



North American Development Bank

**Consolidated Financial Statements
(and supplementary information)
As of December 31, 2021 and 2020**



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

North American Development Bank

Consolidated Financial Statements
(and supplementary information)
As of December 31, 2021 and 2020

North American Development Bank

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Independent Auditor's Report

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

Opinion

We have audited the consolidated financial statements of North American Development Bank and its subsidiary (the "Bank"), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Bank and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Bank's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may



involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Bank's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matter - Supplementary Information

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

BDO USA, LLP

BDO USA LLP

Dallas, Texas
February 15, 2022

Consolidated Financial Statements

North American Development Bank

Consolidated Balance Sheets

<i>December 31,</i>	2021	2020
Assets		
Cash and cash equivalents:		
Held at other financial institutions	\$ 26,501,393	\$ 38,665,192
Repurchase agreements	137,400,000	24,800,000
Cash and cash equivalents	163,901,393	63,465,192
Held-to-maturity investment securities, at amortized cost	4,126,913	3,473,904
Available-for-sale investment securities, at fair value	961,786,427	941,141,640
Loans outstanding	976,510,337	1,126,330,083
Allowance for loan losses	(22,139,332)	(19,235,482)
Unamortized loan fees	(6,590,402)	(9,529,630)
Foreign currency exchange rate adjustment	(37,886,330)	(46,483,700)
Hedged items, at fair value	(93,844,578)	(33,183,106)
Net loans outstanding	816,049,695	1,017,898,165
Interest receivable	11,466,441	12,349,446
Grant and other receivable	1,600,323	2,320,787
Furniture, equipment and leasehold improvements, net	84,033	105,122
Other assets	155,597,898	136,404,727
Total Assets	\$ 2,114,613,123	\$ 2,177,158,983

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

North American Development Bank

Consolidated Balance Sheets

December 31,	2021	2020
Liabilities and Equity		
Current Liabilities		
Accounts payable	\$ 842,333	\$ 767,182
Accrued liabilities	2,169,327	2,178,264
Accrued interest payable	9,024,926	9,482,523
Undisbursed grant funds	494,775	16,239
Other liabilities	309,166	17,671,493
Short-term debt, net of discounts and unamortized debt issuance costs	154,943,254	5,264,000
Hedged item, at fair value	1,477,591	-
Net short-term debt	156,420,845	5,264,000
Total Current Liabilities	169,261,372	35,379,701
Long-term Liabilities		
Long-term post-retirement benefits payable	3,236,707	2,779,674
Deferred U.S. capital contribution	165,000,000	165,000,000
Long-term debt, net of discounts and unamortized debt issuance costs	963,232,477	1,117,510,817
Foreign currency exchange rate adjustment	20,504,957	32,163,548
Hedged items, at fair value	16,513,237	60,574,814
Net long-term debt	1,000,250,671	1,210,249,179
Total Long-term Liabilities	1,168,487,378	1,378,028,853
Total Liabilities	1,337,748,750	1,413,408,554
Equity		
Paid-in capital	486,500,000	475,000,000
General Reserve:		
Retained earnings:		
Designated	7,677,224	8,142,355
Reserved	192,382,949	157,615,047
Undesignated	85,552,407	107,724,164
Accumulated other comprehensive income	4,746,957	15,263,820
Non-controlling interest	4,836	5,043
Total Equity	776,864,373	763,750,429
Total Liabilities and Equity	\$ 2,114,613,123	\$ 2,177,158,983

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

North American Development Bank

Consolidated Statements of Income

<i>Years Ended December 31,</i>	2021	2020
Interest Income		
Loans	\$ 42,245,220	\$ 49,753,582
Investments	4,828,036	7,230,820
Total Interest Income	47,073,256	56,984,402
Interest expense	14,327,878	21,217,829
Net Interest Income	32,745,378	35,766,573
Provision for loan losses	2,903,850	18,637
Net interest income after provision for loan losses	29,841,528	35,747,936
Operating Expenses (Income)		
General and administrative		
Personnel	15,538,897	14,630,315
Administrative	1,808,658	1,680,801
Consultants and contractors	2,132,931	1,651,701
Other	(682,142)	(1,558,490)
Grant expense reimbursements, net	(1,320,582)	(1,380,368)
Depreciation	72,901	114,315
Total Operating Expenses	17,550,663	15,138,274
Net Operating Income	12,290,865	20,609,662
Non-interest Income and Non-operating Income (Expenses)		
Gain on securities	938,489	309,044
Grant disbursements	(478,429)	(2,579,626)
Fees and other income (expenses), net	908,863	262,296
Swap and debt settlements, net	790,347	(2,623,578)
Income (expenses) from hedging activities, net	(2,319,328)	(5,790,605)
Total Non-interest and Non-operating Income (Expenses)	(160,058)	(10,422,469)
Third-party contributions	-	4,695,750
Net Income	12,130,807	14,882,943
Non-controlling interest in net loss	(207)	(122)
Controlling Interest in Net Income	\$ 12,131,014	\$ 14,883,065

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

North American Development Bank
Consolidated Statements of Comprehensive Income

<i>Years Ended December 31,</i>	2021	2020
Net income	\$ 12,130,807	\$ 14,882,943
Non-controlling interest in net loss	(207)	(122)
Controlling interest in net income	12,131,014	14,883,065
Other Comprehensive Income (Loss)		
Available-for-sale investment securities:		
Change in unrealized gains (losses) during the period, net	(11,238,857)	3,952,846
Reclassification adjustment for net gains included in net income	(938,489)	(314,017)
Total unrealized gain (loss) on available-for-sale investment securities	(12,177,346)	3,638,829
Post-retirement benefits liability adjustment	(142,488)	-
Foreign currency translation adjustment	50,317	36,706
Unrealized gains (losses) on hedging activities:		
Foreign currency translation adjustment, net	16,647,633	(15,679,290)
Fair value of cross-currency, interest rate swaps and options, net	(14,894,979)	17,907,283
Total unrealized gain on hedging activities	1,752,654	2,227,993
Total Other Comprehensive Income (Loss)	(10,516,863)	5,903,528
Total Comprehensive Income	\$ 1,614,151	\$ 20,786,593

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

North American Development Bank
Consolidated Statement of Changes in Equity

	Paid-in Capital	<u>General Reserve</u> Retained Earnings	Accumulated Other Comprehensive Income	Non-controlling Interest	Total Equity
Beginning balance, January 1, 2020	\$ 415,000,000	\$ 258,598,501	\$ 9,360,292	\$ 5,165	\$ 682,963,958
Capital contribution	60,000,000	-	-	-	60,000,000
Net income	-	14,883,065	-	-	14,883,065
Other comprehensive income	-	-	5,903,528	-	5,903,528
Non-controlling interest	-	-	-	(122)	(122)
Ending balance, December 31, 2020	475,000,000	273,481,566	15,263,820	5,043	763,750,429
Capital contribution	11,500,000	-	-	-	11,500,000
Net income	-	12,131,014	-	-	12,131,014
Other comprehensive loss	-	-	(10,516,863)	-	(10,516,863)
Non-controlling interest	-	-	-	(207)	(207)
Ending Balance, December 31, 2021	\$ 486,500,000	\$ 285,612,580	\$ 4,746,957	\$ 4,836	\$ 776,864,373

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

North American Development Bank

Consolidated Statements of Cash Flows

<i>Years Ended December 31,</i>	2021	2020
Cash Flows from Operating Activities		
Net income	\$ 12,131,014	\$ 14,883,065
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	72,901	114,315
Amortization of net premiums (discounts) on investments	7,878,399	(495,810)
Change in fair value of swaps, options, hedged items and other non-cash items	(39,347,777)	23,717,410
Non-controlling interest	(207)	(122)
Gains on securities, net	(938,489)	(314,017)
Provision for loan losses	2,903,850	18,637
Long-term post-retirement benefits payable	457,033	298,155
Change in other assets and liabilities:		
(Increase) decrease in interest receivable	883,005	3,638,470
(Increase) decrease in accounts receivable	720,464	(1,010,438)
Increase (decrease) in accounts payable	75,151	(46,830)
Increase (decrease) in accrued liabilities	(8,937)	257,087
Increase (decrease) in accrued interest payable	(457,597)	(8,004,543)
Net cash provided by (used in) operating activities	(15,631,190)	33,055,379
Cash Flows from Lending, Investing and Development Activities		
Capital expenditures	(51,839)	(51,821)
Loan principal repayments	267,033,134	226,576,545
Loan disbursements	(117,213,388)	(51,160,105)
Purchase of held-to-maturity investments	(3,637,130)	(2,957,250)
Purchase of available-for-sale investments	(767,629,311)	(2,306,861,324)
Proceeds from maturities of held-to-maturity investments	2,951,000	3,522,068
Proceeds from sales and maturities of available-for-sale investments	727,900,389	1,998,069,060
Net cash provided by (used) in lending, investing and development activities	109,352,855	(132,862,827)
Cash Flows from Financing Activities		
Capital contributions	11,500,000	60,000,000
Capital contribution paid-in advance	-	165,000,000
Proceeds from note issuances	-	351,930,442
Principal repayment of other borrowings	(5,264,000)	(5,264,000)
Principal repayment of notes payable	-	(529,998,000)
Grant funds from the Environmental Protection Agency (EPA)	12,724,552	12,014,761
Grant funds from other sources	1,927,000	-
Grant disbursements - EPA	(12,731,879)	(12,007,431)
Grant disbursements from other sources	(1,441,137)	(971)
Net cash provided by financing activities	6,714,536	41,674,801
Net Increase (Decrease) in Cash and Cash Equivalents	100,436,201	(58,132,647)
Cash and Cash Equivalents, Beginning of Year	63,465,192	121,597,839
Cash and Cash Equivalents, End of Year	\$ 163,901,393	\$ 63,465,192
Supplemental Cash Information		
Cash paid during the year for interest	\$ 12,253,743	\$ 20,093,599
Significant Non-cash Transactions		
Foreign currency translation adjustment	\$ 16,647,633	\$ (15,679,290)
Change in fair value of cross-currency interest rate swaps, net	(14,894,979)	17,907,283
Change in fair value of available-for-sales investments, net	(12,177,346)	3,638,829

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

North American Development Bank

Notes to Consolidated Financial Statements

1. Organization and Purpose

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

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

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

On June 2, 1998, the Board of Directors adopted a resolution authorizing the Bank to establish a limited-purpose financial institution (sociedad financiera de objeto limitado, SOFOL) for the purpose of facilitating Bank lending to the Mexican public sector. In January 1999, the Corporación Financiera de América del Norte, S.A. de C.V. SOFOL (COFIDAN) began operations in Mexico City and, in October 2006, COFIDAN was converted from a SOFOL to a non-regulated, multipurpose financial institution (SOFOM, E.N.R.), and its name was modified to Corporación Financiera de América del Norte, S.A. de C.V. SOFOM E.N.R. As of December 31, 2021, COFIDAN is 99.90% owned by the Bank and 0.10% owned by the Government of Mexico. The accounts of COFIDAN are consolidated with the Bank, and all material intercompany accounts and transactions are eliminated in the consolidation. The non-controlling interest reflected in the consolidated balance sheets and consolidated statements of income represents the ownership of the Government of Mexico through the Ministry of Finance and Public Credit (SHCP).

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates in Financial Statements

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

North American Development Bank

Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (Continued)

Principles of Consolidation

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

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash deposits, money market accounts with other financial institutions and overnight repurchase agreements. As of December 31, 2021, cash deposits with other financial institutions in demand deposit accounts and interest-bearing accounts totaled \$1,023,135 and \$25,478,258, respectively. As of December 31, 2020, cash deposits with other financial institutions in demand deposit accounts and interest-bearing accounts totaled \$2,706,628 and \$35,958,564, respectively.

Repurchase Agreements

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

Investment Securities

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

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

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

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

The accretion of discounts and the amortization of premiums are computed using the interest method. Realized gains and losses are determined using the specific identification method. Investments in a loss position are reviewed to determine whether the unrealized loss, which is considered an impairment, is temporary or other-than-temporary. In the event of other-than-temporary impairment, the cost basis of the investment would be written down to its fair value, and the credit component of the loss would be included in current earnings. The Bank had no securities classified as other-than-temporarily impaired at December 31, 2021 and 2020.

North American Development Bank

Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (Continued)

Taxation

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

Furniture, Equipment, and Leasehold Improvements

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

Retained Earnings

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

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

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

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

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

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

Loans and Allowance for Loan Losses

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

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.

North American Development Bank

Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (Continued)

Loans and Allowance for Loan Losses (Continued)

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

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

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

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

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

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

Loan Portfolio Risk Rating

The internal credit risk methodologies are tailored to the characteristics of each transaction and project sector and were developed using both quantitative and qualitative variables to address both project and borrower risks. The analysis includes all financial and operating metrics relevant to the overall performance of the project, as well as any relevant credit risk mitigating measures. The variables are well defined and consistently applied to each individual loan.

North American Development Bank
Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (Continued)

Loan Portfolio Risk Rating (Continued)

For each loan, the probability of default is estimated using the corresponding methodology and mapped onto the credit risk rating scale.

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

Revenue Recognition

Interest income from financial instruments, such as investments, loan and swaps used for hedging purposes, is recognized in the period earned and is not within the scope of Accounting Standards Codification (ASC) Topic 606, Revenue from Contracts with Customers. Revenue from advisory fees and other income not associated with those financial instruments is within the scope of ASC Topic 606 and is recognized by applying the following steps: (i) identify the contract, (ii) identify the performance obligations, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations and (v) recognize revenue when a performance obligation is satisfied.

Third-party Contributions

In 2020, the Bank received contributions from the federal governments through the U.S. Department of State and the Mexican Ministry of Environment and Natural Resources (SEMARNAT), which are reflected in the consolidated statements of income.

Grant Program Activity

Bank-funded grants - The Bank funds grants through the Community Assistance Program (CAP), Water Conservation Investment Fund (WCIF), Technical Assistance Program (TAP) and COVID-19 Recovery Program (ProRec). Grants are recognized at the date the Bank becomes obligated under the terms of the grant agreements, and associated costs are recognized as incurred. Bank-funded grant disbursements are reflected in the consolidated statements of income.

Third-party grants - The Bank receives grants from the U.S. Environmental Protection Agency (EPA), U.S. Department of State (DOS) and other sources associated with project financing, technical assistance activities and program operating expense reimbursements.

North American Development Bank
Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (Continued)

Grant Program Activity (Continued)

Third-party 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 grantors. The Bank's role is to administer these funds. The operating expenses and expense reimbursements for these grants are reflected in the consolidated statements of income.

Additional information on grant programs is provided in Note 8.

Foreign Currency

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

The lending activities of the Bank include making loans that are denominated in Mexican pesos. For such loans, the Bank enters into cross-currency interest rate swaps that mitigate its exposure to fluctuations in foreign currency exchange rates and interest rates. As of December 31, 2021, the Bank had entered into counterparty agreements with 12 counterparties, two (2) of which are backed by the federal government of Mexico and the other 10 are commercial financial institutions. The foreign currency translation adjustment on loans denominated in Mexican pesos as of December 31, 2021 and 2020 was \$(37,886,330) and \$(46,483,700), respectively.

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

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

North American Development Bank

Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (Continued)

Foreign Currency (Continued)

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

Fair Value

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Bank carries cross-currency interest rate swaps, interest rate swaps, options, hedged items, and available-for-sale debt securities at fair value.

To determine the fair market value of its financial instruments, the Bank uses the fair value hierarchy, which is based on three levels of inputs as follows:

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

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

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

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

Accumulated Other Comprehensive Income

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

North American Development Bank

Notes to Consolidated Financial Statements

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.

3. Investments

All investments held by the Bank are classified as either held-to-maturity or available-for-sale securities. The following schedule summarizes investments as of December 31, 2021 and 2020.

<i>December 31, 2021</i>	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
Held-to-maturity:				
U.S. government securities	\$ 1,748,543	\$ 6,306	\$ (4,195)	\$ 1,750,654
U.S. agency securities	2,378,370	32	(11,459)	2,366,943
Total held-to-maturity investment securities	4,126,913	6,338	(15,654)	4,117,597
Available-for-sale:				
U.S. government securities	504,327,184	818,469	(3,866,906)	501,278,747
U.S. agency securities	229,863,207	66,267	(1,883,804)	228,045,670
Corporate debt securities	133,492,327	290,614	(1,469,712)	132,313,229
Other fixed-income securities	86,905,688	66,434	(660,087)	86,312,035
Mexican government securities (UMS)	6,612,785	39,851	(46,804)	6,605,832
Mortgage-backed securities	7,204,323	47,792	(21,201)	7,230,914
Total available-for-sale investment securities	968,405,514	1,329,427	(7,948,514)	961,786,427
Total investment securities	\$ 972,532,427	\$ 1,335,765	\$ (7,964,168)	\$ 965,904,024

<i>December 31, 2020</i>	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
Held-to-maturity:				
U.S. government securities	\$ 3,473,904	\$ 17,722	\$ -	\$ 3,491,626
U.S. agency securities	-	-	-	-
Total held-to-maturity investment securities	3,473,904	17,722	-	3,491,626
Available-for-sale:				
U.S. government securities	470,074,586	2,233,696	(23,073)	472,285,209
U.S. agency securities	199,953,973	523,486	(15,432)	200,462,027
Corporate debt securities	193,648,912	1,552,832	(58,487)	195,143,257
Other fixed-income securities	49,001,718	411,131	(1,540)	49,411,309
Mexican government securities (UMS)	14,313,957	906,543	-	15,220,500
Mortgage-backed securities	8,590,235	32,129	(3,026)	8,619,338
Total available-for-sale investment securities	935,583,381	5,659,817	(101,558)	941,141,640
Total investment securities	\$ 939,057,285	\$ 5,677,539	\$ (101,558)	\$ 944,633,266

North American Development Bank
Notes to Consolidated Financial Statements

3. Investments (Continued)

The following schedule summarizes unrealized losses and the fair value of investments aggregated by category and the length of time individual securities have been in a continuous unrealized loss position as of December 31, 2021 and 2020.

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2021						
Held-to-maturity:						
U.S. government securities	\$ 584,425	\$ 4,195	\$ -	\$ -	\$ 584,425	\$ 4,195
U.S. agency securities	1,693,077	11,459	-	-	1,693,077	11,459
Total held-to-maturity securities	2,277,502	15,654	-	-	2,277,502	15,654
Available-for-sale:						
U.S. government securities	352,643,254	2,245,573	57,112,167	1,621,333	409,755,421	3,866,906
U.S. agency securities	213,703,196	1,694,762	7,719,093	189,042	221,422,289	1,883,804
Corporate debt securities	91,852,061	1,070,481	16,775,738	399,231	108,627,799	1,469,712
Other fixed-income securities	75,971,490	660,088	-	-	75,971,490	660,088
Mexican government securities (UMS)	5,506,801	46,803	-	-	5,506,801	46,803
Mortgage-backed securities	2,802,374	21,201	-	-	2,802,374	21,201
Total available-for-sale investment securities	742,479,176	5,738,908	81,606,998	2,209,606	824,086,174	7,948,514
Total temporarily impaired securities	\$ 744,756,678	\$ 5,754,562	\$ 81,606,998	\$ 2,209,606	\$ 826,363,676	\$ 7,964,168

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2020						
Held-to-maturity:						
U.S. government securities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. agency securities	-	-	-	-	-	-
Total held-to-maturity securities	-	-	-	-	-	-
Available-for-sale:						
U.S. government securities	30,168,844	23,073	-	-	30,168,844	23,073
U.S. agency securities	17,413,203	15,432	-	-	17,413,203	15,432
Corporate debt securities	71,500,056	58,487	-	-	71,500,056	58,487
Other fixed-income securities	998,460	1,540	-	-	998,460	1,540
Mexican government securities (UMS)	-	-	-	-	-	-
Mortgage-backed securities	1,360,079	3,026	-	-	1,360,079	3,026
Total available-for-sale investment securities	121,440,642	101,558	-	-	121,440,642	101,558
Total temporarily impaired securities	\$ 121,440,642	\$ 101,558	\$ -	\$ -	\$ 121,440,642	\$ 101,558

None of the unrealized losses identified in the preceding table are considered to be other-than-temporary or related to a credit impairment of an issuer as of December 31, 2021. As of that same date, the Bank did not have the intent to sell any of the securities with unrealized losses and believed that it was more-likely-than-not that the Bank would not be required to sell any such securities before a recovery of cost.

North American Development Bank
Notes to Consolidated Financial Statements

3. Investments (Continued)

Contractual maturities of investments as of December 31, 2021 and 2020 are summarized in the following table.

<i>December 31, 2021</i>	Held-to-Maturity Securities		Available-for-Sale Securities	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
Less than 1 year	\$ 2,382,319	\$ 2,376,262	\$ 349,281,786	\$ 349,283,489
1-5 years	1,735,278	1,750,651	596,683,974	603,023,691
5-10 years	-	-	8,589,753	8,894,011
More than 10 years	-	-	-	-
Mortgage-backed securities	-	-	7,230,914	7,204,323
	\$ 4,117,597	\$ 4,126,913	\$ 961,786,427	\$ 968,405,514

<i>December 31, 2020</i>	Held-to-Maturity Securities		Available-for-Sale Securities	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
Less than 1 year	\$ 1,188,427	\$ 1,171,776	\$ 295,822,791	\$ 295,588,528
1-5 years	2,303,199	2,302,128	614,278,423	609,021,651
5-10 years	-	-	22,421,088	22,382,967
More than 10 years	-	-	-	-
Mortgage-backed securities	-	-	8,619,338	8,590,235
	\$ 3,491,626	\$ 3,473,904	\$ 941,141,640	\$ 935,583,381

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

The following table summarizes sale and maturity activity of investment securities for the years ended December 31, 2021 and 2020.

<i>Year Ended December 31,</i>	2021	2020
Held-to-maturity investment securities:		
Proceeds from maturities	\$ 2,951,000	\$ 3,522,068
Available-for-sale investment securities:		
Proceeds from sales and maturities	727,900,389	1,998,069,060
Gross realized gains	1,008,830	326,948
Gross realized losses	70,341	12,931

North American Development Bank

Notes to Consolidated Financial Statements

3. Investments (Continued)

The following table sets forth the net unrealized gains (losses) on securities available-for-sale and the reclassification adjustments required for the years ended December 31, 2021 and 2020.

<i>Years Ended December 31,</i>	2021	2020
Net unrealized gain on investment securities available-for-sale, beginning of year	\$ 5,558,259	\$ 1,919,430
Net unrealized gains (losses) on investment securities available-for-sale, arising during the year	(11,238,857)	3,952,846
Reclassification adjustments for net gains on investment securities available-for-sale included in net income	(938,489)	(314,017)
Net unrealized gain (loss) on investment securities available-for-sale, end of year	\$ (6,619,087)	\$ 5,558,259

4. Loans

The following schedule summarizes loans outstanding as of December 31, 2021 and 2020.

<i>December 31,</i>	2021	2020
Loan balance	\$ 976,510,337	\$ 1,126,330,083
Allowance for loan losses:		
General	(19,737,912)	(16,834,062)
Specific	(2,401,420)	(2,401,420)
Unamortized loan fees	(6,590,402)	(9,529,630)
Foreign currency exchange rate adjustment	(37,886,330)	(46,483,700)
Fair value of hedged items	(93,844,578)	(33,183,106)
Net loans outstanding	\$ 816,049,695	\$ 1,017,898,165

At December 31, 2021 and 2020, outstanding unfunded loan commitments on signed loan agreements totaled \$81,670,001 and \$107,830,319, respectively. As of December 31, 2021, the Bank had loan agreements under development for an additional \$228,946,212.

The Bank under certain circumstances offered below-market-rate loans under its Low Interest Rate Lending Facility (LIRF) program, which was terminated in May 2013. As of December 31, 2021 and 2020, the Bank had LIRF loans outstanding of \$20,330,073 and \$23,929,910, respectively.

North American Development Bank
Notes to Consolidated Financial Statements

4. Loans (Continued)

The following table presents the loan portfolio by sector as of December 31, 2021 and 2020.

<i>December 31,</i>	2021	2020
Water	\$ 129,704,494	\$ 121,093,732
Solid waste	1,780,000	2,330,000
Air quality	83,342,652	106,537,593
Clean energy	696,321,733	831,359,681
Basic urban infrastructure	31,150,045	32,914,164
ProRec ¹	34,211,413	32,094,913
	\$ 976,510,337	\$ 1,126,330,083

¹ On May 21, 2020, the Board of Directors approved a COVID-19 Recovery Program (ProRec). The program's objective is to enhance the economic recovery and the general health and welfare of U.S.-Mexico border communities, supporting projects with a positive environmental impact.

The following table presents the loan portfolio by borrower type as of December 31, 2021 and 2020.

<i>December 31,</i>	2021	2020
Private	\$ 717,099,855	\$ 866,219,419
Public	197,480,140	198,931,343
Public-private	61,930,342	61,179,321
	\$ 976,510,337	\$ 1,126,330,083

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

The following table presents the loan portfolio by risk category as of December 31, 2021 and 2020. These risk categories are defined in Note 2, along with additional information on how the Bank evaluates credit quality.

<i>December 31,</i>	2021	2020
A-1	\$ 26,661,204	\$ 30,689,556
A-2	194,710,007	291,552,675
A-3	278,274,345	616,064,228
B-1	146,302,037	171,371,972
B-2	152,962,822	-
B-3	132,487,319	-
C	31,648,560	2,850,000
D	13,464,043	13,801,652
E	-	-
	\$ 976,510,337	\$ 1,126,330,083

The Bank has one non-accrual loan that was restructured and designated as impaired, and as of December 31, 2021 and 2020, had an outstanding balance of \$13,464,043 and \$13,801,652, respectively. There was no charge-off of principal and interest related to this restructured loan. The specific allowance for this loan totaled \$2,401,420 as of December 31, 2021 and 2020.

North American Development Bank
Notes to Consolidated Financial Statements

4. Loans (Continued)

No loans were restructured during the years ended December 31, 2021 and 2020. The average impaired loan balance for the years ended December 31, 2021 and 2020 totaled \$13,642,191 and \$14,013,327, respectively.

An age analysis of past-due loans, including both accruing and non-accruing loans, as of December 31, 2021 and 2020, is shown in the following table.

	Loans 30-89 days past due	Loans 90 or more days past due	Total loans 30+ days past due
December 31, 2021	\$ -	\$ -	\$ -
December 31, 2020	-	-	-

There were no loans past due 90 or more days accruing interest as of December 31, 2021 and 2020.

The following table summarizes the allowance for loan losses by classification as of December 31, 2021 and 2020.

<i>December 31, 2021</i>	Allowance for Loan Losses			Total Loans Outstanding
	General Allowance	Specific Allowance	Total	
Mexico:				
Construction	\$ -	\$ -	\$ -	-
Operation	14,802,385	2,401,420	17,203,805	683,128,760
Total Mexico	14,802,385	2,401,420	17,203,805	683,128,760
United States:				
Construction	947,136	-	947,136	42,036,981
Operation	3,988,391	-	3,988,391	251,344,596
Total United States	4,935,527	-	4,935,527	293,381,577
	\$ 19,737,912	\$ 2,401,420	\$ 22,139,332	\$ 976,510,337

<i>December 31, 2020</i>	Allowance for Loan Losses			Total Loans Outstanding
	General Allowance	Specific Allowance	Total	
Mexico:				
Construction	\$ 1,504,980	\$ -	\$ 1,504,980	\$ 100,000,000
Operation	11,682,988	2,401,420	14,084,408	798,678,063
Total Mexico	13,187,968	2,401,420	15,589,388	898,678,063
United States:				
Construction	5,831	-	5,831	245,300
Operation	3,640,263	-	3,640,263	227,406,720
Total United States	3,646,094	-	3,646,094	227,652,020
	\$ 16,834,062	\$ 2,401,420	\$ 19,235,482	\$ 1,126,330,083

North American Development Bank
Notes to Consolidated Financial Statements

4. Loans (Continued)

The following schedule summarizes the changes in the allowance for loan losses for the years ended December 31, 2021 and 2020.

<i>December 31, 2021</i>	<u>Change in Allowance for Loan Losses</u>				Ending Balance
	Beginning Balance	Specific Provisions	General Provisions	Loan (Charge-offs) Recoveries	
Mexico:					
Construction	\$ 1,504,980	\$ -	\$ (1,504,980)	\$ -	\$ -
Operation	14,084,408	-	3,119,397	-	17,203,805
Total Mexico	15,589,388	-	1,614,417	-	17,203,805
United States:					
Construction	5,831	-	941,305	-	947,136
Operation	3,640,263	-	348,128	-	3,988,391
Total United States	3,646,094	-	1,289,433	-	4,935,527
	\$ 19,235,482	\$ -	\$ 2,903,850	\$ -	\$ 22,139,332

<i>December 31, 2020</i>	<u>Change in Allowance for Loan Losses</u>				Ending Balance
	Beginning Balance	Specific Provisions	General Provisions	Loan (Charge-offs) Recoveries	
Mexico:					
Construction	\$ 4,877,573	\$ -	\$ (3,372,593)	\$ -	\$ 1,504,980
Operation	10,415,399	18,637	3,650,372	-	14,084,408
Total Mexico	15,292,972	18,637	277,779	-	15,589,388
United States:					
Construction	47,926	-	(42,095)	-	5,831
Operation	3,875,947	-	(235,684)	-	3,640,263
Total United States	3,923,873	-	(277,779)	-	3,646,094
	\$ 19,216,845	\$ 18,637	\$ -	\$ -	\$ 19,235,482

North American Development Bank
Notes to Consolidated Financial Statements

5. Other Assets and Other Liabilities

The following table presents the gross and net balances of other assets and other liabilities, including the result of master netting arrangements for derivatives with certain swap counterparties, at December 31, 2021 and 2020.

<i>December 31, 2021</i>	Gross Amount	Master Netting Arrangements	Net Amount
Assets			
Cross-currency interest rate swaps	\$ 166,428,744	\$ (15,168,883)	\$ 151,259,861
Interest rate swaps	7,811,447	-	7,811,447
Options	8,701,951	-	8,701,951
Collateral from counterparty	(9,600,000)	-	(9,600,000)
Credit valuation adjustment for swaps	(2,575,361)	-	(2,575,361)
Total other assets	\$ 170,766,781	\$ (15,168,883)	\$ 155,597,898
Liabilities			
Cross-currency interest rate swaps	\$ 309,166	-	\$ 309,166
Interest rate swaps	-	-	-
Total other liabilities	\$ 309,166	\$ -	\$ 309,166

<i>December 31, 2020</i>	Gross Amount	Master Netting Arrangements	Net Amount
Assets			
Cross-currency interest rate swaps	\$ 183,664,718	\$ (20,142,887)	\$ 163,521,831
Interest rate swaps	10,798,809	-	10,798,809
Options	12,253,253	-	12,253,253
Collateral from counterparty	(48,020,000)	-	(48,020,000)
Credit valuation adjustment for swaps	(2,149,166)	-	(2,149,166)
Total other assets	\$ 156,547,614	\$ (20,142,887)	\$ 136,404,727
Liabilities			
Cross-currency interest rate swaps	\$ 6,953,255	-	\$ 6,953,255
Interest rate swaps	10,718,238	-	10,718,238
Total other liabilities	\$ 17,671,493	\$ -	\$ 17,671,493

North American Development Bank

Notes to Consolidated Financial Statements

6. Debt

The following tables summarize the notes payable and other borrowings as of December 31, 2021 and 2020.

December 31, 2021

Issue Date	Maturity Date	Fixed Rate	Principal Amount	Unamortized Premium/ (Discount)	Unamortized Debt Issuance Costs	FX Translation Adjustment	Fair Value of Hedged Items	Net Debt
Notes Payable								
<u>USD Issuance</u>								
12/17/12	10/26/22	2.40%	\$ 150,002,000	\$ (258,419)	\$ (64,327)	-	\$ 1,477,591	\$ 151,156,845
12/17/12	12/17/30	3.30	50,000,000	-	(154,056)	-	3,322,021	53,167,965
<u>CHF Issuance</u>								
04/30/15	04/30/25	0.25	128,706,754	282,521	(276,892)	-	8,294,718	137,007,101
04/26/17	10/26/27	0.20	124,443,117	245,878	(416,378)	-	9,221,997	133,494,614
07/24/18	07/24/26	0.30	126,415,858	92,174	(464,761)	-	11,746,103	137,789,374
05/28/20	11/28/28	0.20	186,316,116	17,628	(871,395)	10,855,566	-	196,317,915
05/28/20	05/27/33	0.55	165,614,326	629,044	(930,025)	9,649,391	-	174,962,736
<u>NOK Issuance</u>								
03/10/17	03/10/31	2.47	86,724,283	-	(193,623)	-	(7,902,543)	78,628,117
03/10/17	03/10/32	2.47	86,724,283	-	(200,375)	-	(8,169,059)	78,354,849
Total notes payable			1,104,946,737	1,008,826	(3,571,832)	20,504,957	17,990,828	1,140,879,516
Other Borrowings								
07/29/15	06/30/22	1.90	266,455	-	-	-	-	266,455
09/16/16	06/30/22	1.90	2,216,528	-	-	-	-	2,216,528
03/17/17	06/30/22	1.90	149,017	-	-	-	-	149,017
03/17/17	12/30/22	1.90	2,632,000	-	-	-	-	2,632,000
03/17/17	06/30/23	1.90	2,632,000	-	-	-	-	2,632,000
03/17/17	12/30/23	1.90	2,632,000	-	-	-	-	2,632,000
03/17/17	06/30/24	1.90	2,632,000	-	-	-	-	2,632,000
03/17/17	12/30/24	1.90	2,170,720	-	-	-	-	2,170,720
11/13/17	12/30/24	1.90	461,280	-	-	-	-	461,280
Total other borrowings			15,792,000	-	-	-	-	15,792,000
			\$1,120,738,737	\$ 1,008,826	\$ (3,571,832)	\$ 20,504,957	\$ 17,990,828	\$1,156,671,516

North American Development Bank

Notes to Consolidated Financial Statements

6. Debt (Continued)

December 31, 2020

Issue Date	Maturity Date	Fixed Rate	Principal Amount	Unamortized Premium/ (Discount)	Unamortized Debt Issuance Costs	FX Translation Adjustment	Fair Value of Hedged Items	Net Debt
Notes Payable								
<u>USD Issuance</u>								
12/17/12	10/26/22	2.40%	\$ 150,002,000	\$ (573,779)	\$ (142,826)	\$ -	\$ 3,953,433	\$ 153,238,828
12/17/12	12/17/30	3.30	50,000,000	-	(171,245)	-	6,845,376	56,674,131
<u>CHF Issuance</u>								
04/30/15	04/30/25	0.25	128,706,754	378,775	(359,961)	-	14,706,973	143,432,541
04/26/17	10/26/27	0.20	124,443,117	297,148	(487,925)	-	16,924,151	141,176,491
07/24/18	07/24/26	0.30	126,415,858	115,888	(566,597)	-	19,317,004	145,282,153
05/28/20	11/28/28	0.20	186,316,116	20,811	(997,535)	17,027,761	-	202,367,153
05/28/20	05/27/33	0.55	165,614,326	705,615	(1,011,565)	15,135,787	-	180,444,163
<u>NOK Issuance</u>								
03/10/17	03/10/31	2.47	86,724,283	-	(214,688)	-	(526,273)	85,983,322
03/10/17	03/10/32	2.47	86,724,283	-	(220,036)	-	(645,850)	85,858,397
Total notes payable			1,104,946,737	944,458	(4,172,378)	32,163,548	60,574,814	1,194,457,179
Other Borrowings								
08/14/14	06/30/21	1.90	1,008,985	-	-	-	-	1,008,985
02/13/15	06/30/21	1.90	1,623,015	-	-	-	-	1,623,015
02/13/15	12/30/21	1.90	1,470,635	-	-	-	-	1,470,635
07/29/15	12/30/21	1.90	1,161,365	-	-	-	-	1,161,365
07/29/15	06/30/22	1.90	266,455	-	-	-	-	266,455
09/16/16	06/30/22	1.90	2,216,528	-	-	-	-	2,216,528
03/17/17	06/30/22	1.90	149,017	-	-	-	-	149,017
03/17/17	12/30/22	1.90	2,632,000	-	-	-	-	2,632,000
03/17/17	06/30/23	1.90	2,632,000	-	-	-	-	2,632,000
03/17/17	12/30/23	1.90	2,632,000	-	-	-	-	2,632,000
03/17/17	06/30/24	1.90	2,632,000	-	-	-	-	2,632,000
03/17/17	12/30/24	1.90	2,170,720	-	-	-	-	2,170,720
11/13/17	12/30/24	1.90	461,280	-	-	-	-	461,280
Total other borrowings			21,056,000	-	-	-	-	21,056,000
			\$ 1,126,002,737	\$ 944,458	\$ (4,172,378)	\$ 32,163,548	\$ 60,574,814	\$ 1,215,513,179

Notes Payable

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

North American Development Bank

Notes to Consolidated Financial Statements

6. Debt (Continued)

Notes Payable (Continued)

The fair value of the hedges relating to interest rate swaps on notes payable denominated in U.S. dollars was reported at December 31, 2021 and 2020 as other assets of \$4,799,612 and \$10,798,810, respectively. The fair value of the hedges relating to cross-currency interest rate swaps on notes payable not denominated in U.S. dollars was reported at December 31, 2021 and 2020 as other assets of \$29,595,181 and \$72,134,055, respectively. The fair value of hedges relating to options on notes payable not denominated in U.S. dollars was reported at December 31, 2021 and 2020 as other assets of \$8,701,951 and \$12,253,253, respectively. Additional information on the fair value of financial instruments and derivatives is provided in Notes 10 and 11.

Other Borrowings

On November 8, 2012, the Bank signed a loan commitment with another development bank to borrow up to \$50 million to fund eligible projects in Mexico. This loan amortizes semiannually, with the first principal payment paid on December 30, 2015 and final principal payment due on December 30, 2024. As of December 31, 2021 and 2020, the outstanding balance was \$15,792,000 and \$21,056,000, respectively.

The following table summarizes the maturities of the notes payable and other borrowings as of December 31, 2021 and 2020.

<i>December 31,</i>	2021	2020
Less than 1 year	\$ 155,266,000	\$ 5,264,000
1-2 years	5,264,000	155,266,000
2-3 years	5,264,000	5,264,000
3-4 years	128,706,754	5,264,000
4-5 years	126,415,858	128,706,754
5-10 years	447,483,516	487,175,091
More than 10 years	252,338,609	339,062,892
Total	\$ 1,120,738,737	\$ 1,126,002,737

The following table summarizes short-term and long-term debt as of December 31, 2021 and 2020.

<i>December 31,</i>	2021	2020
Short-term debt:		
Notes payable	\$ 150,002,000	\$ -
Other borrowings	5,264,000	5,264,000
Total short-term debt	155,266,000	5,264,000
Long-term debt:		
Notes payable	954,944,737	1,104,946,737
Other borrowings	10,528,000	15,792,000
Total long-term debt	965,472,737	1,120,738,737
Total debt	\$ 1,120,738,737	\$ 1,126,002,737

North American Development Bank
Notes to Consolidated Financial Statements

7. Equity

Subscribed Capital

At December 31, 2021 and 2020, the shareholders of the Bank had subscribed 600,000 shares of capital stock, with a par value of \$10,000 per share. As defined in the Charter, capital includes unqualified and qualified subscribed shares. Qualified subscribed shares are subject to the necessary legal requirements of each subscribing country. Unqualified subscribed shares have either been funded or authorized for purchase by the subscribing country. Capital is further classified as callable or paid-in capital at December 31, 2021 and 2020 as shown in the following tables.

<i>December 31, 2021</i>	Mexico		United States		Total	
	Shares	USD Thousand	Shares	USD Thousand	Shares	USD Thousand
Subscribed capital	300,000	\$ 3,000,000	300,000	\$ 3,000,000	600,000	\$ 6,000,000
Qualified callable capital	(115,317)	(1,153,170)	(102,000)	(1,020,000)	(217,317)	(2,173,170)
Unqualified callable capital	(139,683)	(1,396,830)	(153,000)	(1,530,000)	(292,683)	(2,926,830)
Qualified paid-in capital	(20,350)	(203,500)	-	-	(20,350)	(203,500)
Total funded paid-in capital	24,650	246,500	45,000	450,000	69,650	696,500
Restricted from commitments	-	-	-	(165,000)	-	(165,000)
Transfer for Domestic Programs	-	(22,500)	-	(22,500)	-	(45,000)
Total paid-in capital	24,650	\$ 224,000	45,000	\$ 262,500	69,650	\$ 486,500

<i>December 31, 2020</i>	Mexico		United States		Total	
	Shares	USD Thousand	Shares	USD Thousand	Shares	USD Thousand
Subscribed capital	300,000	\$ 3,000,000	300,000	\$ 3,000,000	600,000	\$ 6,000,000
Qualified callable capital	(121,833)	(1,218,330)	(102,000)	(1,020,000)	(223,833)	(2,238,330)
Unqualified callable capital	(133,167)	(1,331,670)	(153,000)	(1,530,000)	(286,167)	(2,861,670)
Qualified paid-in capital	(21,500)	(215,000)	-	-	(21,500)	(215,000)
Total funded paid-in capital	23,500	235,000	45,000	450,000	68,500	685,000
Restricted from commitments	-	-	-	(165,000)	-	(165,000)
Transfer for Domestic Programs	-	(22,500)	-	(22,500)	-	(45,000)
Total paid-in capital	23,500	\$ 212,500	45,000	\$ 262,500	68,500	\$ 475,000

North American Development Bank

Notes to Consolidated Financial Statements

7. Equity (Continued)

Subscribed Capital (Continued)

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

In 2015, Mexico and the United States agreed to a General Capital Increase (GCI) of 300,000 shares (\$3,000,000,000), bringing the Bank's subscribed capital to \$6,000,000,000. With this GCI, each government subscribed an additional 150,000 shares (\$1,500,000,000).

On May 6, 2016, Mexico submitted its letter of subscription to conditionally subscribe to 150,000 additional shares of capital stock, subject to the necessary legal requirements and availability of budget allocations.

On September 1, 2016, the United States submitted its letter of subscription to conditionally subscribe to 150,000 additional shares of capital stock, subject to the necessary authorizing legislation and availability of appropriations.

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

In April 2020, the United States made its first GCI contribution, which unqualified 1,000 shares of paid-in capital (\$10,000,000) and unqualified 5,667 shares of callable capital (\$56,670,000).

On August 6, 2020, the United States completed its paid-in capital commitment under the GCI by unqualifying its subscription to 21,500 shares of paid-in capital (\$215,000,000). Of this amount, \$165,000,000 is restricted from commitment, until Mexico unqualifies corresponding payments, and is recorded as a deferred U.S. capital contribution in the consolidated balance sheets. On this date, the United States also unqualified its subscription to 19,833 shares of callable capital (\$198,330,000).

In May 2021, Mexico made its second GCI contribution, which unqualified 1,150 shares of paid-in capital (\$11,500,000) and unqualified 6,516 shares of callable capital (\$65,160,000).

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

¹ The Charter allows up to 10% each country's subscription of paid-in and callable capital to be set aside to finance community adjustment and investment programs (the Domestic Programs). In prior years, the Bank transferred \$45 million or 10% of the initial paid-in capital to those programs.

North American Development Bank
Notes to Consolidated Financial Statements

7. Equity (Continued)

Retained Earnings

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

<i>December 31,</i>	2021	2020
Designated retained earnings:		
Technical Assistance Program (TAP)	\$ 1,814,766	\$ 2,279,897
Community Assistance Program (CAP)	5,862,458	5,862,458
Total designated retained earnings	7,677,224	8,142,355
Reserved retained earnings:		
Debt Service Reserve	22,103,000	28,613,000
Operating Expenses Reserve	23,913,682	22,682,824
Special Reserve	30,000,000	30,000,000
Capital Preservation Reserve	116,366,267	76,319,223
Total reserved retained earnings	192,382,949	157,615,047
Undesignated retained earnings:		
Operations	86,409,095	106,277,039
Mark-to-market hedge valuations	(856,688)	1,447,125
Total undesignated retained earnings	85,552,407	107,724,164
Total retained earnings	\$ 285,612,580	\$ 273,481,566

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

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North American Development Bank
Notes to Consolidated Financial Statements

7. Equity (Continued)

Accumulated Other Comprehensive Income

The following table presents the changes in accumulated other comprehensive income for the years ended December 31, 2021 and 2020.

<i>December 31, 2021</i>	Beginning Balance	Period Activity	Ending Balance
Net unrealized gain (loss) on available-for-sale investment securities	\$ 5,558,259	\$ (12,177,346)	\$ (6,619,087)
Post-retirement benefit liability adjustment	-	(142,488)	(142,488)
Foreign currency translation adjustment	340,956	50,317	391,273
Unrealized gain (loss) on hedging activities:			
Foreign currency translation adjustment	(48,981,214)	16,647,633	(32,333,581)
Fair value of cross-currency interest rate swaps	58,345,819	(14,894,979)	43,450,840
Net unrealized gain on hedging activities	9,364,605	1,752,654	11,117,259
Total accumulated other comprehensive income (loss)	\$ 15,263,820	\$ (10,516,863)	\$ 4,746,957

<i>December 31, 2020</i>	Beginning Balance	Period Activity	Ending Balance
Net unrealized gain on available-for-sale investment securities	\$ 1,919,430	\$ 3,638,829	\$ 5,558,259
Foreign currency translation adjustment	304,250	36,706	340,956
Unrealized gain (loss) on hedging activities:			
Foreign currency translation adjustment	(33,301,924)	(15,679,290)	(48,981,214)
Fair value of cross-currency interest rate swaps	40,438,536	17,907,283	58,345,819
Net unrealized gain on hedging activities	7,136,612	2,227,993	9,364,605
Total accumulated other comprehensive income	\$ 9,360,292	\$ 5,903,528	\$ 15,263,820

Hedging Activities in Other Comprehensive Income

The following table summarizes the net unrealized gain (loss) on derivatives designated as cash flow hedges and their related hedged items included in other comprehensive income for the years ended December 31, 2021 and 2020.

<i>December 31,</i>	2021	2020
Cross-currency swaps and hedged items for loans, net	\$ (1,280,660)	\$ (126,974)
Cross-currency swaps, options and hedged items for debt, net	3,033,314	2,354,967
Total	\$ 1,752,654	\$ 2,227,993

For the years ended December 31, 2021 and 2020, \$787,836 and \$319,677, respectively, were reclassified from other comprehensive income and recorded as a component of net swap and debt settlements in the consolidated statements of income.

North American Development Bank

Notes to Consolidated Financial Statements

8. Grant Programs

Bank-funded Grant Programs

Water Conservation Investment Fund (WCIF). In August 2002, the Board of Directors established the WCIF to finance water conservation projects in the U.S.-Mexico border region and designated \$80,000,000 of the Bank's undesignated retained earnings to the program. Of that amount, \$40,000,000 was reserved exclusively for water conservation projects in each country. For the years ended December 31, 2021 and 2020, \$0 and \$95,594, respectively were disbursed under this program. As of December 31, 2021 and 2020, cumulative disbursements totaled \$38,334,972 for the United States and \$39,990,407 for Mexico. These disbursements were reported as grant disbursements in the consolidated statements of income.

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

Community Assistance Program (CAP). In February 2011, the Board of Directors approved a grant program to support public projects in all sectors eligible for Bank financing. Subject to annual limits, the CAP program is funded from the Bank's undesignated retained earnings as authorized by the Board. As of December 31, 2021, a cumulative total of \$14,092,840 has been allocated to the CAP and \$8,230,382 has been disbursed. For the years ended December 31, 2021 and 2020, the Bank disbursed \$0 and \$1,852,948, respectively, under this program, which were reported as grant disbursements in the consolidated statements of income.

In 2021, the Bank received a grant from the U.S. Department of State (DOS) for \$1,902,000 designated for CAP. During the year ended December 31, 2021, the Bank disbursed \$1,441,137 in DOS funds under this program. The disbursement of DOS funds is reflected in the consolidated statements of cash flows.

Technical Assistance Program (TAP). The Bank designated a portion of its retained earnings as authorized by the Board of Directors to offer technical assistance and training to project sponsors for the purpose of strengthening their financial performance and ensuring the long-term sustainability of their infrastructure, subject to annual limits. For the years ended December 31, 2021 and 2020, \$465,131 and \$522,408, respectively, were disbursed under this program. These grant disbursements are reported in the consolidated statements of income.

As part of its technical assistance program, the Utility Management Institute (UMI) provides water utility managers and their staff with an opportunity for ongoing professional development aimed at enhancing their managerial and financial skills. For the years ended December 31, 2021 and 2020, \$13,298 and \$58,676, respectively were disbursed under this program. These disbursements are reported as grant disbursements in the consolidated statements of income.

COVID-19 Recovery Program (ProRec). On May 21, 2020, the Board of Directors approved the ProRec program including an allocation of \$3 million for technical assistance grants (see Note 4). For the years ended December 31, 2021 and 2020, \$0 and \$50,000, respectively, were disbursed under this program. These grant disbursements are reported in the consolidated statements of income.

North American Development Bank
Notes to Consolidated Financial Statements

8. Grant Programs (Continued)

Bank-funded Grant Programs (Continued)

The following table summarizes Bank-funded grant disbursements for the years ended December 31, 2021 and 2020, as reported in the consolidated statement of income.

<i>For the years ended December 31,</i>	2021	2020
Community Assistance Program (CAP)	\$ -	\$ 1,852,948
Technical Assistance Program (TAP)	465,131	522,408
Utility Management Institute (UMI)	13,298	58,676
Water Conservation Investment Fund (WCIF)	-	95,594
COVID-19 Recovery Program (ProRec)	-	50,000
Total grant disbursements	\$ 478,429	\$ 2,579,626

Grant Programs funded by Third Parties

Border Environment Infrastructure Fund (BEIF). Through this program, the Bank administers grant funds from EPA to support the implementation of priority water and wastewater infrastructure projects. EPA grant awards since the initial grant made in April 1997 to December 31, 2021, total \$766,957,902. Under the terms of the grants, the Bank reviews and submits prospective projects to EPA. EPA approves the projects, which are subsequently certified for financing by the Board of Directors. EPA then disburses funds to the Bank, which directs the grant monies to the specified project. The Bank also oversees progress and compliance requirements for EPA and receives an allocation of the EPA grant funds for administrative expenses incurred.

As of December 31, 2021, EPA has approved project funding proposed by the Bank totaling \$698,444,054, of which \$666,894,511 has been disbursed through the Bank. For the years ended December 31, 2021 and 2020, the Bank disbursed \$8,979,915 and \$8,097,283, respectively, in grants for project implementation. Since the Bank administers these funds, the grant disbursements are reflected in the consolidated statements of cash flows. The Bank recognized \$1,243,430 and \$1,489,776 as reimbursement of expenses incurred for the years ended December 31, 2021 and 2020, respectively. These expenses and reimbursements are reflected in the consolidated statements of income.

Project Development Assistance Program (PDAP). The Bank administers grant funding from EPA to provide technical assistance to communities for the development of water and wastewater projects that have been prioritized by EPA to receive a BEIF grant. For the years ended December 31, 2021 and 2020, the Bank disbursed \$1,044,684 and \$1,100,604, respectively, for technical assistance. Since the Bank administers these funds, the grant disbursements are reflected in the consolidated statements of cash flows. The Bank recognized \$878,406 and \$981,502 as reimbursement of expenses incurred for the years ended December 31, 2021 and 2020, respectively. These expenses and reimbursements are reflected in the consolidated statements of income.

North American Development Bank
Notes to Consolidated Financial Statements

8. Grant Programs (Continued)

Grant Programs funded by Third Parties (Continued)

U.S.-Mexico Environmental Border 2025 Program (formerly the U.S.-Mexico Environmental Border 2020 Program). The Bank administers grant funding from EPA to support the joint efforts of the two governments to improve the environment and protect the health of residents within 100 kilometers of the U.S.-Mexico border. The Bank provides logistical and administrative services to identify, contract and manage technical assistance projects and workshops funded through the program. For the years ended December 31, 2021 and 2020, the Bank disbursed \$530,986 and \$405,572, respectively, to support these projects. Since the Bank administers these funds, the grant disbursements are reflected in the consolidated statements of cash flows. The Bank recognized \$152,007 and \$185,107 as reimbursement of expenses incurred for the years ended December 31, 2021 and 2020, respectively. These expenses and reimbursements are reflected in the consolidated statements of income.

The Border 2020 program ended December 31, 2020, and all remaining grant funds were transferred to the Border 2025 program.

9. Employee Benefits

401(a) Retirement Plan

The Bank has a 401(a) Retirement Plan for its employees. This plan provides for employee and nondiscretionary employer contributions. For the years ended December 31, 2021 and 2020, the Bank expended \$1,239,768 and \$1,186,880, respectively, relating to the plan.

Post-retirement Health Insurance Plan

The Bank has a post-retirement health insurance plan for qualifying employees based on number of years of service and age. Qualified retirees may purchase group health insurance coverage at the current employee rate subject to the plan limits. The plan is funded by the Bank as benefits are paid. The Bank paid benefits of \$34,455 and \$25,845 for the years ended December 31, 2021 and 2020, respectively. As of December 31, 2021, the unfunded portion of the plan totaled \$3,296,707 and is reflected in the consolidated balance sheet as a component of accrued liability and long-term liability of \$60,000 and \$3,236,707, respectively. As of December 31, 2020, the unfunded portion of the plan totaled \$2,840,674 and is reflected in the consolidated balance sheet as a component of accrued liability and long-term liability of \$61,000 and \$2,779,674, respectively.

The following table presents the change in benefit obligations as of December 31, 2021 and 2020.

<i>December 31,</i>	2021	2020
Beginning balance	\$ 2,840,674	\$ 2,518,519
Service expense	267,000	267,000
Interest expense	81,000	81,000
Net benefits paid	(34,455)	(25,845)
Actuarial loss (gain)	142,488	-
Ending balance	\$ 3,296,707	\$ 2,840,674

North American Development Bank
Notes to Consolidated Financial Statements

9. Employee Benefits (Continued)

Post-retirement Health Insurance Plan (Continued)

The change in post-retirement health plan assets as of December 31, 2021 and 2020 is presented in the following table.

<i>December 31,</i>	2021	2020
Beginning balance	\$ -	\$ -
Employer contributions	34,455	25,845
Net benefits paid	(34,455)	(25,845)
Ending balance	\$ -	\$ -

The following table presents post-retirement health plan liabilities as of December 31, 2021 and 2020.

<i>December 31,</i>	2021	2020
Current liabilities	\$ 60,000	\$ 61,000
Non-current liabilities	3,236,707	2,779,674
Total	\$ 3,296,707	\$ 2,840,674

The net periodic benefit cost of the post-retirement health plan for the years ended December 31, 2021 and 2020 is presented in the following table.

<i>December 31,</i>	2021	2020
Service expense	\$ 267,000	\$ 267,000
Interest expense	81,000	81,000
Total	\$ 348,000	\$ 348,000

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

The assumptions used to determine the benefit obligations and net periodic post-retirement benefit costs of the plan as of December 31, 2021 and 2020 are presented below:

	2021	2020
Discount rate	2.71%	3.22%
Current healthcare trend rate	6.30%	6.30%
Ultimate healthcare trend rate	5.00%	5.00%
Year in which ultimate trend is reached	2028	2028

North American Development Bank
Notes to Consolidated Financial Statements

9. Employee Benefits (Continued)

Post-retirement Health Insurance Plan (Continued)

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

<i>Year ending December 31,</i>	
2022	\$ 60,000
2023	80,000
2024	98,000
2025	128,000
2026	163,000
2027 - 2031	1,247,000

10. Fair Value of Financial Instruments

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

Cash and Cash Equivalents

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

Securities Held-to-Maturity

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

Securities Available-for-Sale

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

Loans Receivable and Interest Receivable

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

North American Development Bank
Notes to Consolidated Financial Statements

10. Fair Value of Financial Instruments (Continued)

Hedged Items for Loans

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

Cross-currency Interest Rate Swaps

Cross-currency interest rate swaps are reported at fair value using Level 2 observable inputs. The fair value of these swaps is estimated based on discounting procedures, whereby each cash flow stream is discounted using the benchmark swap curve of the respective currency and converting the resulting net present value at the spot exchange rate, as well as other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The Bank's cross-currency interest rate swaps are all Mexican-peso for U.S.-dollar operations except for six (6) debt issuances in foreign currencies for U.S.-dollar operations. Cash flows in Mexican pesos are discounted using the TIIE 28-day swap curve. Cash flows in Swiss francs (CHF) are discounted using the CHF swap curve. Cash flows in Norwegian krone (NOK) are discounted using the NOK swap curve. Cash flows in U.S. dollars are discounted using the USD OIS curve.

Interest Rate Swaps

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

Options

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

Debt and Accrued Interest Payable

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

North American Development Bank
Notes to Consolidated Financial Statements

10. Fair Value of Financial Instruments (Continued)

Hedged Items for Notes Payable

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

Long-Term Post-Retirement Benefits Payable

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

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

	<i>December 31, 2021</i>		<i>December 31, 2020</i>	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets				
Cash and cash equivalents	\$ 163,901,393	\$ 163,901,393	\$ 63,465,192	\$ 63,465,192
Held-to-maturity securities	4,126,913	4,117,597	3,473,904	3,491,626
Available-for-sale securities	961,786,427	961,786,427	941,141,640	941,141,640
Loans, net	816,049,695	890,844,826	1,017,898,165	1,089,205,130
Interest receivable	11,466,441	11,466,441	12,349,446	12,349,446
Cross-currency interest rate swaps	151,259,861	151,259,861	163,521,831	163,521,831
Interest rate swaps	7,811,447	7,811,447	10,798,809	10,798,809
Options	8,701,951	8,701,951	12,253,253	12,253,253
Liabilities				
Accrued interest payable	9,024,926	9,024,926	9,482,523	9,482,523
Short-term debt, net	154,943,254	154,943,254	5,264,000	5,264,000
Long-term debt, net	963,232,477	963,354,521	1,117,510,817	1,118,044,838
Long-term post-retirement benefits payable	3,236,707	3,236,707	2,779,674	2,779,674
Cross-currency interest rate swaps	309,166	309,166	6,953,255	6,953,255
Interest rate swaps	-	-	10,718,238	10,718,238

North American Development Bank

Notes to Consolidated Financial Statements

10. 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, 2021 and 2020 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.

<i>December 31, 2021</i>	Fair Value Measurements Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets				
Available-for-sale (AFS) securities:				
U.S. government securities	\$ 501,278,747	\$ -	\$ -	\$ 501,278,747
U.S. agency securities	228,045,670	-	-	228,045,670
Corporate debt securities	132,313,229	-	-	132,313,229
Other fixed-income securities	86,312,035	-	-	86,312,035
Mexican government securities (UMS)	6,605,832	-	-	6,605,832
Mortgage-backed securities	7,230,914	-	-	7,230,914
Total AFS securities	961,786,427	-	-	961,786,427
Cross-currency interest rate swaps	-	151,259,861	-	151,259,861
Interest rate swaps	-	7,811,447	-	7,811,447
Options	-	8,701,951	-	8,701,951
Hedged items for loans	-	-	(93,844,578)	(93,844,578)
Total assets at fair value	\$ 961,786,427	\$ 167,773,259	\$ (93,844,578)	\$ 1,035,715,108
Liabilities				
Cross-currency interest rate swaps	\$ -	\$ 309,166	\$ -	\$ 309,166
Interest rate swaps	-	-	-	-
Hedged items for notes payable	-	-	17,990,828	17,990,828
Total liabilities at fair value	\$ -	\$ 309,166	\$ 17,990,828	\$ 18,299,994

<i>December 31, 2020</i>	Fair Value Measurements Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets				
Available-for-sale (AFS) securities:				
U.S. government securities	\$ 472,285,209	\$ -	\$ -	\$ 472,285,209
U.S. agency securities	200,462,027	-	-	200,462,027
Corporate debt securities	195,143,257	-	-	195,143,257
Other fixed-income securities	49,411,309	-	-	49,411,309
Mexican government securities (UMS)	15,220,500	-	-	15,220,500
Mortgage-backed securities	8,619,338	-	-	8,619,338
Total AFS securities	941,141,640	-	-	941,141,640
Cross-currency interest rate swaps	-	163,521,831	-	163,521,831
Interest rate swaps	-	10,798,809	-	10,798,809
Options	-	12,253,253	-	12,253,253
Hedged items for loans	-	-	(33,183,106)	(33,183,106)
Total assets at fair value	\$ 941,141,640	\$ 186,573,893	\$ (33,183,106)	\$ 1,094,532,427
Liabilities				
Cross-currency interest rate swaps	\$ -	\$ 6,953,255	\$ -	\$ 6,953,255
Interest rate swaps	-	10,718,238	-	10,718,238
Hedged items for notes payable	-	-	60,574,814	60,574,814
Total liabilities at fair value	\$ -	\$ 17,671,493	\$ 60,574,814	\$ 78,246,307

North American Development Bank
Notes to Consolidated Financial Statements

10. Fair Value of Financial Instruments (Continued)

The following table summarizes the changes to hedged items included in financial assets and liabilities measured at fair value on a recurring basis using unobservable inputs (Level 3) during the years ended December 31, 2021 and 2020. Additional information on how the Bank measures fair value is provided in Note 2.

<i>December 31,</i>	Fair Value of Level 3 Instruments	
	2021	2020
Assets		
Beginning balance	\$ (33,183,106)	\$ (62,856,585)
Total realized and unrealized gains (losses):		
Included in earnings (expenses)	(39,892,598)	21,605,100
Included in other comprehensive income (loss)	-	-
Purchases	-	-
Settlements	(20,768,874)	8,068,379
Transfers in/out of Level 3	-	-
Ending balance	\$ (93,844,578)	\$ (33,183,106)
Liabilities		
Beginning balance	\$ 60,574,814	\$ (5,494,297)
Total realized and unrealized (gains) losses:		
Included in (earnings) expenses	(42,583,986)	75,893,191
Included in other comprehensive income (loss)	-	-
Purchases	-	-
Settlements	-	(9,824,080)
Transfers in/out of Level 3	-	-
Ending balance	\$ 17,990,828	\$ 60,574,814

The Bank has no nonfinancial assets or liabilities measured at fair value on a recurring or non-recurring basis as of December 31, 2021 and 2020.

11. Derivative Financial Instruments

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

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11. Derivative Financial Instruments (Continued)

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

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

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

The Bank may be required to post or receive collateral based on the outstanding fair value of its derivatives. Cash collateral and receivable totaling \$9,600,000 and \$48,020,000 was posted from counterparties to the Bank as of December 31, 2021 and 2020, respectively. No collateral was posted by the Bank as of those same dates.

The notional amounts and estimated fair values of the swaps outstanding at December 31, 2021 and 2020 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, 2021		December 31, 2020	
	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
Cross-currency interest rate swaps	\$ 1,117,228,611	\$ 150,950,695	\$ 1,165,457,937	\$ 156,568,576
Interest rate swaps	389,292,605	7,811,447	391,724,886	80,571
Options	175,965,221	8,701,951	175,965,221	12,253,253

Swaps that are no longer deemed effective because of borrower default on the hedged loans are not included in the preceding table. There were no swaps that were considered ineffective due to borrower default as of December 31, 2021 and 2020.

North American Development Bank
Notes to Consolidated Financial Statements

11. Derivative Financial Instruments (Continued)

Gains and Losses on Derivative Cash Flows

Cross-currency Interest Rate Swaps and Options - The effective portion of the gain or loss due to changes in the fair value of cross-currency interest rate swaps and options designated as cash flow hedges is included in the accompanying consolidated statements of comprehensive income, while the ineffective portion is included in income (expense) from net hedging activities. The accumulated net unrealized gain (loss) related to the swaps and options included in accumulated other comprehensive income totaled \$11,117,259 and \$9,364,605 at December 31, 2021 and 2020, respectively.

Gains or losses due to changes in the fair value of cross-currency interest rate swaps designated as fair value hedges and ineffective swaps and options are reported in income (expense) from net hedging activities. For the years ended December 30, 2021 and 2020, changes in the aforementioned swaps and options included in the accompanying consolidated statements of income were \$(1,893,133) and \$(4,549,849), respectively.

Interest Rate Swaps - With regard to the interest rate swaps on outstanding loans and a portion of notes payable, the changes in the fair value of the swaps offset the changes in the fair value of the loans and debt due to changes in the USD OIS curve, while the ineffective portion is included in income (expense) from net hedging activities. For the years ended December 31, 2021 and 2020, changes in the aforementioned swaps included in the accompanying consolidated statements of income were \$0.

Income (Expense) from Hedging Activities

The following table summarizes the net income (expense) from hedging activities for the years ended December 31, 2021 and 2020.

<i>Years Ended December 31,</i>	2021	2020
Fair value hedges with swaps and hedged items for loans	\$ (1,013,025)	\$ 376,494
Fair value hedges with swaps and hedged items for debt	(1,507,884)	(78,798)
Cash flow hedges with options and hedged items for debt	627,776	(4,847,545)
Credit valuation adjustment	(426,195)	(1,240,756)
Income (expense) from hedging activities, net	\$ (2,319,328)	\$ (5,790,605)

The net income (expenses) from hedging activities is included as a component of non-operating income (expenses) in the accompanying consolidated statements of income.

12. Credit Risk Associated with Financial Instruments

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

North American Development Bank
Notes to Consolidated Financial Statements

13. Commitments

In the normal course of business, the Bank has various outstanding commitments, in addition to the loans receivable disclosed in Note 4 and the long-term borrowings disclosed in Note 6. Under agreements with consultants and contractors in effect at December 31, 2021, the Bank has obligations to make payments contingent upon the future performance of the consultants and contractors under the terms of their respective contracts and, therefore, they are not recorded in the financial statements.

Lease Commitments

The Bank rents office space for its headquarters in San Antonio, Texas, under an operating lease that expires on February 28, 2026. Rent expense totaled \$223,064 and \$267,059, for the years ended December 31, 2021 and 2020, respectively. The following schedule summarizes the minimum future expenses for the lease.

Year Ending December 31,

2022	\$	229,712
2023		232,492
2024		239,436
2025		240,732
2026		40,122
	\$	982,494

14. Accounting Standards Updates

Accounting Standards Update (ASU) 2016-02, Leases (Topic 842). ASU 2016-02, among other things, require lessees to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis, and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. ASU 2016-02 does not significantly change lease accounting requirements applicable to lessors; however, certain changes were made to align, where necessary, lessor accounting with the lessee accounting model and ASC Topic 606: Revenue from Contracts with Customers. ASU 2016-02 will be effective for the Bank on January 1, 2022 and will require a transition using a modified retrospective approach for leases existing at or entered into after the beginning of the earliest comparative period presented in the financial statements.

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

North American Development Bank
Notes to Consolidated Financial Statements

14. Accounting Standards Updates (Continued)

ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. In addition, ASU 2016-13 amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. ASU 2019-10 amended the effective date of ASU 2016-13, making it effective for the Bank on January 1, 2023. The Bank is evaluating the potential impact of ASU 2016-13 to its consolidated financial statements and disclosures.

ASU 2018-14, Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework Changes to the Disclosure Requirements for Defined Benefit Plans, made minor changes to the disclosure requirements for employers that sponsor defined benefit pension and/or other post-retirement benefit plans. The new guidance eliminates requirements for certain disclosures that are no longer considered cost beneficial and requires new ones that the FASB considers pertinent. ASU 2018-14 will be effective for the Bank on January 1, 2022. The Bank evaluated the impact of implementing ASU 2018-14 and determined that the standard will not have a material effect on its consolidated financial statements.

ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting, provides temporary optional guidance on contract modifications and hedging accounting to ease the financial reporting burdens of the expected market transaction from the London Interbank Offered Rate ("LIBOR") to alternative reference rates. In January 2021, the FASB issued ASU 2021-01, which refines the scope of Topic 848 and clarifies some of its guidance as part of the FASB's monitoring of global reference rate activities. This new guidance was effective upon issuance, and the Bank is allowed to elect to apply contract amendments prospectively through December 31, 2022. The Bank is evaluating the potential impact of ASU-2021-01 to its consolidated financial statements.

15. Subsequent Events

The Bank has evaluated the events subsequent to December 31, 2021 and through February 15, 2022, the date the consolidated financial statements were available to be issued.

Supplementary Information

North American Development Bank
Undisbursed Third-Party Grant Funds by Program
For the Years Ended December 31, 2021 and 2020

	EPA				Other				Total	
	BEIF	PDAP	Border 2025	Subtotal	DOS	Air Quality Fund	Other	Subtotal		
Undisbursed grant funds:										
Beginning balance, January 1, 2021	\$ 1,005	\$ 7,327	\$ -	\$ 8,332	\$ -	\$ -	\$ 7,907	\$ 7,907	\$ 16,239	
Grant receipts	10,125,796	1,915,763	682,993	12,724,552	1,902,000	25,000	-	1,927,000	14,651,552	
Grant disbursements	(10,125,796)	(1,923,090)	(682,993)	(12,731,879)	(1,441,137)	-	-	(1,441,137)	(14,173,016)	
Ending balance, December 31, 2021	\$ 1,005	\$ -	\$ -	\$ 1,005	\$ 460,863	\$ 25,000	\$ 7,907	\$ 493,770	\$ 494,775	

	EPA				Other				Total	
	BEIF	PDAP	Border 2020	Subtotal	DOS	Air Quality Fund	Other	Subtotal		
Undisbursed grant funds:										
Beginning balance, January 1, 2020	\$ 1,002	\$ -	\$ -	\$ 1,002	\$ -	\$ -	\$ 8,878	\$ 8,878	\$ 9,880	
Grant receipts	9,334,649	2,089,433	590,679	12,014,761	-	-	-	-	12,014,761	
Grant disbursements	(9,334,646)	(2,082,106)	(590,679)	(12,007,431)	-	-	(971)	(971)	(12,008,402)	
Ending balance, December 31, 2020	\$ 1,005	\$ 7,327	\$ -	\$ 8,332	\$ -	\$ -	\$ 7,907	\$ 7,907	\$ 16,239	

North American Development Bank

Operating Expenses by Program For the Years Ended December 31, 2021 and 2020

December 31, 2021	NADB	EPA			Other	Total
		BEIF	PDAP	Border 2025		
Operating expenses (income)						
General and administrative:						
Personnel	\$ 14,119,644	\$ 577,366	\$ 637,761	\$ 204,126	\$ -	\$ 15,538,897
Administrative	1,808,658	-	-	-	-	1,808,658
Consultants and contractors	2,132,931	-	-	-	-	2,132,931
Other	(682,142)	-	-	-	-	(682,142)
Grant expenses	-	666,064	240,645	46,552	-	953,261
Grant expense reimbursements	-	(1,243,430)	(878,406)	(152,007)	-	(2,273,843)
Grant expense reimbursements, net	-	(577,366)	(637,761)	(105,455)	-	(1,320,582)
Depreciation	72,901	-	-	-	-	72,901
Total operating expenses	\$ 17,451,992	\$ -	\$ -	\$ 98,671	\$ -	\$ 17,550,663
December 31, 2020	NADB	EPA			Other	Total
		BEIF	PDAP	Border 2020		
Operating expenses (income)						
General and administrative:						
Personnel	\$ 13,198,493	\$ 665,250	\$ 573,205	\$ 192,599	\$ 768	\$ 14,630,315
Administrative	1,680,801	-	-	-	-	1,680,801
Consultants and contractors	1,651,701	-	-	-	-	1,651,701
Other	(1,558,490)	-	-	-	-	(1,558,490)
Grant expenses	-	824,526	408,297	43,962	203	1,276,988
Grant expense reimbursements	-	(1,489,776)	(981,502)	(185,107)	(971)	(2,657,356)
Grant expense reimbursements, net	-	(665,250)	(573,205)	(141,145)	(768)	(1,380,368)
Depreciation	114,315	-	-	-	-	114,315
Total operating expenses	\$ 15,086,820	\$ -	\$ -	\$ 51,454	\$ -	\$ 15,138,274

North American Development Bank

Statements of Disbursements by Source and Program For the Years Ended December 31, 2021 and 2020

For the Years Ended December 31,	2021	2020
Loan disbursements	\$ 117,213,388	\$ 51,160,105
NADB grant disbursements:		
CAP	-	1,852,948
TAP	465,131	522,408
UMI	13,298	58,676
WCIF	-	95,594
ProRec	-	50,000
Total NADB grant disbursements	478,429	2,579,626
Third-party grant disbursements:		
EPA:		
BEIF	8,979,915	8,097,283
PDAP	1,044,684	1,100,604
Border 2025/Border 2020	530,986	405,572
DOS:		
CAP	1,441,137	-
Total third-party grant disbursements	11,996,722	9,603,459
Total grant disbursements	12,475,151	12,183,085
Total loan and grant disbursements	\$ 129,688,539	\$ 63,343,190
NADB disbursements	\$ 117,691,817	\$ 53,739,731
Third-party disbursements	11,996,722	9,603,459
Total disbursements	\$ 129,688,539	\$ 63,343,190