12,150,000**	–
Total International Program	**39,937,820**	14,555,456
U.S. Domestic Program:		
Special Reserve	**97,240**	114,624
Total reserved retained earnings	**40,035,060**	14,670,080
Undesignated retained earnings		
International Program	**44,174,334**	54,222,885
Total undesignated retained earnings	**44,174,334**	54,222,885
Total retained earnings	**$ 107,047,553**	$ 85,608,936
Retained earnings by program		
International Program	**$ 107,456,078**	$ 85,800,599
U.S. Domestic Program	**(408,525)**	(191,663)
Total retained earnings	**$ 107,047,553**	$ 85,608,936

7. Equity (continued)

Additional information regarding each program listed above is provided in Note 9.

Accumulated Other Comprehensive Income

As of December 31, 2011 and 2010, accumulated other comprehensive income is comprised of the following:

	December 31, 2011	December 31, 2010
Unrealized gain on available-for-sale investment securities	**$ 2,382,536**	$ 2,398,504
Foreign currency translation adjustment	**89,807**	37,096
Unrealized gain (loss) on hedging activities:		
Foreign currency translation adjustment	**(33,700,100)**	(6,849,894)
Fair value of cross-currency interest rate swaps	**51,962,035**	6,585,362
Net unrealized gain (loss) on hedging activities	**18,261,935**	(264,532)
Total accumulated other comprehensive income	**$ 20,734,278**	$ 2,171,068

8. Domestic Programs

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

Mexico

The MOU with Mexico indicates that 10% of paid-in capital from Mexico and the related earnings be set aside for the community adjustment and investment program endorsed by Mexico. The Mexican federal government instituted its domestic program, titled Programa Complementario de Apoyo a Comunidades y Empresas (Mexican Domestic Program), through

8. Domestic Programs (continued)

the offices of the SHCP. In June 1996, the SHCP entered into a mandate agreement with Banobras to receive and administer the Bank's funds allocated for this program. The Mexican Domestic Program funds were fully transferred to Mexico as of June 1999. Accordingly, the activities of the Mexican Domestic Program are not reflected as operations of the Bank because they are administered and accounted for by Banobras.

United States

The MOU with the U.S. government specifies that 10% of the paid-in capital from the United States and the related earnings be set aside for the U.S. Community Adjustment and Investment Program (U.S. Domestic Program). Additionally, the MOU specified that the Los Angeles office of the Bank be formed to administer the U.S. Domestic Program. The Bank provides financing endorsed by the Finance Committee appointed by the U.S. government for that purpose. Upon written endorsement from the U.S. government, U.S. Domestic Program funds can be transferred to the U.S. government. Returns of capital to the U.S. government are reported as a deduction from allocated paid-in capital. During the years ended December 31, 2011 and 2010, no funds were transferred to the U.S. Treasury for U.S. Domestic Program activities.

In accordance with the Charter and MOU with the United States, net assets of the Bank in the amounts of $7,703,192 and $8,503,659 were designated for the U.S. Domestic Program at December 31, 2011 and 2010, respectively. The revenues related to these amounts for the years ended December 31, 2011 and 2010, were $144,479 and $180,095, respectively. Additionally, expenses directly related to the U.S. Domestic Program operation incurred by the Los Angeles and San Antonio offices of the Bank of $359,874 and $416,844 are included in the Bank's operations for the years ended December 31, 2011 and 2010, respectively. All expenses and disbursements are paid out of the U.S. Domestic Program funds. Retained earnings on the U.S. Domestic Program capital funds as of December 31, 2011 and 2010, were $(408,525) and $(191,663), respectively. Under the U.S. Domestic Program, $4,507,854 in cash and cash equivalents was available for disbursement as of December 31, 2011.

In January 2009, the Finance Committee approved a Targeted Grant Program (TGP) to be funded with the remaining balance of the U.S. Domestic Program's allocated paid-in capital. As of December 31, 2011 and 2010, the U.S. Domestic Program's allocated paid-in capital totaled $8,111,717 and $8,695,322, respectively. For the years ended December 31, 2011 and 2010, $583,605 and $2,240,188 were disbursed through the TGP. These disbursements were reported as a deduction from allocated paid-in capital.

9. Program Activities

Program activities are comprised of the following:

	Years Ended December 31, 2011	2010
Program income:		
EPA grant	**$ 1,731,827**	$ 1,758,468
Total program income	**1,731,827**	1,758,468
Program expenses:		
EPA grant administration	**(1,731,827)**	(1,758,468)
Technical Assistance Program	**(337,444)**	(703,454)
Solid Waste Environmental Program	**(399,309)**	(673,248)
Water Conservation Investment Fund	–	(744,025)
Total program expenses	**(2,468,580)**	(3,879,195)
Net program expenses	**$ (736,753)**	$ (2,120,727)

EPA Grants

The Bank administers grant funds from the EPA through the Border Environment Infrastructure Fund (BEIF). EPA grant awards since the initial grant made in April 1997 to December 31, 2011, total $664,568,130. Under the terms of the grants, the Bank reviews and submits prospective projects to EPA, which approves the projects. EPA then disburses funds to the Bank, which directs the grant monies to the specified project. The Bank also oversees progress and compliance requirements for EPA and receives an allocation of the EPA grant funds for administrative expenses incurred.

As of December 31, 2011, EPA has approved project funding proposed by the Bank totaling $571,209,450, of which $540,063,907 has been disbursed through the Bank. The Bank recognized $1,731,827 and $1,758,468 as reimbursement of expenses incurred for the years ended December 31, 2011 and 2010, respectively. These funds have been recorded as program revenues and expenses in the consolidated statements of income.

9. Program Activities (continued)

U.S. Domestic Program – Grant Program

In June 1999, the U.S. government authorized the U.S. Department of the Treasury to transfer all or part of a $10,000,000 appropriation to the Bank and to transfer to the Bank other monies from time to time to fund the U.S. Domestic Program's grant activities. Since its inception to December 31, 2011, the Bank has received a total of $13,430,402 from the U.S. Department of the Treasury and disbursed a total of $13,430,402, yielding undisbursed grant funds of $-0- at that date. For the years ended December 31, 2011 and 2010, $-0- and $100,245, respectively, were disbursed under this program. Direct grant receipts and disbursements are not reflected in the consolidated statement of income because the Bank serves in a fiduciary capacity and acts at the direction of the U.S. Treasury. The U.S. Domestic Program's grant program is operated out of the Bank's San Antonio office.

Technical Assistance Program (TAP)

The Bank uses a portion of its retained earnings 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. In 1997, the Bank established the *Institutional Development Cooperation Program (IDP)*, which was specifically designed to provide assistance for institutional strengthening studies aimed at improving the financial performance and managerial efficiency of public utilities. In 2002, the Bank created a separate program, the *Project Development Program (PDP)*, in order to assist sponsors in the planning and design of infrastructure projects that would be submitted for BECC certification and NADB financing. In April 2009, these two programs were merged into a single program, the *Technical Assistance Program (TAP)*. Under the merged program, assistance is provided for studies related to the design and implementation of environmental infrastructure projects, as well as for capacity-building measures aimed at achieving the effective and efficient operation of public services.

In March 1998, the *Utility Management Institute (UMI)* was created as an extension of the IDP to provide water utility managers and their staff with an opportunity for ongoing professional development aimed at enhancing their managerial and financial skills. The program continues to operate as part of the TAP.

9. Program Activities (continued)

In August 2002, the Bank's Board of Directors designated $5,000,000 of the Bank's undesignated retained earnings to be used as grants to finance water conservation technical assistance (WCTA) projects in Mexico through the TAP. These technical assistance funds do not require BECC certification. As of December 31, 2011, all $5,000,000 of the WCTA-designated retained earnings had been transferred for use through the TAP.

Disbursements related to technical assistance and training operations were funded with previously designated retained earnings and are reported as a program expense. Disbursements for the years ended December 31, 2011 and 2010 were as follows:

	Years Ended December 31, 2011	2010
Technical Assistance Program (TAP)	**$ 80,000**	$ 360,331
Utility Management Institute (UMI)	**257,444**	343,123
	$ 337,444	$ 703,454

Solid Waste Environmental Program (SWEP)

In October 1999, the Bank's Board of Directors approved a $5,000,000 pilot program for municipal solid waste financing funded by a portion of the Bank's net earnings. Under this program, projects eligible to receive SWEP assistance must involve a public entity and must have been certified by the BECC. Since the initial funding, the Bank's Board of Directors designated an additional $8,500,000 for the program. As of December 31, 2011, a total of $9,800,975 in SWEP assistance had been committed to support specific projects, of which $8,832,065 had been disbursed, leaving an undisbursed balance of $968,910. For the years ended December 31, 2011 and 2010, $399,309 and $673,248, respectively, were disbursed under this program. These disbursements were funded with previously designated retained earnings and are reported as a program expense.

In February 2011, the Board of Directors agreed to consolidate the Bank's grant financing activity under a single program, the *Community Assistance Program (CAP)*, thereby replacing and superseding the SWEP. A total of $3,699,025 in uncommitted SWEP funds was rolled over to the CAP program.

9. Program Activities (continued)

Water Conservation Investment Fund (WCIF)

In August 2002, the Bank's Board of Directors established the WCIF program to finance water conservation projects in the U.S.-Mexico border region and designated $80,000,000 of the Bank's undesignated retained earnings to the WCIF. Of that amount, $40,000,000 is reserved exclusively for water conservation projects in each country. Under this fund, projects eligible to receive WCIF assistance must be certified by BECC. For the years ended December 31, 2011 and 2010, $-0- and $744,025, respectively, have been disbursed under this fund. As of December 31, 2011, cumulative disbursements total $33,981,593 for the United States and $39,990,407 for Mexico. These disbursements were funded with previously designated retained earnings and are reported as a program expense.

Community Assistance Program (CAP)

In February 2011, the Board of Directors approved the CAP program to support public projects in all sectors eligible for NADB financing. Projects eligible to receive CAP assistance must be certified by BECC. The CAP program will be funded from the Bank's undesignated retained earnings as authorized by the Board of Directors. The Board approved initial funding at $4,000,000, of which $3,699,025 were uncommitted SWEP funds and the remaining $300,975 from undesignated retained earnings. In December 2011, the Board of Directors designated an additional $6,500,000 for the CAP program. For the year ended December 31, 2011, no funds have been disbursed under this program.

10. 401(a) Retirement Plan

The Bank has a 401(a) Retirement Plan (the Plan) for its employees. The Plan provides for employee and nondiscretionary employer contributions. For the years ended December 31, 2011 and 2010, the Bank expended $620,521 and $548,052, respectively, relating to the Plan.

11. Commitments

In the normal course of business, the Bank has various outstanding commitments including loan commitments, which are disclosed in Note 4. Under agreements with consultants and contractors in effect at December 31, 2011, the Bank has obligations to pay amounts equal to $346,615 over the next year. These payments are contingent upon the future performance of the consultants and contractors under the terms of their respective contracts and therefore are not recorded in the consolidated financial statements.

12. Fair Value of Financial Instruments

Fair value is 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. Additional information on how the Bank measures fair value is provided in Note 2.

Cash and Cash Equivalents

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

Available-for-sale Securities

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

Loans Receivable and Accrued Interest Receivable

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

Cross-currency Interest Rate Swaps

The fair value of cross-currency interest rate swaps is estimated based on discounting procedures whereby each cash flow stream is discounted using the yield curve of that currency, and the net present value is converted at the spot exchange rate.

Interest Rate Swaps

The fair value of interest rate swaps is estimated based on discounting procedures whereby each cash flow stream is discounted using stated and projected interest rates.

12. Fair Value of Financial Instruments (continued)

Long-term Notes Payable and Accrued Interest Payable

The fair value of the notes payable is estimated based on discounted cash flow analyses. The carrying amount of accrued interest payable approximates its fair value.

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

	December 31, 2011		**December 31, 2010**	
	Carrying Amount	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Assets				
Cash and cash equivalents	**$ 41,285,680**	**$ 41,285,680**	$ 43,156,304	$ 43,156,304
Held-to-maturity securities	**52,919,513**	**60,241,874**	53,523,294	55,834,956
Available-for-sale securities	**260,871,578**	**260,871,578**	182,516,403	182,516,403
Loans, net	**391,459,502**	**499,822,204**	461,092,039	469,012,958
Accrued interest receivable	**8,654,935**	**8,654,935**	7,107,253	7,107,253
Cross-currency interest rate swaps	**58,554,240**	**58,554,240**	6,560,128	6,560,128
Interest rate swaps	**20,035,019**	**20,035,019**	7,018,801	7,018,801
Liabilities				
Accrued interest payable	**5,363,636**	**5,363,636**	4,519,377	4,519,377
Long-term notes payable, net	**277,503,262**	**277,503,262**	256,424,301	256,424,301

12. 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, 2011 and 2010, are summarized in the following tables by the valuation level of the inputs used to measure fair value.

	December 31, 2011			
	Fair Value Measurements Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets				
Available-for-sale (AFS) securities:				
U.S. government securities	**$ 91,604,710**	**$ –**	**$ –**	**$ 91,604,710**
U.S. agency securities	**–**	**68,481,695**	**–**	**68,481,695**
Corporate debt securities	**–**	**57,707,449**	**–**	**57,707,449**
Other fixed income securities	**–**	**18,198,373**	**–**	**18,198,373**
Mexican government securities (UMS)	**–**	**21,232,500**	**–**	**21,232,500**
Mortgage-backed securities	**–**	**3,646,851**	**–**	**3,646,851**
Total AFS securities	**91,604,710**	**169,266,868**	**–**	**260,871,578**
Cross-currency interest rate swaps			**58,554,240**	**58,554,240**
Interest rate swaps	**–**	**–**	**20,035,019**	**20,035,019**
Total assets at fair value	**$ 91,604,710**	**$ 169,266,868**	**$ 78,589,259**	**$ 339,460,837**
Liabilities				
Long-term notes payable, net	**$ –**	**$ 249,470,750**	**$ 28,032,512**	**$ 277,503,262**
Total liabilities at fair value	**$ –**	**$ 249,470,750**	**$ 28,032,512**	**$ 277,503,262**

12. Fair Value of Financial Instruments (continued)

	December 31, 2010			
	Fair Value Measurements Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets				
Available-for-sale (AFS) securities:				
U.S. government securities	$ 66,549,870	$ –	$ –	$ 66,549,870
U.S. agency securities	–	22,673,985	–	22,673,985
Corporate debt securities	–	54,482,467	–	54,482,467
Other fixed income securities	–	13,092,053	–	13,092,053
Mexican government securities (UMS)	–	10,215,000	–	10,215,000
Mortgage-backed securities	–	15,503,028	–	15,503,028
Total AFS securities	66,549,870	115,966,533	–	182,516,403
Cross-currency interest rate swaps			6,560,128	6,560,128
Interest rate swaps	–	–	7,018,801	7,018,801
Total assets at fair value	$ 66,549,870	$ 115,966,533	$ 13,578,929	$ 196,095,332
Liabilities				
Long-term notes payable, net	$ –	$ 249,405,500	$ 7,018,801	$ 256,424,301
Total liabilities at fair value	$ –	$ 249,405,500	$ 7,018,801	$ 256,424,301

12. 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, 2011 and 2010.

	Fair Value of Level 3 Instruments		
	Assets		Liabilities
	Cross-currency Interest Rate Swaps	Interest Rate Swaps	Long-term Notes Payable
Beginning balance, January 1, 2011	**$ 6,560,128**	**$ 7,018,801**	**$ 7,018,801**
Total realized and unrealized (gains) losses:			
Included in earnings (expenses)	**6,617,439**	**13,016,218**	**21,013,711**
Included in other comprehensive income	**45,376,673**	**–**	**–**
Purchases and settlements	**–**	**–**	**–**
Transfers in/out of Level 3	**–**	**–**	**–**
Ending balance, December 31, 2011	**$ 58,554,240**	**$ 20,035,019**	**$ 28,032,512**
Beginning balance, January 1, 2010	$ 33,139,327	$ –	$ –
Total realized and unrealized (gains) losses:			
Included in earnings (expenses)	(697,825)	7,018,801	7,018,801
Included in other comprehensive income (loss)	(25,881,374)	–	–
Purchases and settlements	–	–	–
Transfers in/out of Level 3	–	–	–
Ending balance, December 31, 2010	$ 6,560,128	$ 7,018,801	$ 7,018,801

12. Fair Value of Financial Instruments (continued)

The Bank entered into six cross-currency interest rate swaps and one interest rate swap during the year ended December 31, 2011. Upon issuance, the fair value of the swaps is $-0- and, therefore, is not portrayed in the purchases and settlements line item above. The change in fair value of these instruments is included within the total gains (losses) line item above.

Impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. The impaired loans are reported at fair value through a specific valuation allowance allocation of the allowance for loan losses. Collateral values are estimated using Level 3 inputs based on customized valuation procedures. As of December 31, 2011, two impaired loans with a carrying value of $16,645,421 had been reduced by specific valuation allowance allocations totaling $8,066,672 to a total reported fair value of $8,578,749 based on collateral valuations using Level 3 inputs.

The Bank has no nonfinancial assets or liabilities measured at fair value on a recurring basis. Certain nonfinancial assets and liabilities measured at fair value on a nonrecurring basis include foreclosed assets (upon initial recognition or subsequent impairment) and other nonfinancial long-lived assets measured at fair value for impairment assessment.

For the year ended December 31, 2011, the Bank did not foreclose on any loans or remeasure any existing real estate owned, and did not record any impairment on long-lived assets.

13. 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. If the swap is with COFIDAN, it then enters into loans denominated in Mexican pesos under the exact same terms with its borrowers. The swaps have been designated as hedging instruments because they hedge the risk of fluctuations in cash flows due to changes in foreign currency exchange rates. The swaps are structured so that the notional amounts decrease over time to match the expected amortization of the underlying loan.

13. Derivative Financial Instruments (continued)

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

Neither the Bank nor the counterparty is required to post collateral to support the outstanding fair value of the swaps under its arrangement with FOAEM. Beginning in July 2009, under counterparty relationships with other financial institutions, collateral may be required to be posted by either the Bank or the counterparty. As of December 31, 2011, collateral of $12,000,000 in cash and receivables was posted from a counterparty to the Bank. No collateral was posted by the Bank as of December 31, 2011.

The notional amounts and estimated fair values of the swaps outstanding at December 31, 2011 and 2010, 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, 2011		**December 31, 2010**	
	Notional Amount	**Estimated Fair Value**	**Notional Amount**	**Estimated Fair Value**
Cross-currency interest rate swaps	**$ 276,042,412**	**$ 58,367,424**	$ 370,895,519	$ 6,560,128
Interest rate swaps	**251,600,000**	**20,035,019**	197,000,000	7,018,801

The referenced exchange rate received for the cross-currency interest rate swaps outstanding at December 31, 2011, was 7.17%.

One swap that is no longer deemed effective because of borrower default on the hedged loan is not included in the table above. The fair value of the swap was $186,816 and $283,756 as of December 31, 2011 and 2010, respectively. The change in the fair value of the swaps for the years ended on those dates was a decrease of $96,940 and $388,835, respectively, which is recognized in the consolidated statements of income.

13. Derivative Financial Instruments (continued)

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 the cross-currency interest rate swaps is included in other comprehensive income, while the ineffective portion is included in other income or expenses. The accumulated gain (loss) related to the swaps included in accumulated other comprehensive income totaled $18,261,935 and $(264,532) at December 31, 2011 and 2010, respectively. 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.

Interest Rate Swaps

With regard to the interest rate swaps on the outstanding loans and a portion of the long-term notes payable, the changes in the fair value of the swaps exactly offset the changes in the fair value of the loans and debt due to changes in the LIBOR swap rate; therefore, there is no impact to the consolidated statement of income for the period. At December 31, 2011 and 2010, the fair value of the interest rate swaps was reported as other assets of $20,035,019 and $7,018,801, respectively, in the accompanying consolidated balance sheets.

14. Credit Risk Associated with Financial Instruments

The Bank is subject to certain credit risk. Financial instruments that potentially subject the Bank to significant concentrations of credit risk consist principally of cash, investments, and loans receivable. 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.

15. Accounting Standards Updates

Accounting Standards Update (ASU) No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures About Fair Value Measurements*. ASU No. 2010-06 requires expanded disclosures related to fair value measurements, including (i) the amounts of significant transfers of assets or liabilities between Levels 1 and 2 of the fair value hierarchy and the reasons for the transfers, (ii) the reasons for transfers of assets or liabilities in or out of Level 3 of the fair value hierarchy, with significant transfers disclosed separately, (iii) the policy for determining when transfers between levels of the fair value hierarchy are recognized, and (iv) for recurring fair value measurements of assets and liabilities in Level 3 of the fair value hierarchy, a gross presentation of information about purchases, sales, issuances and settlements. ASU No. 2010-06 further clarifies that (i) fair value measurement disclosures should be provided for each class of assets and liabilities (rather than major category), which would generally be a subset of assets or liabilities within a line item in the statement of financial position, and (ii) companies should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements for each class of assets and liabilities included in Levels 2 and 3 of the fair value hierarchy. The disclosures related to the gross presentation of purchases, sales, issuances and settlements of assets and liabilities included in Level 3 of the fair value hierarchy became effective for the Bank on January 1, 2011. The remaining disclosure requirements and clarifications made by ASU No. 2010-06 became effective for the Bank on January 1, 2010. All required disclosures are reported herein.

ASU No. 2010-20, *Receivables (Topic 310) – Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. ASU No. 2010-20 requires entities to provide disclosures designed to facilitate financial statement users' evaluation of (i) the nature of credit risk inherent in the entity's portfolio of financing receivables, (ii) how that risk is analyzed and assessed in arriving at the allowance for credit losses, and (iii) the changes and reasons for those changes in the allowance for credit losses. Disclosures must be disaggregated by portfolio segment, the level at which an entity develops and documents a systematic method for determining its allowance for credit losses, and class of financing receivable, which is generally a disaggregation of portfolio segment. The required disclosures include, among other things, a rollforward of the allowance for credit losses, as well as information about modified, impaired, nonaccrual and past-due loans and credit quality indicators. ASU No. 2010-20 became effective for the Bank's consolidated financial statements as of December 31, 2010, as it relates to disclosures required as of the end of a reporting period. Disclosures that relate to activity during a reporting period became effective for the Bank's consolidated financial statements on January 1, 2011, and the required disclosures are reported within. Certain disclosures related to

15. Accounting Standards Updates (continued)

troubled debt restructurings were temporarily deferred by ASU No. 2011-01, *Receivables (Topic 310) – Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in ASU No. 2010-20*. Those disclosures became effective on July 1, 2011, as required by ASU No. 2011-02, *Receivables (Topic 310) – A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring*, as further discussed below.

ASU No. 2011-02, *Receivables (Topic 310) – A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring*. ASU No. 2011-02 clarifies which loan modifications constitute troubled debt restructurings and is intended to assist creditors in determining whether a modification of the terms of a receivable meets the criteria to be considered a troubled debt restructuring, both for purposes of recording an impairment loss and for disclosure of troubled debt restructurings. In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude, under the guidance clarified by ASU No. 2011-02, that both of the following exist: (a) the restructuring constitutes a concession and (b) the debtor is experiencing financial difficulties. ASU No. 2011-02 became effective for the Bank on July 1, 2011, and applies retrospectively to restructurings occurring on or after January 1, 2011. There were no troubled debt restructurings during the year ended December 31, 2011.

ASU No. 2011-04, *Fair Value Measurement (Topic 820) – Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs*. ASU No. 2011-04 amends Topic 820, *Fair Value Measurements and Disclosures*, to converge the fair value measurement guidance in U.S. generally accepted accounting principles and International Financial Reporting Standards. ASU No. 2011-04 clarifies the application of existing fair value measurement requirements, changes certain principles in Topic 820, and requires additional fair value disclosures. ASU No. 2011-04 is effective for annual periods beginning after December 15, 2011, and is not expected to have a significant impact on the Bank's consolidated financial statements.

ASU No. 2011-05, *Comprehensive Income (Topic 220) – Presentation of Comprehensive Income*. ASU No. 2011-05 amends Topic 220, *Comprehensive Income*, to require that all nonowner changes in stockholders' equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, ASU No. 2011-05 requires entities to present, on the face of the financial statements, reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement or statements where the components of net income and the

15. Accounting Standards Updates (continued)

components of other comprehensive income are presented. The option to present components of other comprehensive income as part of the statement of changes in stockholders' equity was eliminated. ASU No. 2011-05 is effective for fiscal years ending after December 15, 2012, and interim and annual periods thereafter; however, certain provisions related to the presentation of reclassification adjustments have been deferred by ASU No. 2011-12, *Comprehensive Income (Topic 220) – Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU No. 2011-05*, as further discussed below. ASU No. 2011-05 is not expected to have a significant impact on the Bank's consolidated financial statements.

ASU No. 2011-12, *Comprehensive Income (Topic 220) – Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU No. 2011-05*. ASU No. 2011-12 defers changes in ASU No. 2011-05 that relate to the presentation of reclassification adjustments to allow the Financial Accounting Standards Board time to redeliberate whether to require presentation of such adjustments on the face of the financial statements to show the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income. ASU No. 2011-12 allows entities to continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU No. 2011-05. All other requirements in ASU No. 2011-05 are not affected by ASU No. 2011-12. ASU No. 2011-12 is effective for fiscal year-ends ending after December 15, 2012, and interim and annual periods thereafter, and is not expected to have a significant impact on the Bank's consolidated financial statements.

16. Subsequent Events

The Bank has evaluated subsequent events for potential recognition and/or disclosure through March 30, 2012, the date these consolidated financial statements were issued.

In March 2012, the Bank became involved in litigation instituted by one of its borrowers. The borrower contends that when it refinanced its debt and repaid a loan to the Bank, it overpaid interest due on the loan, and seeks reimbursement of the overpaid interest based on the difference between the Bank's interest rate on the loan and what the borrower believes the interest rate should have been, as well as the cost of unwinding related to the alleged interest rate difference, legal fees, and interest on the disputed amount. The Bank disputes the allegations and believes

16. Subsequent Events (continued)

that no amounts due to overpayment are owed this borrower, thus no accrual has been made as of December 31, 2011. The amount in controversy is a matter of dispute between the parties, but the Bank believes it is approximately $2 million.

Supplemental Information

North American Development Bank

Combining Balance Sheet by Program

December 31, 2011

	International Program	U.S. Domestic Program (A)	Eliminations	Total
Assets				
Cash and cash equivalents:				
Held at other financial institutions in demand deposit accounts	$ 34,488	$ 5,275	$ –	$ 39,763
Held at other financial institutions in interest-bearing accounts	33,843,338	4,402,579	–	38,245,917
Repurchase agreements	2,900,000	100,000	–	3,000,000
	36,777,826	4,507,854	–	41,285,680
Held-to-maturity investment securities, at amortized cost	52,919,513	–	–	52,919,513
Available-for-sale investment securities, at fair value	260,871,578	–	–	260,871,578
Loans outstanding	427,750,111	3,241,344	–	430,991,455
Allowance for loan losses	(8,066,672)	(23,188)	–	(8,089,860)
Foreign currency exchange rate adjustment and fair value of hedged items	(31,442,093)	–	–	(31,442,093)
Net loans outstanding	388,241,346	3,218,156	–	391,459,502
Interest receivable	8,621,919	33,016	–	8,654,935
Grant and other receivable	4,539,420	–	–	4,539,420
Due from U.S. Domestic Program	29,934	–	(29,934)	–
Furniture, equipment, and leasehold improvements, net	116,709	–	–	116,709
Other assets	67,900,162	–	–	67,900,162
Total assets	$ 820,018,407	$ 7,759,026	$ (29,934)	$ 827,747,499
Liabilities and equity				
Liabilities:				
Accounts payable	$ 3,720,998	$ –	$ –	$ 3,720,998
Accrued liabilities	232,813	25,900	–	258,713
Due to International Program	–	29,934	(29,934)	–
Accrued interest payable	5,363,636	–	–	5,363,636
Undisbursed grant funds	1,004	–	–	1,004
Notes payable, net of discount and fair value of hedged item	277,503,262	–	–	277,503,262
Total liabilities	286,821,713	55,834	(29,934)	286,847,613
Equity:				
Paid-in capital	405,000,000	–	–	405,000,000
General Reserve:				
Allocated paid-in capital	–	8,111,717	–	8,111,717
Retained earnings:				
Designated	23,343,924	(505,765)	–	22,838,159
Reserved	39,937,820	97,240	–	40,035,060
Undesignated	44,174,334	–	–	44,174,334
Accumulated other comprehensive income	20,734,278	–	–	20,734,278
Minority interest	6,338	–	–	6,338
Total equity	533,196,694	7,703,192	–	540,899,886
Total liabilities and equity	$ 820,018,407	$ 7,759,026	$ (29,934)	$ 827,747,499

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

North American Development Bank

Combining Statement of Income by Program

Year Ended December 31, 2011

	International Program	U.S. Domestic Program (A)	Total
Income:			
Interest:			
Investment income	$ 5,427,819	$ 527	$ 5,428,346
Loan income	20,993,673	143,847	21,137,520
Gains on sales of available-for-sale investment securities, net	1,479,029	–	1,479,029
Fee income	216,646	105	216,751
Other	9,203,825	–	9,203,825
Total revenues	37,320,992	144,479	37,465,471
Operating expenses:			
Personnel	5,720,424	–	5,720,424
Consultants	1,189,682	–	1,189,682
General and administrative	745,966	–	745,966
Operational travel	327,001	–	327,001
Depreciation and amortization	48,457	1,467	49,924
Provision for loan losses	2,350,000	–	2,350,000
Relocation	15,416	–	15,416
U.S. Domestic Program	–	359,874	359,874
Total operating expenses	10,396,946	361,341	10,758,287
Interest expense	4,531,644	–	4,531,644
Income (loss) before program activities	22,392,402	(216,862)	22,175,540
Program activities:			
EPA grant income	1,731,827	–	1,731,827
EPA grant administration	(1,731,827)	–	(1,731,827)
TAP	(337,444)	–	(337,444)
SWEP	(399,309)	–	(399,309)
Net program expenses	(736,753)	–	(736,753)
Income (loss) before minority interest	21,655,649	(216,862)	21,438,787
Net income attributable to minority interest	170	–	170
Net income (loss)	$ 21,655,479	$ (216,862)	$ 21,438,617
General Reserve, January 1, 2011			
Allocated paid-in capital	$ –	$ 8,695,322	$ 8,695,322
Retained earnings	85,800,599	(191,663)	85,608,936
Current period activity			
Net income (loss)	21,655,479	(216,862)	21,438,617
TGP disbursements of the U.S. Domestic Program	–	(583,605)	(583,605)
General Reserve, December 31, 2011			
Allocated paid-in capital	$ –	$ 8,111,717	$ 8,111,717
Retained earnings	107,456,078	(408,525)	107,047,553
	$ 107,456,078	$ 7,703,192	$ 115,159,270

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

North American Development Bank

Combining Statement of Cash Flows by Program

Year Ended December 31, 2011

	International Program	U.S. Domestic Program (A)	Total
Cash flows from operating activities			
Net income (loss)	$ 21,655,479	$ (216,862)	$ 21,438,617
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	48,457	1,467	49,924
Amortization of net premium (discounts) on investments	529,865	–	529,865
Change in fair value of swaps and other noncash items	10,906,719	(19,779)	10,886,940
Minority interest	170	–	170
Gain on sales of available-for-sale investment securities, net	(1,479,029)	–	(1,479,029)
Provision for loan losses	2,350,000	–	2,350,000
Change in other assets and liabilities:			
Increase in interest receivable	(1,535,603)	(12,079)	(1,547,682)
Increase in receivable and other assets	(4,048,387)	–	(4,048,387)
Increase in due from U.S. Domestic Program due to International Program	(1,921)	1,921	–
Increase in accounts payable	3,474,478	–	3,474,478
Increase in accrued liabilities	3,566	3,754	7,320
Increase in accrued interest payable	844,259	–	844,259
Net cash provided by (used in) operating activities	32,748,053	(241,578)	32,506,475
Cash flows from lending, investing, and development activities			
Capital expenditures	(18,436)	–	(18,436)
Loan principal repayments	122,810,810	579,461	123,390,271
Loan disbursements	(80,346,865)	–	(80,346,865)
Purchase of held-to-maturity investments	(3,120,000)	–	(3,120,000)
Purchase of available-for-sale investments	(404,699,587)	–	(404,699,587)
Proceeds from maturities of held-to-maturity investments	3,727,000	–	3,727,000
Proceeds from sales and maturities of available-for-sale investments	327,274,389	–	327,274,389
Net cash (used in) provided by lending, investing, and development activities	(34,372,689)	579,461	(33,793,228)
Cash flows from financing activities			
Grant funds – EPA	18,400,526	–	18,400,526
Grant disbursements – EPA	(18,400,792)	–	(18,400,792)
Grant activity – U.S. Domestic Program	–	(583,605)	(583,605)
Net cash used in financing activities	(266)	(583,605)	(583,871)
Net decrease in cash and cash equivalents	(1,624,902)	(245,722)	(1,870,624)
Cash and cash equivalents at January 1, 2011	38,402,728	4,753,576	43,156,304
Cash and cash equivalents at December 31, 2011	$ 36,777,826	$ 4,507,854	$ 41,285,680

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

North American Development Bank

Loan Commitments and Loans Outstanding

As of December 31, 2011

Borrower	Community/ Project	Date	Commitments	Commitment Remaining	Loan Balance January 1, 2011	Loan Disbursements	Loan Payments	Loan Balance December 31, 2011
NADB								
Grupo Solar	Region Cinco, COAH (WW)	May-02	$ 6,516,672	$ –	$ 6,516,672	$ –	$ –	$ 6,516,672
SCSD *	Desert Shores, CA (WW)	Sep-03	500,000	–	365,000	–	20,000	345,000
San Benito, TX (A)	San Benito, TX (W/WW)	Sep-04	3,800,000	–	2,920,000	–	160,000	2,760,000
La Feria, TX	La Feria, TX (W/WW)	Dec-04	6,125,000	–	4,710,000	–	260,000	4,450,000
San Benito, TX (B)	San Benito, TX (W/WW)	Apr-05	4,200,000	–	3,420,000	–	175,000	3,245,000
Pharr, TX	Pharr, TX (WW)	Dec-07	10,000,000	–	8,840,000	–	380,000	8,460,000
EPC Tornillo WID *	Tornillo, TX (WW)	Mar-08	1,920,000	–	1,720,000	–	75,000	1,645,000
Global Alternative Fuels	El Paso, TX (ENE)	Jun-08	3,689,856	–	2,826,864	–	531,041	2,295,823
Cucapá S A. de C.V.	San Luis Rio Colorado, SON (AQ)	Feb-09	10,128,749	–	10,128,749	–	–	10,128,749
El Paso, TX #1	El Paso, Texas (SD)	Sep-09	53,000,000	–	53,000,000	–	1,645,000	51,355,000
TAR, S.A. de C.V.	Ciudad Juarez, CHIH (WW)	Mar-10	7,352,941	7,352,941	–	–	–	–
El Paso, TX #2	El Paso, Texas (W)	Aug-10	15,000,000	–	15,000,000	–	–	15,000,000
Imperial Valley Solar Company 1	Imperial Valley, CA (ENE)	Jul-11	86,300,000	31,700,000	–	54,600,000	–	54,600,000
Effect of foreign currency exchange rates					1,132,281			(200,826)
			208,533,218	39,052,941	110,579,566	54,600,000	3,246,041	160,600,418
COFIDAN								
OOMAPAS-Naco *	Naco, SON (W/WW)	Feb-99	$ 149,667	$ –	$ 102,132	$ –	$ 3,916	$ 98,216
San Luis Rio Colorado, SON	San Luis Rio Colorado, SON (SW)	Jun-03	1,084,771	–	284,199	–	177,270	106,929
Agua Prieta, SON	Agua Prieta, SON (AQ)	Jul-03	3,632,199	–	3,197,824	–	119,899	3,077,925
State of Baja California	Baja California (AQ)	Aug-03	25,067,958	–	12,204,499	–	2,355,255	9,849,244
OOMAPAS-SLRC #1 *	San Luis Rio Colorado, SON (WW)	Jun-04	7,417,428	–	5,621,075	–	485,025	5,136,050
CESPT #3 *	Tijuana, BC (WW)	Jun-04	5,102,026	–	603,575	–	497,320	106,255
SIMAS-Acuña *	Ciudad Acuña, COAH (WW)	Oct-04	1,879,235	–	1,526,851	–	93,969	1,432,882
SIMAS-Piedras Negras *	Piedras Negras, COAH (WW)	Nov-04	2,448,715	–	2,142,602	–	136,051	2,006,551
CESPTE # 1 *	Tecate, BC (W/WW)	Aug-05	610,457	–	287,910	–	111,238	176,672
OOMAPAS-Nogales #1 *	Nogales, SON (W)	Aug-06	8,976,661	–	8,472,821	–	314,244	8,158,577
JAD-Matamoros *	Matamoros, TAM (W/WW)	Sep-06	10,057,603	–	9,227,687	–	420,465	8,807,222
COMAPA-Reynosa *	Reynosa, TAM (WW)	Sep-06	8,000,000	–	6,912,272	–	421,056	6,491,216
COMAPA-Nuevo Laredo *	Nuevo Laredo, TAM (W/WW)	Oct-06	5,431,339	–	4,621,396	–	285,862	4,335,534
Puerto Peñasco, SON #2A	Puerto Peñasco, SON (AQ)	Nov-06	2,267,779	–	2,128,522	–	–	2,128,522
Nogales, SON #1	Nogales, SON (AQ)	Jan-07	8,828,618	–	6,106,570	–	882,827	5,223,743
SADM *	Monterrey, NL (WW)	Feb-07	27,306,604	–	24,651,583	–	1,390,726	23,260,857
JMAS-Ojinaga *	Ojinaga, CHIH (WW)	May-07	1,037,906	–	897,368	–	64,865	832,503

North American Development Bank

Loan Commitments and Loans Outstanding (continued)

Borrower	Community/ Project	Date	Commitments	Commitment Remaining	Loan Balance January 1, 2011	Loan Disbursements	Loan Payments	Loan Balance December 31, 2011
COFIDAN (continued)								
JMAS-Juarez *	Anapra, CHIH (WW)	May-07	$ 433,213	$ –	$ 144,450	$ –	$ 117,309	$ 27,141
JMAS-Guadalupe *	Guadalupe, CHIH (WW)	Nov-07	276,091	–	242,343	–	19,941	222,402
JRAP-Porfirio Parra *	Porfirio Parra, CHIH (WW)	Nov-07	138,045	–	121,172	–	9,971	111,201
JMAS-Praxedis *	Praxedis, CHIH (WW)	Nov-07	276,091	–	242,343	–	19,941	222,402
JRAP-El Porvenir *	El Porvenir, CHIH (WW)	Nov-07	138,045	–	121,172	–	9,971	111,201
Puerto Peñasco, SON #2B	Puerto Peñasco, SON (AQ)	Dec-07	1,667,620	–	1,565,216	–	–	1,565,216
Nogales, SON #2	Nogales, SON (SW)	Dec-07	2,361,515	–	2,183,993	–	102,254	2,081,739
OOMAPAS-SLRC #2 *	San Luis Rio Colorado, SON (WW)	Dec-07	1,577,328	–	1,476,222	–	121,329	1,354,893
CESPT #4 *	Playas de Rosarito, BC (W/WW)	Feb-08	1,151,119	–	1,083,406	–	220,069	863,337
Nuevo Laredo, TAM #1	Nuevo Laredo, TAM (SD)	Mar-08	22,689,949	–	22,059,632	–	1,260,634	20,798,998
CESPM *	Mexicali, BC (WW)	Apr-08	18,951,059	–	18,100,725	–	1,336,239	16,764,486
CESPTE #2 *	Tecate, BC (W/WW)	Jun-08	966,096	–	924,972	–	39,014	885,958
COMAPA-Rio Bravo *	Rio Bravo, TAM (W/WW)	Jul-08	3,098,373	–	3,098,373	–	57,382	3,040,991
Tijuana, B.C. #1	Tijuana, BC (SW)	Jul-08	1,718,213	–	1,088,189	–	1,088,189	–
Naco, SON	Naco, SON (AQ)	Jul-08	417,299	–	383,782	–	57,407	326,375
Nuevo Laredo, TAM #2	Nuevo Laredo, TAM (AQ)	Jan-09	36,346,856	–	36,346,856	–	1,346,288	35,000,568
Playas de Rosarito, B.C.	Playas de Rosarito, BC (AQ)	May-09	17,107,309	–	17,107,309	–	–	17,107,309
CESPT #5 *	Tijuana, BC (WW)	Jul-09	1,901,922	–	1,901,922	–	83,875	1,818,047
Nuevo Laredo, TAM #3	Nuevo Laredo, TAM (AQ)	Jul-09	26,888,897	–	26,888,897	–	497,988	26,390,909
CESPT #6 *	Tijuana, BC (W/WW)	Sep-09	22,075,055	9,438,277	8,309,030	4,327,748	–	12,636,778
Tijuana, B.C. #2	Tijuana, BC (AQ)	Oct-09	102,030,576	–	102,030,576	–	102,030,576	–
OOMAPAS-Nogales #2*	Nogales, SON (WW)	Oct-10	3,227,368	–	3,227,368	–	–	3,227,368
Nogales, SON #3	Nogales, SON (AQ)	Oct-10	6,623,534	–	6,623,534	–	–	6,623,534
State of Nuevo Leon	Monterrey, NL (BUI)	Dec-10	32,025,620	13,707,943	16,506,403	1,811,274	3,386,404	14,931,273
Hermosillo, SON	Hermosillo, SON (AQ)	May-11	19,607,843	–	–	19,607,843	–	19,607,843
Effect of foreign currency exchange rates and swaps					(8,315,464)			(31,241,267)
			442,994,002	23,146,220	352,451,307	25,746,865	119,564,769	235,707,600
Total International Program			651,527,220	62,199,161	463,030,873	80,346,865	122,810,810	396,308,018

North American Development Bank

Loan Commitments and Loans Outstanding (continued)

Borrower	Community/ Project	Date	Commitments	Commitment Remaining	Loan Balance January 1, 2011	Loan Disbursements	Loan Payments	Loan Balance December 31, 2011
U.S. Domestic Program								
California Coastal RDC	Salinas, CA	Oct-97	$ 2,149,125	$ –	$ 603,721	$ –	$ 379,158	$ 224,563
El Paso Workforce Collaborative	El Paso, TX	Jul-99	936,906	–	475,432	–	38,286	437,146
Martin County EDC #1	Martin County, NC	Oct-02	550,000	–	316,071	–	11,398	304,673
Martin County EDC #2	Martin County, NC	Jun-04	1,307,327	–	1,141,564	–	110,685	1,030,879
Beaufort County #2	Beaufort County, NC	Sep-04	688,450	–	530,423	–	29,659	500,764
Martin County EDC #3	Martin County, NC	Sep-07	395,000	–	353,594	–	10,275	343,319
Centro del Obrero Fronterizo #2	El Paso, TX	Mar-07	400,000	–	400,000	–	–	400,000
Total U.S. Domestic Program			6,426,808	–	3,820,805	–	579,461	3,241,344
Total			$ 657,954,028	$ 62,199,161	$ 466,851,678	$ 80,346,865	$ 123,390,271	$ 399,549,362

** Utility*
AQ – Air quality; BUI – Basic urban infrastructure; ENE – Cleaner rnergy; SD – Storm drainage; SW – Solid waste; W – Water; WW – Wastewater

North American Development Bank

Border Environmental Infrastructure Fund (BEIF)

As of and for the Year Ended December 31, 2011

Balance Sheet

	Region 6	Region 9	Total
Assets			
Cash	$ 500	$ 504	$ 1,004
Total assets	$ 500	$ 504	$ 1,004
Liabilities			
Undisbursed grant funds	$ 500	$ 504	$ 1,004
Total liabilities	$ 500	$ 504	$ 1,004

Statement of Income

	Region 6	Region 9	Total
Income:			
EPA grant income	$ 890,642	$ 724,384	$ 1,615,026
Total income	890,642	724,384	1,615,026
BEIF operating expenses:			
Personnel	576,958	509,507	1,086,465
Consultants	219,303	150,142	369,445
General and administrative	72,763	48,509	121,272
Operational travel	21,618	16,226	37,844
Total BEIF operating expenses	890,642	724,384	1,615,026
Net income	$ –	$ –	$ –

Statement of Cash Flows

	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	10,533,752	7,866,774	18,400,526
Grant disbursements – EPA	(10,533,753)	(7,867,039)	(18,400,792)
Net cash used in financing activities	(1)	(265)	(266)
Net decrease in cash and cash equivalents	(1)	(265)	(266)
Cash and cash equivalents at January 1, 2011	501	769	1,270
Cash and cash equivalents at December 31, 2011	$ 500	$ 504	$ 1,004

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

North American Development Bank

Consolidated Financial Statements (Unaudited)

June 30, 2012 and 2011

North American Development Bank
Consolidated Balance Sheets (Unaudited)
June 30, 2012 and 2011

	June 30, 2012	June 30, 2011
Assets		
Cash and cash equivalents:		
Held at other financial institutions in demand deposit accounts	$ 44,055	$ 89,166
Held at other financial institutions in interest bearing accounts	43,017,189	41,978,458
Repurchase agreements	5,300,000	3,000,000
	48,361,244	45,067,624
Held-to-maturity investment securities, at amortized cost	53,572,581	52,079,531
Available-for-sale investment securities, at fair value	220,277,719	180,752,839
Loans outstanding	466,980,786	482,273,035
Allowance for loan losses	(2,373,188)	(5,739,860)
Foreign currency exchange rate adjustment	(24,426,690)	8,114,375
Fair value of hedged items	9,879,068	3,690,210
Net loans outstanding	450,059,976	488,337,760
Interest receivable	8,796,530	6,677,180
Grant and other receivable	6,317,450	1,523,507
Furniture, equipment and leasehold improvements, net	112,937	135,184
Other assets	45,669,139	11,139,178
Total assets	$ 833,167,576	$ 785,712,803
Liabilities and Equity		
Liabilities:		
Accounts payable	$ 4,718,884	$ 42,829
Accrued liabilities	355,486	320,434
Accrued interest payable	5,480,838	4,483,555
Undisbursed grant funds	218,166	2,265
Other liabilities	14,268,110	20,613,047
Long-term notes payable, net of discount	249,503,194	249,437,944
Fair value of hedged item	31,658,160	9,747,017
Net long-term notes payable	281,161,354	259,184,961
Total liabilities	306,202,838	284,647,091
Equity:		
Paid-in capital	405,000,000	405,000,000
General Reserve:		
Allocated paid-in capital	7,234,092	8,294,224
Retained earnings:		
Designated	22,411,760	16,900,452
Reserved	42,038,234	14,817,806
Undesignated	46,356,212	60,363,570
Accumulated other comprehensive income	3,917,981	(4,316,591)
Minority interest	6,459	6,251
Total equity	526,964,738	501,065,712
Total liabilities and equity	$ 833,167,576	$ 785,712,803

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

North American Development Bank
Consolidated Statements of Income (Unaudited)
For the Six Months Ended June 30, 2012 and 2011

	For the Six Months Ended June 30, 2012	2011
Income:		
Interest:		
Investment income	$ 2,718,913	$ 2,614,274
Loan income	9,206,572	11,549,490
Gains on sales of available-for-sale investment securities, net	160,294	3,117
Fee income	182,105	12,550
Other	118,337	53,707
Total revenues	12,386,221	14,233,138
Operating expenses:		
Personnel	2,782,045	2,808,761
Consultants	799,810	566,428
General and administrative	448,107	311,022
Operational travel	151,540	169,511
Depreciation and amortization	15,409	25,526
Relocation	592	15,416
Other	1,333,912	1,331,356
U.S. Domestic Program	152,320	153,465
Total operating expenses	5,683,735	5,381,485
Interest expense	2,430,315	2,235,715
Income before program activities	4,272,171	6,615,938
Program activities:		
U.S. Environmental Protection Agency (EPA) grant income	798,326	786,805
EPA grant administration expense	(798,326)	(786,805)
Technical Assistance Program expense	(175,690)	(142,963)
Solid Waste Environmental Program expense	(337,707)	-
Net program expenses	(513,397)	(142,963)
Income before minority interest	3,758,774	6,472,975
Net income attributable to minority interest	121	83
Net income attributable to NADB	$ 3,758,653	$ 6,472,892

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

North American Development Bank
Consolidated Statements of Changes in Equity (Unaudited)
For the Six Months Ended June 30, 2012 and 2011

	Paid-In Capital	General Reserve: Allocated Paid-In Capital	General Reserve: Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Minority Interest	Total Equity
Beginning balance, January 1, 2011	$ 405,000,000	$ 8,695,322	$ 85,608,936	$ 2,171,068	$ 6,168	$ 501,481,494
Transfer to Targeted Grant Program of the U.S. Domestic Program	-	(401,098)	-	-	-	(401,098)
Comprehensive income:						
Net income	-	-	6,472,892	-	-	6,472,892
Unrealized gain on available-for-sale investment securities, net	-	-	-	387,860	-	387,860
Foreign currency translation adjustment	-	-	-	(45,221)	-	(45,221)
Unrealized gain (loss) on hedging activities:						
Foreign currency translation adjustment	-	-	-	14,988,022	-	14,988,022
Fair value of cross-currency interest rate swaps	-	-	-	(21,818,320)	-	(21,818,320)
Total comprehensive income						(14,767)
Minority interest	-	-	-	-	83	83
Ending balance, June 30, 2011	405,000,000	8,294,224	92,081,828	(4,316,591)	6,251	501,065,712
Beginning balance, January 1, 2012	405,000,000	8,111,717	107,047,553	20,734,278	6,338	540,899,886
Transfer to Targeted Grant Program of the U.S. Domestic Program	-	(877,625)	-	-	-	(877,625)
Comprehensive income:						
Net income	-	-	3,758,653	-	-	3,758,653
Unrealized gain on available-for-sale investment securities, net	-	-	-	356,187	-	356,187
Foreign currency translation adjustment	-	-	-	(18,415)	-	(18,415)
Unrealized gain (loss) on hedging activities:						
Foreign currency translation adjustment	-	-	-	9,494,043	-	9,494,043
Fair value of cross-currency interest rate swaps	-	-	-	(26,648,112)	-	(26,648,112)
Total comprehensive income						(13,057,644)
Minority interest	-	-	-	-	121	121
Ending balance, June 30, 2012	$ 405,000,000	$ 7,234,092	$ 110,806,206	$ 3,917,981	$ 6,459	$ 526,964,738

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 Six Months Ended June 30, 2012 and 2011

	For the Six Months Ended June 30, 2012	2011
Cash flows from operating activities:		
Net income	$ 3,758,653	$ 6,472,892
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	15,409	25,526
Amortization of net premium (discount) on investments	648,611	143,411
Change in fair value of swaps	6,009,910	1,322,553
Minority interest	121	83
Gain on sales of available-for-sale investment securities, net	(160,294)	(3,117)
Change in other assets and liabilities:		
(Increase) decrease in interest receivable	(141,595)	430,073
Increase in receivable and other assets	(897,670)	(1,113,732)
Increase (decrease) in accounts payable	997,886	(204,036)
Increase in accrued liabilities	96,773	69,041
Increase (decrease) in accrued interest payable	117,202	(35,822)
Net cash provided by operating activities	10,445,006	7,106,872
Cash flows from lending, investing, and development activities:		
Capital expenditures	(11,637)	(12,513)
Loan principal repayments	17,653,934	13,557,193
Loan disbursements	(60,159,937)	(21,795,367)
Purchase of held-to-maturity investments	(2,763,000)	-
Purchase of available-for-sale investments	(73,648,145)	(156,708,894)
Proceeds from maturities of held-to-maturity investments	2,120,000	1,438,869
Proceeds from sales and maturities of available-for-sale investments	114,099,806	158,725,263
Net cash used in lending, investing, and development activities	(2,708,979)	(4,795,449)
Cash flows from financing activities:		
Grant funds from the Environmental Protection Agency (EPA)	6,730,911	8,375,926
Grant disbursements - EPA	(6,513,749)	(8,374,931)
Grant activity - U.S. Domestic Program	(877,625)	(401,098)
Net cash used in financing activities	(660,463)	(400,103)
Net increase in cash and cash equivalents	7,075,564	1,911,320
Cash and cash equivalents at January 1, 2012 and 2011	41,285,680	43,156,304
Cash and cash equivalents at June 30, 2012 and 2011	$ 48,361,244	$ 45,067,624
Supplemental cash information		
Cash paid during the year for interest	$ 5,468,750	$ 5,468,750
Significant non-cash transactions		
Foreign currency translation adjustment	$ 9,494,043	$ 14,988,022
Change in fair value of cross-currency interest rate swaps	$ (26,648,112)	$ (21,818,320)
Change in fair value of available-for-sales investments, net	$ 356,187	$ 387,860

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

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

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

On June 2, 1998, the Bank's 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 June 30, 2012, COFIDAN is 99.90% owned by the Bank and 0.10% owned by the Mexican government. The accounts of COFIDAN are consolidated with the Bank, and all material intercompany accounts and transactions are eliminated in the consolidation. The minority interest reflected in the consolidated balance sheets and consolidated income statements represents the ownership of the Mexican government through the Ministry of Finance and Public Credit (SHCP).

The Bank is located in San Antonio, Texas. An additional office has been established in Los Angeles, California, to assist the United States in administering the U.S. Domestic Program.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates in Financial Statements

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The financial statements 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 revenues and expenses during the reporting period. These estimates include investments, allowance for loan loss, the fair value of derivative instruments included in other assets, and notes payable. 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.

Cash and Cash Equivalents

For purposes of the statement of cash flows, all highly liquid investments with an original maturity of three months or less are considered to be cash equivalents.

Repurchase Agreements

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

Investment Securities

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

> *Held-to-maturity* – This category is composed of those debt securities for which the Bank has the positive intent and ability to hold to maturity. These securities are carried at amortized cost.
>
> *Trading* – This category is composed of debt securities that are bought and held for resale in the near term. These securities are carried at fair value, and changes in market value are recognized in the income statement.
>
> *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.

2. Summary of Significant Accounting Policies (continued)

The accretion of discounts and the amortization of premiums are computed using the interest method. Realized gains and losses are determined using the specific identification method. Investments in a loss position are reviewed in order to determine whether the unrealized loss, which is considered an impairment, is temporary or other-than-temporary. In the event of other-than-temporary impairment, the cost basis of the investment would be written down to its fair value, and the credit component of the loss would be included in current earnings. The Bank had no securities classified as other-than-temporarily impaired as of June 30, 2012 and 2011.

Taxation

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

Furniture, Equipment, and Leasehold Improvements

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

General Reserve

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

In December 2011, the Board of Director approved a retained earnings policy establishing new reserve funds, in addition to the Special Reserve. Under the policy undesignated retained earnings in excess of one percent (1.0%) of total assets of the International Program shall be held in reserve as indicated below and funded 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. 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.

2. Summary of Significant Accounting Policies (continued)

Capital Preservation Reserve – This reserve is intended to maintain the value of the paid-in capital in real terms and as such 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. Interest income on loans and commitment fees are recognized in the period earned.

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

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

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

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

The allowance for loan losses is a valuation account used to reasonably estimate loan losses incurred as of the financial statement date. Determining the appropriate allowance for loan losses involves significant judgment about when a loss has been incurred and the amount of that loss. The determination of the allowance for loan losses is based on management's current judgments about the credit quality of its loan portfolio. A specific allowance may be established for impaired loans. 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 fair value of the collateral if the loan is collateral-dependent.

2. Summary of Significant Accounting Policies (continued)

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

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

> *Pass* – The loan is not considered a greater than normal credit risk. The Bank believes the borrower has the ability to meet its obligations; therefore, the Bank anticipates insignificant uncollectible amounts.
>
> *Special Mention* – The loan has exhibited potential weaknesses that deserve the Bank's close attention. If left uncorrected, these potential weaknesses may result in noticeable deterioration of the repayment prospects for the asset or of the borrower's credit position.
>
> *Substandard* – The loan is inadequately protected by the current financial condition and paying capacity of the borrower or by any collateral pledged. The loan has a well-defined weakness or weaknesses that may jeopardize the collection of the debt pursuant to the contractual principal and interest terms. Such risk is characterized by the distinct possibility that the Bank may sustain some loss if the deficiencies are not corrected.
>
> *Doubtful* – In addition to the risk characteristics described in the substandard category, the loan exhibits conditions and values that make collection or liquidation in full highly improbable. Loans in this risk category are closely managed to determine the highest recovery alternatives.

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

Program expenses include grant disbursements made by the Bank and administrative costs associated with EPA grant activities. Grants are recognized at the date the Bank becomes obligated under the terms of the grant agreements and associated costs are

2. Summary of Significant Accounting Policies (continued)

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

Foreign Currency

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

The Bank's lending activities 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. Since October 1996, the swap counterparty has been *Fondo de Apoyo a Estados y Municipios* (FOAEM), a fund owned by the government of Mexico and administered by the federally run development bank, B*anco Nacional de Obras y Servicios Publicos, S.N.C* (Banobras). In July 2009, the Bank entered into a direct relationship with Banobras to serve as a swap counterparty, outside the FOAEM arrangement. In July 2010, the Bank entered into a direct relationship with another financial institution as a swap counterparty. The foreign currency translation adjustment on loans denominated in Mexican pesos as of June 30, 2012 and 2011, was ($24,426,690) and $8,114,375, respectively. Changes in the foreign currency translation adjustment are reported through other comprehensive income.

All swaps relating to the Bank's lending activities have been designated as cash flow or fair value hedges and recognized in the accompanying consolidated balance sheets at their fair value. Changes in the fair value of the cash flow hedges are reported in other comprehensive income, and are reclassified to earnings at the time of the hedged loan repayment. Changes in the fair value of the fair value hedges are reported in other income. The fair value of these hedges was reported in the accompanying consolidated balance sheets at June 30, 2012 as other assets of $43,638,596 and other liabilities of $14,268,110 and at June 30, 2011 as other assets of $9,747,017 and other liabilities of $20,613,047.

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

2. Summary of Significant Accounting Policies (continued)

Derivatives executed with certain counterparties are subject to a master netting arrangement. Fair value amounts recognized for derivatives and fair value amounts recognized for the right or obligation to reclaim or return cash collateral are offset for financial reporting purposes.

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, and available-for-sale debt securities at fair value. To determine the fair market value of its financial instruments the Bank uses the fair value hierarchy, which is based on three levels of inputs as follows:

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

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

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant in determining the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category includes cross-currency interest rate swaps, interest rate swaps, and fair value of hedged items where independent pricing information is not available for a significant portion of the underlying assets.

Additional information on the fair value of the Bank's financial instruments is provided in Notes 11.

Accumulated Other Comprehensive Income

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

2. Summary of Significant Accounting Policies (continued)

Other Income and Other Expenses

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

Reclassifications

Certain amounts in the prior-year consolidated financial statements have been reclassified to conform to the current-year consolidated financial statement presentation. During 2011, the Special Reserve was reclassified to be reflected as part of retained earnings.

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 June 30, 2012 and 2011.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2012				
Held-to-maturity:				
U.S. agency securities	**$ 3,763,000**	**$ 6,387**	**$ –**	**$ 3,769,387**
Mexican government securities (UMS)	**49,809,581**	**8,815,419**	**–**	**58,625,000**
Total held-to-maturity investment securities	**53,572,581**	**8,821,806**	**–**	**62,394,387**
Available-for-sale:				
U.S. government securities	**81,040,394**	**322,097**	**(1,695)**	**81,360,796**
U.S. agency securities	**49,275,380**	**783,762**	**–**	**50,059,142**
Corporate debt securities	**36,398,912**	**929,492**	**(23,401)**	**37,305,003**
Other fixed-income securities	**25,332,096**	**319,259**	**(3,336)**	**25,648,019**
Mexican government securities (UMS)	**15,919,192**	**146,308**	**–**	**16,065,500**
Mortgage-backed securities	**9,573,021**	**266,238**	**–**	**9,839,259**
Total available-for-sale investment securities	**217,538,995**	**2,767,156**	**(28,432)**	**220,277,719**
Total investment securities	**$ 271,111,576**	**$ 11,588,962**	**$ (28,432)**	**$ 282,672,106**
June 30, 2011				
Held-to-maturity:				
U.S. agency securities	$ 2,290,000	$ 2,713	$ –	$ 2,292,713
Mexican government securities (UMS)	49,789,531	4,210,469	–	54,000,000
Total held-to-maturity investment securities	52,079,531	4,213,182	–	56,292,713
Available-for-sale:				
U.S. government securities	82,796,460	553,930	(28)	83,350,362
U.S. agency securities	19,068,085	417,967	–	19,486,052
Corporate debt securities	53,756,973	1,097,862	–	54,854,835
Other fixed-income securities	11,017,725	278,877	(2,952)	11,293,650
Mexican government securities (UMS)	7,216,870	186,157	(19,527)	7,383,500
Mortgage-backed securities	4,110,362	274,103	(25)	4,384,440
Total available-for-sale investment securities	177,966,475	2,808,896	(22,532)	180,752,839
Total investment securities	$ 230,046,006	$ 7,022,078	$ (22,532)	$ 237,045,552

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 June 30, 2012 and 2011.

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2012						
U.S. government securities	**$ 14,362,175**	**$ 1,695**	**$ –**	**$ –**	**$ 14,362,175**	**$ 1,695**
U.S. agency securities	**–**	**–**	**–**	**–**	**–**	**–**
Corporate debt securities	**7,780,800**	**23,401**	**–**	**–**	**7,780,800**	**23,401**
Other fixed-income securities	**6,710,052**	**3,336**	**–**	**–**	**6,710,052**	**3,336**
Mexican government securities (UMS)	**–**	**–**	**–**	**–**	**–**	**–**
Mortgaged-backed securities	**–**	**–**	**–**	**–**	**–**	**–**
Total temporarily impaired securities	**$ 28,853,027**	**$ 28,432**	**$ –**	**$ –**	**$ 28,853,027**	**$ 28,432**
June 30, 2011						
U.S. government securities	$ 8,299,917	$ 28	$ –	$ –	$ 8,299,917	$ 28
U.S. agency securities	–	–	–	–	–	–
Corporate debt securities	–	–	–	–	–	–
Other fixed-income securities	1,997,030	2,952	–	–	1,997,030	2,952
Mexican government securities (UMS)	5,167,500	19,527	–	–	5,167,500	19,527
Mortgaged-backed securities	22,822	25	–	–	22,822	25
Total temporarily impaired securities	$ 15,487,269	$ 22,532	$ –	$ –	$ 15,487,269	$ 22,532

None of the unrealized losses identified above are considered to be other-than-temporary since, as of June 30, 2012, the Bank did not have the intent to sell any of the securities in the table above 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.

Contractual maturities of investments as of June 30, 2012 are summarized in the following table.

	Held-To-Maturity Securities		Available-For-Sale Securities	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
June 30, 2012				
Less than 1 year	**$ –**	**$ –**	**$ 81,927,307**	**$ 81,635,466**
1–5 years	**3,769,387**	**3,763,000**	**124,876,743**	**123,333,471**
5–10 years	**58,625,000**	**49,809,581**	**3,634,410**	**2,997,037**
More than 10 years	**–**	**–**	**–**	**–**
Mortgage-backed securities	**–**	**–**	**9,839,259**	**9,573,021**
	$ 62,394,387	**$ 53,572,581**	**$ 220,277,719**	**$ 217,538,995**

3. Investments (continued)

	Held-To-Maturity Securities		Available-For-Sale Securities	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
June 30, 2011				
Less than 1 year	$ –	$ –	$ 86,286,372	$ 86,079,569
1–5 years	2,292,713	2,290,000	86,688,007	84,779,915
5–10 years	54,000,000	49,789,531	3,394,020	2,996,630
More than 10 years	–	–	–	–
Mortgage-backed securities	–	–	4,384,440	4,110,361
	$ 56,292,713	$ 52,079,531	$ 180,752,839	$ 177,966,475

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 six months ended June 30, 2012 and 2011.

	Six Months Ended June 30, 2012	2011
Held-to-maturity investment securities:		
Proceeds from maturities	**$ 2,120,000**	$ 1,438,869
Available-for-sale investment securities:		
Proceeds from sales and maturities	**114,099,806**	158,725,263
Gross realized gains	**174,953**	3,117
Gross realized losses	**14,659**	–

The following table sets forth the unrealized gains (losses) on securities available-for-sale and the reclassification adjustments required for the six months ended June 30, 2012 and 2011.

	Six Months Ended June 30, 2012	2011
Unrealized gains on investment securities available-for-sale, beginning of year	**$ 2,382,536**	$ 2,398,505
Unrealized gains on investment securities available-for-sale, arising during the year	**516,482**	390,976
Reclassification adjustments for (gains) losses on investment securities available-for-sale included in net income	**(160,294)**	(3,117)
Unrealized gains on investment securities available-for-sale, end of period	**$ 2,738,724**	$ 2,786,364

4. Loans

The following schedule summarizes loans outstanding as of June 30, 2012 and 2011.

	Loan Balance	Allowance for Loan Loss	Foreign Currency Exchange Rate Adjustment	Fair Value of Hedged Items	Net Loan Balance
June 30, 2012					
International Program	**$ 464,036,261**	**$ (2,350,000)**	**$ (24,426,690)**	**$ 9,879,068**	**$ 447,138,639**
U.S. Domestic Program	**2,944,525**	**(23,188)**	**–**	**–**	**2,921,337**
	$ 466,980,786	**$ (2,373,188)**	**$ (24,426,690)**	**$ 9,879,068**	**$ 450,059,976**
June 30, 2011					
International Program	$ 478,793,503	$ (5,716,672)	$ 8,114,375	$ 3,690,210	$ 484,881,416
U.S. Domestic Program	3,479,532	(23,188)	–	–	3,456,344
	$ 482,273,035	$ (5,739,860)	$ 8,114,375	$ 3,690,210	$ 488,337,760

At June 30, 2012, the Bank has outstanding loan commitments on signed loan agreements totaling $91,160,532 and $-0-, for the International Program and U.S. Domestic Program, respectively. The Board has also approved an additional $355,400,700 in loans for the International Program, for which loan agreements are in development.

Consistent with its development nature, the Bank under certain circumstances offers below-market-rate loans. As of June 30, 2012 and 2011, the Bank had below-market-rate loans outstanding for the International Program of $55,552,969 and $63,700,312, respectively, and for the U.S. Domestic Program of $1,713,636 and $1,872,404, respectively.

The following table presents the Bank's loan portfolio by sector as of June 30, 2012 and 2011.

	June 30, 2012	June 30, 2011
International Program		
Air Quality	**$ 138,269,940**	$ 239,335,819
Basic Urban Infrastructure	**16,343,422**	14,686,160
Cleaner Energy	**105,579,933**	2,565,054
Storm Drainage	**69,783,681**	72,784,315
Solid Waste	**2,042,114**	3,248,171
Water and Wastewater	**132,017,171**	146,173,984
Total International Program	**464,036,261**	478,793,503
U.S. Domestic Program	**2,944,525**	3,479,532
	$ 466,980,786	$ 482,273,035

4. Loans (continued)

The following table presents the Bank's loan portfolio by risk category as of June 30, 2012 and 2011. These risk categories are defined in Note 2, along with additional information on how the Bank evaluates credit quality.

	June 30, 2012	June 30, 2011
International Program		
Pass	**$ 453,907,512**	$ 472,276,831
Special Mention	**-**	-
Substandard	**-**	-
Doubtful	**10,128,749**	6,516,672
Total International Program	**464,036,261**	478,793,503
U.S. Domestic Program		
Pass	**2,544,525**	3,079,532
Special Mention	**-**	-
Substandard	**400,000**	400,000
Doubtful	**-**	-
Total U.S. Domestic Program	**2,944,525**	3,479,532
	$ 466,980,786	$ 482,273,035

The International Program had two nonaccrual loans with an outstanding balance of $13,822,487 and $10,210,410 as of June 30, 2012 and 2011, respectively. The average impaired loan balance for the six months ended June 30, 2012 and 2011 totaled $15,994,711 and $10,210,410, respectively. No interest income was recognized on the impaired loans for the six months ended June 30, 2012 and 2011. During March 2012, the International Program foreclosed on the collateral of one loan with an outstanding balance, net of allowance for loan loss, of $800,000. This collateral is reported in other assets for $800,000 as of June 30, 2012.

The outstanding balance of loans that were past due 90 days or more that were still accruing interest was $98,216 and $-0- as of June 30, 2012 and 2011, respectively.

An age analysis of past-due loans, including both accruing and non-accruing loans, as of June 30, 2012 and 2011, is shown in the following table.

	Loans 30 -89 Days Past Due	Loans 90 or More Days Past Due	Total Past- due Loans
June 30, 2012			
International Program	$ –	$ 13,920,703	$ 13,920,703
U.S. Domestic Program	–	–	–
	$ –	$ 13,920,703	$ 13,920,703
June 30, 2011			
International Program	$ –	$ 10,210,410	$ 10,210,410
U.S. Domestic Program	–	–	–
	$ –	$ 10,210,410	$ 10,210,410

4. Loans (continued)

The following schedule summarizes the allowance for loan losses as of June 30, 2012 and 2011.

	June 30, 2012	June 30, 2011
Beginning balance	**$ 8,089,860**	$ 5,759,639
Provision for loan losses	**–**	–
Loan charge-offs	**(5,716,672)**	(19,779)
Ending balance	**$ 2,373,188**	$ 5,739,860

The loan charge-offs for the six months ended June 30, 2012 and 2011 pertain to the International Program and U.S. Domestic Program, respectively.

5. Other Assets and Other Liabilities

Other assets and other liabilities at June 30, 2012 and 2011, is comprised of the following:

	June 30, 2012	June 30, 2011
Other Assets		
Cross-currency interest rate swaps	**$ 29,630,436**	$ –
Interest rate swaps	**31,658,160**	9,747,017
Collateral from swap counterparty	**(17,650,000)**	–
Unamortized debt issuance costs	**1,230,543**	1,392,161
Other	**800,000**	–
Total other assets	**$ 45,669,139**	$ 11,139,178
Other Liabilities		
Cross-currency interest rate swaps	**$ 4,602,926**	$ 20,613,047
Interest rate swaps	**9,665,184**	–
Total other liabilities	**$ 14,268,110**	$ 20,613,047

6. Long-term Notes Payable

In February 2010, the Bank issued $250,000,000 nonamortizing notes due February 11, 2020. The notes bear interest at the rate of 4.375% per annum, payable semiannually on each February 11 and August 11, commencing on August 11, 2010 until February 11, 2020. The notes are unsecured and rank equally with all other unsecured indebtedness. The notes cannot be redeemed prior to their maturity on February 11, 2020, at which time they will be redeemed at 100% of their principal amount. Unamortized debt issuance costs related to these notes, which are included in other assets, totaled $1,230,543 and $1,392,161 at June 30, 2012 and 2011, respectively.

6. Long-term Notes Payable (continued)

The fair value of the hedges relating to interest rate swaps on a portion of the Bank's notes payable, which are included in other assets totaled $31,658,160 and $9,747,017 as of June 30, 2012 and 2011, respectively.

The notes payable at June 30, 2012 and 2011, is comprised of the following:

	June 30, 2012	June 30, 2011
Notes payable	**$ 250,000,000**	$ 250,000,000
Discount on notes payable	**(496,806)**	(562,056)
Fair value of hedged item	**31,658,160**	9,747,017
Notes payable, net	**$ 281,161,354**	$ 259,184,961

See Notes 11 and 12 for additional information on the fair value of financial instruments and derivatives.

7. Equity

Subscribed Capital

At June 30, 2012 and 2011, the Bank had authorized and subscribed 300,000 shares of capital stock, with a par value of $10,000 per share. As defined in the Charter, capital is classified as callable or paid-in at June 30, 2012 and 2011 as follows:

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

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

7. Equity (continued)

Retained Earnings

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

	June 30, 2012	June 30, 2011
Designated retained earnings		
International Program:		
Water Conservation Investment Fund (WCIF):		
United States	$ 6,018,407	$ 6,018,407
Mexico	9,593	9,593
Total WCIF	6,028,000	6,028,000
Water Conservation Technical Assistance (WCTA)	–	13,821
Technical Assistance Program (TAP)	5,840,580	5,883,193
Solid Waste Environmental Program (SWEP)	631,203	1,368,219
Community Assistance Program (CAP)	10,500,000	4,000,000
Total International Program	22,999,783	17,293,233
U.S. Domestic Program	(588,023)	(392,781)
Total designated retained earnings	22,411,760	16,900,452
Reserved retained earnings		
International Program:		
Debt Service Reserve	6,230,625	–
Operating Expenses Reserve	8,736,580	–
Special Reserve	14,832,693	14,713,420
Capital Preservation Reserve	12,150,000	–
Total International Program	41,949,898	14,713,420
U.S. Domestic Program:		
Special Reserve	88,336	104,386
Total reserved retained earnings	42,038,234	14,817,806
Undesignated retained earnings		
International Program	46,356,212	60,363,570
Total undesignated retained earnings	46,356,212	60,363,570
Total retained earnings	$ 110,806,206	$ 92,081,828
Retained earnings by program		
International Program	$ 111,305,893	$ 92,370,223
U.S. Domestic Program	(499,687)	(288,395)
Total retained earnings	$ 110,806,206	$ 92,081,828

Additional information regarding each program listed above is provided in Note 9.

7. Equity (continued)

Accumulated Other Comprehensive Income (Loss)

As of June 30, 2012 and 2011, accumulated other comprehensive income (loss) is comprised of the following:

	June 30, 2012	June 30, 2011
Unrealized gain on available-for-sale investment securities	**$ 2,738,724**	$ 2,786,364
Foreign currency translation adjustment	**71,392**	(8,125)
Unrealized gain (loss) on hedging activities:		
Foreign currency translation adjustment	**(24,206,057)**	8,138,128
Fair value of cross-currency interest rate swaps	**25,313,922**	(15,232,958)
Net unrealized gain (loss) on hedging activities	**1,107,865**	(7,094,830)
Total accumulated other comprehensive income (loss)	**$ 3,917,981**	$ (4,316,591)

8. Domestic Programs

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

Mexico

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

United States

The MOU with the U.S. government specifies that 10% of the paid-in capital from the United States and the related earnings be set aside for the *U.S. Community Adjustment and Investment Program* (U.S. Domestic Program). Additionally, the MOU specified that the Los Angeles office of the Bank be formed to administer the U.S. Domestic Program. The Bank provides financing endorsed by the Finance Committee appointed by the U.S. government for that purpose. Upon written endorsement from the U.S. government, U.S.

8. Domestic Programs (continued)

Domestic Program funds can be transferred to the U.S. government. Returns of capital to the U.S. government are reported as a deduction from allocated paid-in capital. During the six months ended June 30, 2012 and 2011, no funds were transferred to the U.S. Treasury for U.S. Domestic Program activities.

In accordance with the Charter and MOU with the United States, net assets of the Bank in the amounts of $6,734,405 and $8,005,829 were designated for the U.S. Domestic Program at June 30, 2012 and 2011, respectively. The revenues related to these amounts for the six months ended June 30, 2012 and 2011 were $61,158 and $57,533, respectively. Additionally, expenses directly related to the operation of the U.S. Domestic Program incurred by the Los Angeles and San Antonio offices of the Bank of $152,320 and $153,465 are included in the Bank's operations for the six months ended June 30, 2012 and 2011, respectively. All expenses and disbursements are paid out of the U.S. Domestic Program funds. Deficit retained earnings on the U.S. Domestic Program capital funds as of June 30, 2012 and 2011, were $499,687 and $288,395, respectively. Under the U.S. Domestic Program, $3,815,304 in cash and cash equivalents was available for disbursement as of June 30, 2012.

In January 2009, the Finance Committee approved a Targeted Grant Program (TGP) to be funded with the remaining balance of the U.S. Domestic Program's allocated paid-in capital. As of June 30, 2012 and 2011, the U.S. Domestic Program's allocated paid-in capital totaled $7,234,092 and $8,294,224, respectively. For the six months ended June 30, 2012 and 2011, $877,625 and $401,098 were disbursed through the TGP. These disbursements were reported as a deduction from allocated paid-in capital.

9. Program Activities

Program activities are comprised of the following:

	Six Months Ended June 30, 2012	2011
Program income		
EPA grant	**$ 798,326**	$ 786,805
Total program income	**798,326**	786,805
Program expenses		
EPA grant administration	**(798,326)**	(786,805)
Technical Assistance Program	**(175,690)**	(142,963)
Solid Waste Environmental Program	**(337,707)**	–
Total program expenses	**(1,311,723)**	(929,768)
Net program expenses	**$ (513,397)**	$ (142,963)

9. Program Activities (continued)

EPA Grants

The Bank administers grant funds from EPA through the Border Environment Infrastructure Fund (BEIF). EPA grant awards since the initial grant made in April 1997 to June 30, 2012, total $664,568,130. Under the terms of the grants, the Bank reviews and submits prospective projects to EPA, which approves the projects. EPA then disburses funds to the Bank, which directs the grant monies to the specified project. The Bank also oversees progress and compliance requirements for EPA and receives an allocation of the EPA grant funds for administrative expenses incurred.

As of June 30, 2012, EPA has approved project funding proposed by the Bank totaling $572,072,206, of which $545,949,034 has been disbursed through the Bank. The Bank recognized $798,326 and $786,805 as reimbursement of expenses incurred for the six months ended June 30, 2012 and 2011, respectively. These funds have been recorded as program revenues and expenses in the consolidated statements of income.

Technical Assistance Program (TAP)

The Bank uses a portion of its retained earnings 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. In 1997, the Bank established the Institutional Development Cooperation Program (IDP), which was specifically designed to provide assistance for institutional strengthening studies aimed at improving the financial performance and managerial efficiency of public utilities. In 2002, the Bank created a separate program, the Project Development Program (PDP), in order to assist sponsors in the planning and design of infrastructure projects that would be submitted for BECC certification and NADB financing. In April 2009, these two programs were merged into a single program, the Technical Assistance Program (TAP). Under the merged program, assistance is provided for studies related to the design and implementation of environmental infrastructure projects, as well as for capacity-building measures aimed at achieving the effective and efficient operation of public services. . For the six months ended June 30, 2012 and 2011, $6,434 and $30,000, respectively, was disbursed under this program. These disbursements were funded with previously designated retained earnings and have been reported as a program expense.

In March 1998, the Utility Management Institute (UMI) was created as an extension of the IDP to provide water utility managers and their staff with an opportunity for ongoing professional development aimed at enhancing their managerial and financial skills. The program continues to operate as part of TAP. For the six months ended June 30, 2012 and 2011, $169,256 and $112,963, respectively, was expended under this program.

In August 2002, the Bank's Board of Directors designated $5,000,000 of the Bank's undesignated retained earnings to be used as grants to finance water conservation technical assistance (WCTA) projects in Mexico through the TAP. These technical assistance funds do not require BECC certification. Since July 2011, all $5,000,000 of the WCTA-designated retained earnings had been transferred for use through TAP.

9. Program Activities (continued)

Solid Waste Environmental Program (SWEP)
In October 1999, the Bank's Board of Directors approved a $5,000,000 pilot program for municipal solid waste financing funded by a portion of the Bank's net earnings. Under this program, projects eligible to receive SWEP assistance must involve a public entity and have been certified by the BECC. Since the initial funding, the Bank's Board of Directors designated an additional $8,500,000 for the SWEP program. For the six months ended June 30, 2012 and 2011, $337,707 and $-0-, respectively, was disbursed under this program. As of June 30, 2012, cumulative SWEP disbursements total $9,169,772. These disbursements were funded with previously designated retained earnings and have been reported as a program expense.

In February 2011, the Board of Directors agreed to consolidate the Bank's grant financing activity under a single program, the Community Assistance Program (CAP), thereby replacing and superseding the SWEP. A total of $3,699,025 in uncommitted SWEP funds was rolled over to the CAP program.

Water Conservation Investment Fund (WCIF)
In August 2002, the Bank's Board of Directors established the WCIF program to finance water conservation projects in the U.S.-Mexico border region and designated $80,000,000 of the Bank's undesignated retained earnings to the WCIF. Of that amount, $40,000,000 is reserved exclusively for water conservation projects in each country. Under this fund, projects eligible to receive WCIF assistance must be certified by BECC. For the six months ended June 30, 2012 and 2011, no monies were disbursed under this fund. As of June 30, 2012, cumulative disbursements total $33,981,593 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.

Community Assistance Program (CAP)
In February 2011, the Board of Directors approved the CAP program to support public projects in all sectors eligible for NADB financing. Projects eligible to receive CAP assistance must be certified by BECC. The CAP program will be funded from the Bank's undesignated retained earnings as authorized by the Board of Directors. The Board approved initial funding at $4,000,000, of which $3,699,025 was uncommitted SWEP funds and the remaining $300,975 from undesignated retained earnings. In December 2011, the Board of Directors designated an additional $6,500,000 to the CAP, bringing total program funding to $10,500,000. For the six months ended June 30, 2012 and 2011, no funds were disbursed under this program.

10. 401(a) Retirement Plan

The Bank has a 401(a) Retirement Plan (the Plan) for its employees. The Plan provides for employee and nondiscretionary employer contributions. For the six months ended June 30, 2012 and 2011, the Bank expended $292,765 and $296,490, respectively, relating to the Plan.

11. Fair Value of Financial Instruments

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

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

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

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

Cross-Currency Interest Rate Swaps
Cross-currency interest rate swaps are reported at fair value using Level 3 unobservable inputs. The fair value of these swaps is estimated based on discounting procedures whereby each cash flow stream is discounted using the yield curve of that currency and the net present value is converted at the spot exchange rate, as well as external pricing models and counterparty pricing

Interest Rate Swaps
Interest rate swaps are reported at fair value using Level 3 unobservable inputs. The fair value of these swaps is estimated based on discounting procedures whereby each cash flow stream is discounted using stated and projected interest rates, as well as external pricing models and counterparty pricing.

Fair Value of Hedged Items - Loans
Fair Value of Hedged Items – Loans are reported at fair value using Level 3 unobservable inputs. The fair value of these hedged items - loans is estimated based on discounting procedures whereby each cash flow stream is discounted using stated and projected interest rates, as well as external pricing models and counterparty pricing.

Fair Value of Hedged Item – Notes Payable
Fair Value of Hedged Item – Notes Payable is reported at fair value using Level 3 unobservable inputs. The fair value of hedged item – notes payable is estimated based on discounting procedures whereby each cash flow stream is discounted using stated and projected interest rates, as well as external pricing models and counterparty pricing.

11. Fair Value of Financial Instruments (continued)

Long-term Notes Payable and Accrued Interest Payable

The fair value of the notes payable is estimated based on discounted cash flow analyses. The carrying amount of accrued interest payable approximates its fair value.

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

	June 30, 2012		June 30, 2011	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets				
Cash and cash equivalents	**$ 48,361,244**	**$ 48,361,244**	$ 45,067,624	$ 45,067,624
Held-to-maturity securities	**53,572,581**	**62,394,387**	52,079,531	56,292,713
Available-for-sale securities	**220,277,719**	**220,277,719**	180,752,839	180,752,839
Loans, net	**450,059,976**	**548,680,733**	488,337,760	498,342,068
Accrued interest receivable	**8,796,530**	**8,796,530**	6,677,180	6,677,180
Cross-currency interest rate swaps	**29,630,436**	**29,630,436**	–	–
Interest rate swaps	**31,658,160**	**31,658,160**	9,747,017	9,747,017
Liabilities				
Accrued interest payable	**5,480,838**	**5,480,838**	4,483,555	4,483,555
Cross-currency interest rate swaps	**4,602,926**	**4,602,926**	20,613,047	20,613,047
Interest rate swaps	**9,665,184**	**9,665,184**	–	–
Long-term notes payable, net	**281,161,354**	**281,161,354**	259,184,961	259,184,961

11. Fair Value of Financial Instruments (continued)

The Bank's financial assets and liabilities, measured at fair value on a recurring basis as of June 30, 2012 and 2011, 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.

	June 30, 2012			
	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total Fair Value
Assets				
Available-for-sale (AFS) securities:				
U.S. government securities	$ 81,360,796	$ –	$ –	$ 81,360,796
U.S. agency securities	–	50,059,142	–	50,059,142
Corporate debt securities	–	37,305,003	–	37,305,003
Other fixed-income securities	–	25,648,019	–	25,648,019
Mexican government securities (UMS)	–	16,065,500	–	16,065,500
Mortgage-backed securities	–	9,839,259	–	9,839,259
Total AFS securities	81,360,796	138,916,923	–	220,277,719
Cross-currency interest rate swaps	–	–	29,630,436	29,630,436
Interest rate swaps	–	–	31,658,160	31,658,160
Fair value of hedged items - loans	–	–	9,879,068	9,879,068
Total assets at fair value	$ 81,360,796	$ 138,916,923	$ 71,167,664	$ 291,445,383
Liabilities				
Cross-currency interest rate swaps	$ –	$ –	$ 4,602,926	$ 4,602,926
Interest rate swaps	–	–	9,665,184	9,665,184
Fair value of hedged item – notes payable	–	–	31,658,160	31,658,160
Total liabilities at fair value	$ –	$ –	$ 45,926,270	$ 45,926,270

	June 30, 2011			
	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total Fair Value
Assets				
Available-for-sale (AFS) securities:				
U.S. government securities	$ 83,350,362	$ –	$ –	$ 83,350,362
U.S. agency securities	–	19,486,052	–	19,486,052
Corporate debt securities	–	54,854,835	–	54,854,835
Other fixed-income securities	–	11,293,650	–	11,293,650
Mexican government securities (UMS)	–	7,383,500	–	7,383,500
Mortgage-backed securities	–	4,384,440	–	4,384,440
Total AFS securities	83,350,362	97,402,477	–	180,752,839
Interest rate swaps	–	–	9,747,017	9,747,017
Fair value of hedged items - loans	–	–	3,690,210	3,690,210
Total assets at fair value	$ 83,350,362	$ 97,402,477	$ 13,437,227	$ 194,190,066
Liabilities				
Cross-currency interest rate swaps	$ –	$ –	$ 20,613,047	$ 20,613,047
Fair value of hedge item – notes payable	–	–	9,747,017	9,747,017
Total liabilities at fair value	$ –	$ –	$ 30,360,064	$ 30,360,064

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 six months ended June 30, 2012 and 2011. 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**	**Fair Value of Hedged Items**
Assets			
Beginning balance, January 1, 2012	**$ 58,554,240**	**$ 20,035,019**	**$ 2,475,377**
Total realized and unrealized gains (losses):			
Included in earnings (expenses)	**(6,233,330)**	**11,623,141**	**7,403,691**
Included in other comprehensive income (loss)	**(22,690,474)**	**–**	**–**
Purchases and settlements	**–**	**–**	**–**
Transfers in/out of Level 3	**–**	**–**	**–**
Ending balance, June 30, 2012	**$ 29,630,436**	**$ 31,658,160**	**$ 9,879,068**
Beginning balance, January 1, 2011	$ 6,560,128	$ 7,018,801	$ (333,289)
Total realized and unrealized gains (losses):			
Included in earnings (expenses)	–	2,728,216	4,023,499
Included in other comprehensive income (loss)	(6,560,128)	–	–
Purchases and settlements	–	–	–
Transfers in/out of Level 3	–	–	–
Ending balance, June 30, 2011	$ –	$ 9,747,017	$ 3,690,210
Liabilities			
Beginning balance, January 1, 2012	**$ –**	**$ –**	**$ 28,032,512**
Total realized and unrealized (gains) losses:			
Included in (earnings) expenses	**645,288**	**9,665,184**	**3,625,648**
Included in other comprehensive (income) loss	**3,957,638**	**–**	**–**
Purchases and settlements	**–**	**–**	**–**
Transfers in/out of Level 3	**–**	**–**	**–**
Ending balance, June 30, 2012	**$ 4,602,926**	**$ 9,665,184**	**$ 31,658,160**
Beginning balance, January 1, 2011	$ –	$ –	$ 7,018,801
Total realized and unrealized (gains) losses:			
Included in (earnings) expenses	5,354,855	–	2,728,216
Included in other comprehensive (income) loss	15,258,192	–	–
Purchases and settlements	–	–	–
Transfers in/out of Level 3	–	–	–
Ending balance, June 30, 2011	$ 20,613,047	$ –	$ 9,747,017

The Bank entered into eight cross-currency interest rate swaps during the six months ended June 30, 2012. Upon issuance, the fair value of the swaps is $-0- and, therefore, is not portrayed in the purchases and settlements line item above. The change in fair value of these instruments is included within the total gains (losses) line item above.

11. Fair Value of Financial Instruments (continued)

Impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. The impaired loans are reported at fair value through a specific valuation allowance allocation of the allowance for loan losses. Collateral values are estimated using Level 3 inputs based on customized valuation procedures. As of June 30, 2012, one impaired loan with a carrying value of $10,126,749 has been reduced by specific valuation allowance allocations totaling $2,350,000 to a total reported fair value of $7,776,749 based on collateral valuations using Level 3 inputs.

The Bank has no nonfinancial assets or liabilities measured at fair value on a recurring basis. Certain nonfinancial assets and liabilities measured at fair value on a nonrecurring basis include foreclosed assets (upon initial recognition or subsequent impairment) and other nonfinancial long-lived assets measured at fair value for impairment assessment. In March 2012, the Bank foreclosed on the collateral of one loan with a net asset value of $800,000 and this collateral is reported in other assets for $800,000. For the six months ended June 30, 2012, the Bank did not remeasure any existing real estate owned, and did not record any impairment on long-lived assets.

12. Derivative Financial Instruments

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

The Bank enters into cross-currency interest rate swaps that are matched to specific fixed, variable, or adjustable rate loans denominated in Mexican pesos that the Bank has entered into directly with the borrower or with COFIDAN. If the swap is with COFIDAN, it then enters into loans denominated in Mexican pesos under the exact same terms with its borrowers. The swaps have been designated as hedging instruments because they hedge the risk of fluctuations in cash flows due to changes in foreign currency exchange rates. The swaps are structured so that the notional amounts decrease over time to match the expected amortization of the underlying loan.

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

12. Derivative Financial Instruments (continued)

Neither the Bank nor the counterparty is required to post collateral to support the outstanding fair value of the swaps under its arrangement with FOAEM. Beginning in July 2009, under counterparty relationships with other financial institutions, collateral may be required to be posted by either the Bank or the counterparty. As of June 30, 2012, collateral of $17,650,000 in cash and receivables was posted from a counterparty to the Bank. No collateral was posted by the Bank or the counterparty as of June 30, 2011.

The notional amounts and estimated fair values of the swaps outstanding at June 30, 2012 and 2011 are presented in the following table. The fair value of these swaps is estimated using internal valuation models with observable market data inputs.

	June 30, 2012		June 30, 2011	
	Notional Amount	**Estimated Fair Value**	**Notional Amount**	**Estimated Fair Value**
Cross-currency interest rate swaps	**$ 276,460,212**	**$ 24,975,993**	$ 381,716,777	$(20,744,649)
Interest rate swaps	**251,600,000**	**21,992,976**	197,000,000	9,747,017

The referenced exchange rate received for the cross-currency interest rate swaps outstanding at June 30, 2012, was 7.48%.

One swap that is no longer deemed effective because of borrower default on the hedged loan and subsequent foreclosure on the collateral of the loan in March 2012 is not included in the table above. The fair value of the swap was $51,518 and $131,602 as of June 30, 2012 and 2011, respectively. The change in the fair value of the swaps for the six months ended on those dates was a decrease of $135,300 and $152,153, respectively, which is recognized in the consolidated statements of income.

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 the cross-currency interest rate swaps is included in other comprehensive income, while the ineffective portion is included in other income or expenses. 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 gain (loss) related to the swaps included in accumulated other comprehensive income totaled $1,107,865 and ($7,094,830) at June 30, 2012 and 2011, respectively.

Interest Rate Swaps – With regard to the interest rate swaps on the outstanding loans and a portion of the long-term notes payable, the changes in the fair value of the swaps exactly offset the changes in the fair value of the loans and debt due to changes in the LIBOR swap rate; therefore, there is no impact to the consolidated statement of income for the period. The fair value of the interest rate swaps was reported as other assets of $31,658,160 and other liabilities of $9,665,184 at June 30, 2012 and as other assets of $9,747,017 at June 30, 2011 in the accompanying consolidated balance sheets.

13. Credit Risk Associated with Financial Instruments

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

14. Contingencies

In March 2012, the Bank became involved in litigation instituted by one of its borrowers. The borrower contends that, when it refinanced its debt and repaid a loan to the Bank, it overpaid interest due on the loan, and seeks reimbursement of the overpaid interest based on the difference between the Bank's interest rate on the loan and what the borrower believes the interest rate should have been, as well as the cost of unwinding related to the alleged interest rate difference, legal fees, and interest on the disputed amount. The Bank disputes the allegations, and believes that no amounts due to overpayment are owed this borrower, thus no accrual has been made as of June 30, 2012. The amount in controversy is a matter of dispute between the parties, but the Bank believes it is approximately $2 million.

15 Accounting Standards Updates

Accounting Standards Update (ASU) No. 2011-04, *Fair Value Measurement (Topic 820) – Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs*. ASU No. 2011-04 amends Topic 820, *Fair Value Measurements and Disclosures*, to converge the fair value measurement guidance in U.S. generally accepted accounting principles and International Financial Reporting Standards. ASU No. 2011-04 clarifies the application of existing fair value measurement requirements, changes certain principles in Topic 820, and requires additional fair value disclosures. ASU No. 2011-04 became effective for the Bank's financial statements for annual periods beginning after December 15, 2011, and the required disclosures are reported herein with no significant impact to the consolidated financial statements.

15 Accounting Standards Updates (continued)

ASU No. 2011-05, *Comprehensive Income (Topic 220) – Presentation of Comprehensive Income*. ASU No. 2011-05 amends Topic 220, *Comprehensive Income*, to require that all non-owner changes in stockholders' equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, ASU No. 2011-05 requires entities to present, on the face of the financial statements, reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement or statements where the components of net income and the components of other comprehensive income are presented. The option to present components of other comprehensive income as part of the statement of changes in stockholders' equity was eliminated. ASU No. 2011-05 is effective for fiscal years ending after December 15, 2012, and interim and annual periods thereafter; however, certain provisions related to the presentation of reclassification adjustments have been deferred by ASU No. 2011-12, *Comprehensive Income (Topic 220) – Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU No. 2011-05*, as further discussed below. ASU No. 2011-05 is not expected to have a significant impact on the Bank's consolidated financial statements.

ASU No. 2011-12, *Comprehensive Income (Topic 220) – Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU No. 2011-05*. ASU No. 2011-12 defers changes in ASU No. 2011-05 that relate to the presentation of reclassification adjustments to allow the Financial Accounting Standards Board time to redeliberate whether to require presentation of such adjustments on the face of the financial statements to show the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income. ASU No. 2011-12 allows entities to continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU No. 2011-05. All other requirements in ASU No. 2011-05 are not affected by ASU No. 2011-12. ASU No. 2011-12 is effective for fiscal year-ends ending after December 15, 2012, and interim and annual periods thereafter, and is not expected to have a significant impact on the Bank's consolidated financial statements.

16. Subsequent Events

Upcoming Debt Issuance

The Bank anticipates an offering of no less than $250 million 10 year fixed rate non-amortizing bonds in October 2012.

The Bank has evaluated subsequent events for potential recognition and/or disclosure through October 10, 2012, the date these unaudited consolidated financial statements were issued.

Supplemental Information

North American Development Bank
Combining Balance Sheet by Program (Unaudited)
June 30, 2012

	International Program	U.S. Domestic Program (A)	Eliminations	Total
Assets				
Cash and cash equivalents:				
Held at other financial institutions in demand deposit accounts	$ 41,135	$ 2,920	$ -	$ 44,055
Held at other financial institutions in interest bearing accounts	41,604,805	1,412,384	-	43,017,189
Repurchase agreements	2,900,000	2,400,000	-	5,300,000
	44,545,940	3,815,304	-	48,361,244
Held-to-maturity investment securities, at amortized cost	53,572,581	-	-	53,572,581
Available-for-sale investment securities, at fair value	220,277,719	-	-	220,277,719
Loans outstanding	464,036,261	2,944,525	-	466,980,786
Allowance for loan losses	(2,350,000)	(23,188)	-	(2,373,188)
Foreign currency exchange rate adjustment	(24,426,690)	-	-	(24,426,690)
Fair value of hedged items	9,879,068	-	-	9,879,068
Net loans outstanding	447,138,639	2,921,337	-	450,059,976
Interest receivable	8,769,587	26,943	-	8,796,530
Grant and other receivable	6,317,450	-	-	6,317,450
Due from U.S. Domestic Program	27,520	-	(27,520)	-
Furniture, equipment and leasehold improvements, net	112,937	-	-	112,937
Other assets	45,669,139	-	-	45,669,139
Total assets	$ 826,431,512	$ 6,763,584	$ (27,520)	$ 833,167,576
Liabilities and Equity				
Liabilities:				
Accounts payable	$ 4,718,884	$ -	$ -	$ 4,718,884
Accrued liabilities	353,827	1,659	-	355,486
Due to International Program	-	27,520	(27,520)	-
Accrued interest payable	5,480,838	-	-	5,480,838
Undisbursed grant funds	218,166	-	-	218,166
Other liabilities	14,268,110	-	-	14,268,110
Long-term notes payable, net of discount	249,503,194	-	-	249,503,194
Fair value of hedged item	31,658,160	-	-	31,658,160
Net long-term notes payable	281,161,354	-	-	281,161,354
Total liabilities	306,201,179	29,179	(27,520)	306,202,838
Equity:				
Paid-in capital	405,000,000	-	-	405,000,000
General Reserve:				
Allocated paid-in capital	-	7,234,092	-	7,234,092
Retained earnings:				
Designated	22,999,783	(588,023)	-	22,411,760
Reserved	41,949,898	88,336		42,038,234
Undesignated	46,356,212	-	-	46,356,212
Accumulated other comprehensive income	3,917,981	-	-	3,917,981
Minority interest	6,459	-	-	6,459
Total equity	520,230,333	6,734,405	-	526,964,738
Total liabilities and equity	$ 826,431,512	$ 6,763,584	$ (27,520)	$ 833,167,576

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

North American Development Bank
Combining Statement of Income by Program (Unaudited)
For the Six Months Ended June 30, 2012

	International Program	U.S. Domestic Program (A)	Total
Income:			
Interest:			
Investment income	$ 2,717,507	$ 1,406	$ 2,718,913
Loan income	9,146,820	59,752	9,206,572
Gains on sales of available-for-sale investment securities, net	160,294	-	160,294
Fee income	182,105	-	182,105
Other	118,337	-	118,337
Total revenues	12,325,063	61,158	12,386,221
Operating expenses:			
Personnel	2,782,045	-	2,782,045
Consultants	799,810	-	799,810
General and administrative	448,107	-	448,107
Operational travel	151,540	-	151,540
Depreciation and amortization	15,409	-	15,409
Relocation	592	-	592
Other	1,333,912	-	1,333,912
U.S. Domestic Program	-	152,320	152,320
Total operating expenses	5,531,415	152,320	5,683,735
Interest expense	2,430,315	-	2,430,315
Income (loss) before program activities	4,363,333	(91,162)	4,272,171
Program activities:			
EPA grant income	798,326	-	798,326
EPA grant administration	(798,326)	-	(798,326)
TAP	(175,690)	-	(175,690)
SWEP	(337,707)	-	(337,707)
Net program expenses	(513,397)	-	(513,397)
Income (loss) before minority interest	3,849,936	(91,162)	3,758,774
Net income attributable to minority interest	121	-	121
Net income (loss)	$ 3,849,815	$ (91,162)	$ 3,758,653
General Reserve, January 1, 2012			
Allocated paid-in capital	$ -	$ 8,111,717	$ 8,111,717
Retained earnings	107,456,078	(408,525)	107,047,553
Current Period Activity:			
Net income (loss)	3,849,815	(91,162)	3,758,653
TGP disbursements of the U.S. Domestic Program	-	(877,625)	(877,625)
General Reserve, June 30, 2012			
Allocated paid-in capital	-	7,234,092	7,234,092
Retained earnings	111,305,893	(499,687)	110,806,206
	$ 111,305,893	$ 6,734,405	$ 118,040,298

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

North American Development Bank
Combining Statement of Cash Flows by Program (Unaudited)
For the Six Months Ended June 30, 2012

	International Program	U.S. Domestic Program (A)	Total
Cash flows from operating activities:			
Net income (loss)	$ 3,849,815	$ (91,162)	$ 3,758,653
Adjustments to reconcile net income to net cash used in operating activities:			
Depreciation and amortization	15,409	-	15,409
Amortization of net premium (discount) on investments	648,611	-	648,611
Change in fair value of swaps and other non-cash items	6,009,910	-	6,009,910
Minority interest	121	-	121
Gain on sales of available-for-sale investment securities, net	(160,294)	-	(160,294)
Change in other assets and liabilities:			
(Increase) decrease in interest receivable	(147,668)	6,073	(141,595)
Increase in receivable and other assets	(897,670)	-	(897,670)
Decrease in due from U.S. Domestic Program due to International Program	2,414	(2,414)	-
Increase in accounts payable	997,886	-	997,886
Increase (decrease) in accrued liabilities	121,014	(24,241)	96,773
Increase in accrued interest payable	117,202	-	117,202
Net cash provided by (used in) operating activities	10,556,750	(111,744)	10,445,006
Cash flows from lending, investing, and development activities:			
Capital expenditures	(11,637)	-	(11,637)
Loan principal repayments	17,357,115	296,819	17,653,934
Loan disbursements	(60,159,937)	-	(60,159,937)
Purchase of held-to-maturity investments	(2,763,000)	-	(2,763,000)
Purchase of available-for-sale investments	(73,648,145)	-	(73,648,145)
Proceeds from maturities of held-to-maturity investments	2,120,000	-	2,120,000
Proceeds from sales and maturities of available-for-sale investments	114,099,806	-	114,099,806
Net cash provided by (used in) lending, investing, and development activities	(3,005,798)	296,819	(2,708,979)
Cash flows from financing activities:			
Grant funds - EPA	6,730,911	-	6,730,911
Grant disbursements - EPA	(6,513,749)	-	(6,513,749)
Grant activity - U.S. Domestic Program	-	(877,625)	(877,625)
Net cash provided by (used in) financing activities	217,162	(877,625)	(660,463)
Net increase (decrease) in cash and cash equivalents	7,768,114	(692,550)	7,075,564
Cash and cash equivalents at January 1, 2012	36,777,826	4,507,854	41,285,680
Cash and cash equivalents at June 30, 2012	$ 44,545,940	$ 3,815,304	$ 48,361,244

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