North American Development Bank

Consolidated Financial Statements And Supplementary Information (Unaudited)

September 30, 2021

North American Development Bank (NADB)

Consolidated Financial Statements and Supplementary Information (Unaudited)
September 30, 2021

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North American Development Bank
Consolidated Balance Sheets
As of September 30, 2021 and December 31, 2020

	(Unaudited) September 30, 2021	(Audited) December 31, 2020
Assets		
Cash and cash equivalents:		
Held at other financial institutions	$ 34,390,785	$ 38,665,192
Repurchase agreements	116,000,000	24,800,000
Total cash and cash equivalents	150,390,785	63,465,192
Held-to-maturity investment securities, at amortized cost	4,134,248	3,473,904
Available-for-sale investment securities, at fair value	824,540,980	941,141,640
Loans outstanding	1,149,158,108	1,126,330,083
Allowance for loan losses	(23,651,074)	(19,235,482)
Unamortized loan fees	(8,904,406)	(9,529,630)
Foreign currency exchange rate adjustment	(40,434,693)	(46,483,700)
Hedged items, at fair value	(76,066,666)	(33,183,106)
Net loans outstanding	1,000,101,269	1,017,898,165
Interest receivable	10,834,050	12,349,446
Grant and other receivable	1,650,069	2,320,787
Furniture, equipment and leasehold improvements, net	85,552	105,122
Other assets	114,091,591	136,404,727
Total assets	$ 2,105,828,544	$ 2,177,158,983
Liabilities and Equity		
Liabilities:		
Current liabilities:		
Accounts payable	$ 519,010	$ 767,182
Accrued liabilities	2,535,394	2,178,264
Accrued interest payable	8,328,169	9,482,523
Undisbursed grant funds	33,912	16,239
Other liabilities	912,854	17,671,493
Short-term debt	5,264,000	5,264,000
Total current liabilities	17,593,339	35,379,701
Long-term liabilities:		
Long-term post-retirement benefits payable	3,010,989	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	1,115,337,425	1,117,510,817
Foreign currency exchange rate adjustment	12,997,807	32,163,548
Hedged items, at fair value	13,957,294	60,574,814
Net long-term debt	1,142,292,526	1,210,249,179
Total long-term liabilities	1,310,303,515	1,378,028,853
Total liabilities	1,327,896,854	1,413,408,554
Equity:		
Paid-in capital	486,500,000	475,000,000
General Reserve:		
Retained earnings:		
Designated	7,314,719	8,142,355
Reserved	157,615,047	157,615,047
Undesignated	116,761,520	107,724,164
Accumulated other comprehensive income	9,735,486	15,263,820
Non-controlling interest	4,918	5,043
Total equity	777,931,690	763,750,429
Total liabilities and equity	$ 2,105,828,544	$ 2,177,158,983

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

North American Development Bank
Consolidated Statements of Income (Unaudited)
For the Nine Months Ended September 30, 2021 and 2020

	For the Nine Months Ended September 30,	
	2021	**2020**
Interest income:		
Loans	$ 30,925,312	$ 39,214,112
Investments	3,584,861	5,863,608
Total interest income	34,510,173	45,077,720
Interest expense	10,741,779	17,354,014
Net interest income	23,768,394	27,723,706
Operating expenses (income):		
General and administrative		
Personnel	10,531,040	9,502,528
Administrative	1,400,010	1,229,416
Consultants and contractors	1,474,744	981,286
Other	(362,551)	(370,046)
Provision for loan losses	4,415,592	18,637
Depreciation	60,637	84,005
Total operating expenses	17,519,472	11,445,826
Net operating income	6,248,922	16,277,880
Non-interest and non-operating income (expenses):		
Gain on securities	932,482	51,441
Income from hedging activities, net	(1,414,724)	(7,154,408)
Fees and other income (expenses), net	694,911	19,134
Swap and debt settlements, net	755,823	(2,623,578)
Total non-interest and non-operating income (expense)	968,492	(9,707,411)
Income before program activities	7,217,414	6,570,469
Program activities:		
Program income	4,674,223	6,712,686
Program expenses:		
Operating expenses	1,798,886	1,630,809
Grant disbursements	1,883,156	3,007,342
Total program expenses	3,682,042	4,638,151
Net program income (expense)	992,181	2,074,535
Net income	8,209,595	8,645,004
Non-controlling interest in net loss	(125)	(54)
Controlling interest in net income	$ 8,209,720	$ 8,645,058

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

North American Development Bank
Consolidated Statements of Comprehensive Income (Unaudited)
For the Nine Months Ended September 30, 2021 and 2020

	For the Nine Months Ended September 30,	
	2021	**2020**
Net income	$ 8,209,595	$ 8,645,004
Non-controlling interest in net loss	(125)	(54)
Controlling interest in net income	8,209,720	8,645,058
Other comprehensive income (loss):		
Available-for-sale investment securities:		
Change in unrealized gains (losses) during the period, net	(5,434,492)	3,693,489
Reclassification adjustment for net gains included in net income	(932,482)	(56,414)
Total unrealized gain (loss) on available-for-sale investment securities	(6,366,974)	3,637,075
Foreign currency translation adjustment	60,209	(12,759)
Unrealized gains (losses) on hedging activities:		
Foreign currency translation adjustment, net	20,076,209	(10,153,066)
Fair value of cross-currency interest rate swaps and options, net	(19,297,778)	10,330,588
Total unrealized gain on hedging activities	778,431	177,522
Total other comprehensive income (loss)	(5,528,334)	3,801,838
Total comprehensive income	$ 2,681,386	$ 12,446,896

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

North American Development Bank
Consolidated Statement of Changes in Equity
For the Nine Months Ended Septembwe 30, 2021 and Year Ended December 31, 2020

	Paid-in Capital	General Reserve 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 (audited)	475,000,000	273,481,566	15,263,820	5,043	763,750,429
Capital contribution	11,500,000	-	-	-	11,500,000
Net income	-	8,209,720	-	-	8,209,720
Other comprehensive income (loss)	-	-	(5,528,334)	-	(5,528,334)
Non-controlling interest	-	-	-	(125)	(125)
Ending balance, September 30, 2021 (unaudited)	$ 486,500,000	$ 281,691,286	$ 9,735,486	$ 4,918	$ 777,931,690

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

North American Development Bank
Consolidated Statements of Cash Flows (Unaudited)
For the Nine Months Ended September 30, 2021 and 2020

	For the Nine Months Ended September 30,	
	2021	**2020**
Cash flows from operating activities		
Net income	$ 8,209,720	$ 8,645,058
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	60,637	84,005
Amortization of net premiums (discounts) on investments	6,116,207	(1,470,910)
Change in fair value of swaps, options, hedged items and other non-cash items	(22,722,162)	21,277,424
Non-controlling interest	(125)	(54)
Gains on securities, net	(932,482)	(56,414)
Provision for loan losses	4,415,592	18,637
Post-retirement benefits payable	231,315	226,405
Change in other assets and liabilities:		
(Increase) decrease in interest receivable	1,515,396	5,635,302
(Increase) decrease in accounts receivable	670,718	(4,744,893)
Increase (decrease) in accounts payable	(248,172)	(102,394)
Increase (decrease) in accrued liabilities	357,130	104,865
Increase (decrease) in accrued interest payable	(1,154,354)	(9,389,910)
Net cash provided by (used in) operating activities	(3,480,580)	20,227,121
Cash flows from lending, investing, and development activities		
Capital expenditures	(41,092)	(51,821)
Loan principal repayments	69,673,635	172,738,471
Loan disbursements	(92,501,660)	(7,186,982)
Purchase of held-to-maturity investments	(3,637,130)	(1,803,671)
Purchase of available-for-sale investments	(515,054,334)	(1,662,367,995)
Proceeds from maturities of held-to-maturity investments	2,951,000	1,726,812
Proceeds from sales and maturities of available-for-sale investments	620,130,081	1,359,902,664
Net cash provided by (used in) lending, investing, and development activities	81,520,500	(137,042,522)
Cash flows from financing activities		
Capital contribution	11,500,000	60,000,000
U.S. capital contribution paid in advance	-	165,000,000
Proceeds from note issuances	-	351,930,442
Principal repayment of other borrowings	(2,632,000)	(2,632,000)
Principal repayment of notes payable	-	(529,998,000)
Grant funds from the Environmental Protection Agency (EPA)	8,228,310	6,645,165
Grant funds from other sources	25,000	-
Grant disbursements - EPA	(8,228,309)	(6,645,163)
Grant disbursements from other sources	(7,327)	(970)
Net cash provided by financing activities	8,885,674	44,299,474
Net increase (decrease) in cash and cash equivalents	86,925,594	(72,515,927)
Cash and cash equivalents, beginning of period	63,465,192	121,597,839
Cash and cash equivalents, end of period	$ 150,390,786	$ 49,081,912
Supplemental cash information		
Cash paid during the year for interest	$ 8,796,005	$ 16,770,974
Significant non-cash transactions		
Foreign currency translation adjustment	$ 20,076,209	$ (10,153,066)
Change in fair value of cross-currency interest rate swaps, net	(19,297,778)	10,330,588
Change in fair value of available-for-sales investments, net	(6,366,974)	3,637,075

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

1. Organization and Purpose

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

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

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

On June 2, 1998, the Board of Directors adopted a resolution authorizing the Bank to establish a limited-purpose financial institution (*sociedad financiera de objeto limitado*, SOFOL) for the purpose of facilitating Bank lending to the Mexican public sector. In January 1999, the Corporación Financiera de América del Norte, S.A. de C.V. SOFOL (COFIDAN) began operations in Mexico City and, in October 2006, COFIDAN was converted from a SOFOL to a non-regulated, multipurpose financial institution (SOFOM, E.N.R.), and its name was modified to Corporación Financiera de América del Norte, S.A. de C.V. SOFOM E.N.R. As of September 30, 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

2. Summary of Significant Accounting Policies (continued)

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

Principles of Consolidation

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

Cash and Cash Equivalents

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

Repurchase Agreements

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

Investment Securities

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

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

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

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

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

2. Summary of Significant Accounting Policies (continued)

event of other-than-temporary impairment, the cost basis of the investment would be written down to its fair value, and the credit component of the loss would be included in current earnings. The Bank had no securities classified as other-than-temporarily impaired at September 30, 2021 and December 31, 2020.

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.

2. Summary of Significant Accounting Policies (continued)

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

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

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

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

The allowance for loan losses is a valuation account used to reasonably estimate loan losses incurred as of the financial statement date. Determining the appropriate allowance for loan losses involves significant judgment about when a loss has been incurred and the amount of that loss. A general allowance is established for all loans. 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 through recovery of loan losses and loan charge-offs. Upon final settlement of impaired loans, any remaining loss is charged off.

2. Summary of Significant Accounting Policies (continued)

Loan Portfolio Risk Rating

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

Rating Scale

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

Government Contributions

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

Program Activities

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

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

2. Summary of Significant Accounting Policies (continued)

Program expenses also represent the disbursement of Bank-funded 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. Additional information on grant programs is provided in Note 8.

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

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

The lending activities of the Bank include making loans that are denominated in Mexican pesos. For such loans, the Bank enters into cross-currency interest rate swaps that mitigate its exposure to fluctuations in foreign currency exchange rates and interest rates. As of September 30, 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 September 30, 2021 and December 31, 2020 was $(40,434,693) 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.

2. Summary of Significant Accounting Policies (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.

2. Summary of Significant Accounting Policies (continued)

Accumulated Other Comprehensive Income

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

Reclassifications

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

3. Investments

All investments held by the Bank are classified as either held-to-maturity or available-for-sale securities. The following schedule summarizes investments as of September 30, 2021 and December 31, 2020.

		Gross Unrealized		
	Amortized Cost	Gains	Losses	Fair Value
September 30, 2021				
Held-to-maturity:				
U.S. government securities	$ 1,753,396	$ 11,600	$ (496)	$ 1,764,500
U.S. agency securities	2,380,852	225	(1,809)	2,379,268
Total held-to-maturity investment securities	4,134,248	11,825	(2,305)	4,143,768
Available-for-sale:				
U.S. government securities	349,896,474	1,231,151	(1,863,922)	349,263,703
U.S. agency securities	229,072,567	145,935	(616,764)	228,601,738
Corporate debt securities	148,771,273	607,829	(541,167)	148,837,935
Other fixed-income securities	83,139,164	217,914	(115,469)	83,241,609
Mexican government securities (UMS)	6,654,037	59,268	(1,603)	6,711,702
Mortgage-backed securities	7,816,180	78,164	(10,051)	7,884,293
Total available-for-sale investment securities	825,349,695	2,340,261	(3,148,976)	824,540,980
Total investment securities	$ 829,483,943	$ 2,352,086	$ (3,151,281)	$ 828,684,748
December 31, 2020				
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

3. Investments (continued)

The following schedule summarizes unrealized losses and the fair value of investments aggregated by category and the length of time individual securities have been in a continuous unrealized loss position as of September 30, 2021 and December 31, 2020.

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2021						
Held-to-maturity:						
U.S. government securities	$ 591,708	$ 496	$ –	$ –	$ 591,708	$ 496
U.S. agency securities	1,160,361	1,809	–	–	1,160,361	1,809
Total held-to-maturity securities	1,752,069	2,305	–	–	1,752,069	2,305
Available-for-sale:						
U.S. government securities	186,642,552	1,541,168	18,720,468	322,754	205,363,020	1,863,922
U.S. agency securities	143,128,748	609,105	992,340	7,660	144,121,088	616,765
Corporate debt securities	90,032,207	509,592	1,382,178	31,574	91,414,385	541,166
Other fixed-income securities	37,261,261	115,469	–	–	37,261,261	115,469
Mexican government securities (UMS)	640,266	1,603	–	–	640,266	1,603
Mortgage-backed securities	1,532,197	10,051	–	–	1,532,197	10,051
Total available-for-sale investment securities	459,237,231	2,786,988	21,094,986	361,988	480,332,217	3,148,976
Total temporarily impaired securities	$ 460,989,300	$ 2,789,293	$ 21,094,986	$ 361,988	$ 482,084,286	$ 3,151,281
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 September 30, 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.

3. Investments (continued)

Contractual maturities of investments as of September 30, 2021 and December 31, 2020 are summarized in the following table.

	Held-to-Maturity Securities		Available-for-Sale Securities	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
September 30, 2021				
Less than 1 year	$ 1,823,333	$ 1,819,967	$ 197,314,791	$ 196,955,481
1–5 years	2,320,435	2,314,281	610,642,729	611,666,172
5–10 years	–	–	8,699,167	8,911,862
More than 10 years	–	–	–	–
Mortgage-backed securities	–	–	7,884,293	7,816,180
	$ 4,143,768	$ 4,134,248	$ 824,540,980	$ 825,349,695
December 31, 2020				
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 nine months ended September 30, 2021 and 2020.

	Nine Months Ended September 30,	
	2021	2020
Held-to-maturity investment securities:		
Proceeds from maturities	$ 2,951,000	$ 1,726,812
Available-for-sale investment securities:		
Proceeds from sales and maturities	620,130,081	1,359,902,664
Gross realized gains	1,002,823	65,044
Gross realized losses	70,341	8,630

3. Investments (continued)

The following table sets forth the net unrealized gains (losses) on securities available-for-sale and the reclassification adjustments required for the nine months ended September 30, 2021 and the year ended December 31, 2020.

	Nine Months Ended September 30, 2021	Year Ended December 31, 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	(5,434,492)	3,952,846
Reclassification adjustments for net gains on investment securities available-for-sale included in net income	(932,482)	(314,017)
Net unrealized gain (loss) on investment securities available-for-sale, end of year	$ (808,715)	$ 5,558,259

4. Loans

The following schedule summarizes loans outstanding as of September 30, 2021 and December 31, 2020.

	September 30, 2021	December 31, 2020
Loan balance	$ 1,149,158,108	$ 1,126,330,083
Allowance for loan losses:		
General	(21,249,654)	(16,834,062)
Specific	(2,401,420)	(2,401,420)
Unamortized loan fees	(8,904,406)	(9,529,630)
Foreign currency exchange rate adjustment	(40,434,693)	(46,483,700)
Fair value of hedged items	(76,066,666)	(33,183,106)
Net loans outstanding	$ 1,000,101,269	$ 1,017,898,165

At September 30, 2021 and December 31, 2020, outstanding unfunded loan commitments on signed loan agreements totaled $79,955,165 and $107,830,319, respectively. As of September 30, 2021, the Bank had loan agreements under development for an additional $170,935,166.

The Bank under certain circumstances offered below-market-rate loans under its Low Interest Rate Lending Facility (LIRF) program, which was terminated in May 2013. As of September 30, 2021 and December 31, 2020, the Bank had LIRF loans outstanding of $20,947,954 and $23,929,910, respectively.

4. Loans (continued)

The following table presents the loan portfolio by sector as of September 30, 2021 and December 31, 2020.

	September 30, 2021	December 31, 2020
Water	$ 133,826,042	$ 121,093,732
Solid waste	1,780,000	2,330,000
Air quality	88,679,843	106,537,593
Clean energy	860,467,514	831,359,681
Basic urban infrastructure	31,603,296	32,914,164
ProRec[1]	32,801,413	32,094,913
	$ 1,149,158,108	$ 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 September 30, 2021 and December 31, 2020.

	September 30, 2021	December 31, 2020
Private	$ 884,279,513	$ 866,219,419
Public	201,943,877	198,931,343
Public-private	62,934,718	61,179,321
	$ 1,149,158,108	$ 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 September 30, 2021 and December 31, 2020. These risk categories are defined in Note 2, along with additional information on how the Bank evaluates credit quality.

	September 30, 2021	December 31, 2020
A-1	$ 27,530,656	$ 30,689,556
A-2	191,328,511	291,552,675
A-3	443,593,006	616,064,228
B-1	146,090,409	171,371,972
B-2	199,572,678	–
B-3	95,930,245	–
C	31,648,560	2,850,000
D	13,464,043	13,801,652
E	–	–
	$ 1,149,158,108	$ 1,126,330,083

4. Loans (continued)

The Bank has one non-accrual loan that was restructured and, as of September 30, 2021 and December 31, 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 September 30, 2021 and December 31, 2020.

No loans were restructured during the nine months ended September 30, 2021 and the year ended December 31, 2020. The average impaired loan balance for the nine months ended September 30, 2021 and the year ended December 31, 2020 totaled $13,701,573 and $14,013,327, respectively.

An age analysis of past-due loans, including both accruing and non-accruing loans, as of September 30, 2021 and December 31, 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
September 30, 2021	$ –	$ –	$ –
December 31, 2020	–	–	–

There were no loans past due 90 or more days accruing interest as of September 30, 2021 and December 31, 2020.

4. Loans (continued)

The following table summarizes the allowance for loan losses by classification as of September 30, 2021 and December 31, 2020.

	Allowance for Loan Losses			
	General Allowance	Specific Allowance	Total	Total Loans Outstanding
September 30, 2021				
Mexico:				
Construction	$ 1,413,370	$ –	$ 1,413,370	$ 100,000,000
Operation	14,791,280	2,401,420	17,192,700	749,494,682
Total Mexico	16,204,650	2,401,420	18,606,070	849,494,682
United States				
Construction	2,027,475	–	2,027,475	105,160,293
Operation	3,017,529	–	3,017,529	194,503,133
Total United States	5,045,004	–	5,045,004	299,663,426
	$ 21,249,654	$ 2,401,420	$ 23,651,074	$ 1,149,158,108
December 31, 2020				
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

4. Loans (continued)

The following schedule summarizes the changes in the allowance for loan losses for the nine months ended September 30, 2021 and the year ended December 31, 2020.

	Beginning Balance	Change in Allowance for Loan Losses: Specific Provisions	General Provisions	Loan (Charge-offs) Recoveries	Ending Balance
September 30, 2021					
Mexico:					
Construction	$ 1,504,980	$ –	$ (91,610)	$ –	$ 1,413,370
Operation	14,084,408	–	3,108,292	–	17,192,700
Total Mexico	15,589,388	–	3,016,682	–	18,606,070
United States					
Construction	5,831	–	2,021,644	–	2,027,475
Operation	3,640,263	–	(622,734)	–	3,017,529
Total United States	3,646,094	–	1,398,910	–	5,045,004
	$ 19,235,482	$ –	$ 4,415,592	$ –	$ 23,651,074
December 31, 2020					
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

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 September 30, 2021 and December 31, 2020.

	Gross Amount	Master Netting Arrangements	Net Amount
September 30, 2021			
Assets			
Cross-currency interest rate swaps	$ 161,483,681	$ (31,026,805)	$ 130,456,876
Interest rate swaps	6,214,371	–	6,214,371
Options	4,005,423	–	4,005,423
Collateral from counterparty	(24,630,000)	–	(24,630,000)
Credit valuation adjustment for swaps	(1,955,079)	–	(1,955,079)
Total other assets	$ 145,118,396	$ (31,026,805)	$ 114,091,591
Liabilities			
Cross-currency interest rate swaps	$ 380,093	$ –	$ 380,093
Interest rate swaps	532,761	–	532,761
Total other liabilities	$ 912,854	$ –	$ 912,854
December 31, 2020			
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

6. Debt

The following tables summarize the notes payable and other borrowings as of September 30, 2021 and December 31, 2020.

			September 30, 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								
USD Issuance								
12/17/12	10/26/22	2.40%	$ 150,002,000	$ (338,135)	$ (84,169)	$ –	$ 2,355,281	$ 151,934,977
12/17/12	12/17/30	3.30	50,000,000	–	(158,401)	–	3,818,565	53,660,164
CHF Issuance								
04/30/15	04/30/25	0.25	128,706,754	297,588	(297,659)	–	5,870,400	134,577,083
04/26/17	10/26/27	0.20	124,443,117	251,387	(434,464)	–	6,789,316	131,049,356
07/24/18	07/24/26	0.30	126,415,858	95,318	(490,502)	–	9,498,442	135,519,116
05/28/20	11/28/28	0.20	186,316,116	17,904	(903,280)	6,881,192	–	192,311,932
05/28/20	05/27/33	0.55	165,614,326	630,031	(950,637)	6,116,615	–	171,410,335
NOK Issuance								
03/10/17	03/10/31	2.47	86,724,283	–	(198,948)	–	(7,029,609)	79,495,726
03/10/17	03/10/32	2.47	86,724,283	–	(205,345)	–	(7,345,101)	79,173,837
Total notes payable			1,104,946,737	954,093	(3,723,405)	12,997,807	13,957,294	1,129,132,526
Other Borrowings								
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			18,424,000	–	–	–	–	18,424,000
			$ 1,123,370,737	$ 954,093	$ (3,723,405)	$ 12,997,807	$ 13,957,294	$ 1,147,556,526

6. Debt (continued)

Issue Date	Maturity Date	Fixed Rate	December 31, 2020 Principal Amount	Unamortized Premium/ (Discount)	Unamortized Debt Issuance Costs	FX Translation Adjustment	Fair Value of Hedged Items	Net Debt
Notes Payable								
USD Issuance								
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
CHF Issuance								
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
NOK Issuance								
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.

6. Debt (continued)

The fair value of the hedges relating to interest rate swaps on notes payable denominated in U.S. dollars was reported at September 30, 2021 and December 31, 2020 as other assets of $6,173,846 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 September 30, 2021 and December 31, 2020 as other assets of $19,960,223 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 September 30, 2021 and December 31, 2020 as other assets of $4,005,423 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 September 30, 2021 and December 31, 2020, the outstanding balance was $18,424,000 and $21,056,000, respectively.

The following table summarizes the maturities of the notes payable and other borrowings as of September 30, 2021 and December 31, 2020.

	September 30, 2021	December 31, 2020
Less than 1 year	$ 5,264,000	$ 5,264,000
1–2 years	155,266,000	155,266,000
2–3 years	5,264,000	5,264,000
3–4 years	131,338,754	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	$ 1,123,370,737	$ 1,126,002,737

The following table summarizes short-term and long-term debt as of September 30, 2021 and December 31, 2020.

	September 30, 2021	December 31 ,2020
Short-term debt:		
Other borrowings	$ 5,264,000	$ 5,264,000
Total short-term debt	5,264,000	5,264,000
Long-term debt:		
Notes payable	1,104,946,737	1,104,946,737
Other borrowings	13,160,000	15,792,000
Total long-term debt	1,118,106,737	1,120,738,737
Total debt	$ 1,123,370,737	$ 1,126,002,737

7. Equity

Subscribed Capital

At September 30, 2021 and December 31, 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 September 30, 2021 and December 31, 2020 as shown in the following tables.

	Mexico		United States		Total	
September 30, 2021	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)
Transferred to Domestic Programs	–	(22,500)	–	(22,500)	–	(45,000)
Total paid-in capital	24,650	$ 224,000	45,000	$ 262,500	69,650	$ 486,500

	Mexico		United States		Total	
December 31, 2020	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)
Transferred to Domestic Programs	–	(22,500)	–	(22,500)	–	(45,000)
Total paid-in capital	23,500	$ 212,500	45,000	$ 262,500	68,500	$ 475,000

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

7. Equity (continued)

The Charter allows up to 10% each country's initial 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 equal to 10% of the initial paid-in capital of $450 million to these programs. As of June 29, 1999, the paid-in capital of the Mexican Domestic Program was fully transferred to Mexico. As of December 31, 2018, the paid-in capital of the U.S. Domestic Program was fully disbursed by the Finance Committee appointed by the U.S. Government for this program.

In 2015, Mexico and the United States each agreed to subscribe 150,000 additional shares. With this General Capital Increase (GCI), each government has subscribed 300,000 shares of capital with a par value of $10,000 per share or $3,000,000,000 for a total of $6,000,000,000.

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

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

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

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

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

7. Equity (continued)

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

On May 3, 2021, Mexico made its second GCI contribution of additional paid-in capital of $11,500,000 or 1,150 shares. On May 4, 2021, Mexico unqualified $11,500,000 or 1,150 shares of paid-in capital and unqualified $65,160,000 or 6,516 shares of callable capital.

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

Retained Earnings

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

	September 30, 2021	December 31, 2020
Designated retained earnings		
Technical Assistance Program (TAP)	$ 1,848,195	$ 2,279,897
Community Assistance Program (CAP)	5,466,524	5,862,458
Total designated retained earnings	7,314,719	8,142,355
Reserved retained earnings		
Debt Service Reserve	28,613,000	28,613,000
Operating Expenses Reserve	22,682,824	22,682,824
Special Reserve	30,000,000	30,000,000
Capital Preservation Reserve	76,319,223	76,319,223
Total reserved retained earnings	157,615,047	157,615,047
Undesignated retained earnings		
Operations	116,717,569	106,277,039
Mark-to-market hedge valuations	43,951	1,447,125
Total undesignated retained earnings	116,761,520	107,724,164
Total retained earnings	$ 281,691,286	$ 273,481,566

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

7. Equity (continued)

Accumulated Other Comprehensive Income

The following table presents the changes in accumulated other comprehensive income for the nine months ended September 30, 2021 and the year ended December 31, 2020.

	Beginning Balance	Period Activity	Ending Balance
September 30, 2021			
Net unrealized gain (loss) on available-for-sale investment securities	$ 5,558,259	$ (6,366,974)	$ (808,715)
Foreign currency translation adjustment	340,956	60,209	401,165
Unrealized gain (loss) on hedging activities:			
Foreign currency translation adjustment	(48,981,214)	20,076,209	(28,905,005)
Fair value of cross-currency interest rate swaps	58,345,819	(19,297,778)	39,048,041
Net unrealized gain on hedging activities	9,364,605	778,431	10,143,036
Total accumulated other comprehensive income (loss)	$ 15,263,820	$ (5,528,334)	$ 9,735,486
December 31, 2020			
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 its related hedged items included in other comprehensive income for the nine months ended September 30, 2021 and 2020.

	Nine months ended September 30, 2021	2020
Cross-currency swaps and hedged items for loans, net	$ (620,855)	$ 1,982,662
Cross-currency swaps, options and hedged items for debt, net	1,399,286	(1,805,140)
Total	$ 778,431	$ 177,522

For the nine months ended September 30, 2021 and 2020, $751,865 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.

8. Program Activities

Program activities are comprised of the following:

	Nine Months ended September 30,	
	2021	2020
Program Income		
Non-program specific contribution:		
U.S. Department of State	$ 1,902,000	$ 2,902,000
Ministry of Environment and Natural Resources (SEMARNAT)	–	1,186,800
Program-specific expense reimbursements and grant income:		
Border Environment Infrastructure Fund (BEIF)	945,099	815,016
Project Development Assistance Program (PDAP)	1,373,112	1,377,493
U.S.-Mexico Border 2025 Program/U.S.-Mexico Border 2020 Program (Border 2025/Border 2020)	454,012	430,406
Other grant income	–	971
Total program income	4,674,223	6,712,686
Program Expenses		
Operating expenses:		
BEIF	945,099	815,016
PDAP	673,565	627,107
Border 2025/Border 2020	180,222	187,715
Other	–	971
Total operating expenses	1,798,886	1,630,809
Grant disbursements:		
PDAP	699,547	750,386
Border 2025/Border 2020	347,975	283,107
Community Assistance Program (CAP)	395,934	1,335,575
Water Conservation Investment Fund (WCIF)	–	95,594
Technical Assistance Program (TAP)	431,702	498,703
Utility Management Institute (UMI)	7,998	43,977
Total grant disbursements	1,883,156	3,007,342
Total program expenses	3,682,042	4,638,151
Net program income (expense)	$ 992,181	$ 2,074,535

Border Environment Infrastructure Fund (BEIF)

The Bank administers grant funds from EPA through the BEIF. EPA grant awards since the initial grant made in April 1997 to September 30, 2021, total $743,741,258. 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.

8. Program Activities (continued)

As of September 30, 2021, EPA has approved project funding proposed by the Bank totaling $695,750,576, of which $665,356,394 has been disbursed through the Bank. The Bank recognized $945,099 and $815,016 as reimbursement of expenses incurred for the nine months ended September 30, 2021 and 2020, respectively. These funds have been recorded as program revenue and expenses in the consolidated statements of income.

Water Conservation Investment Fund (WCIF)
In August 2002, the Board of Directors established the WCIF to finance water conservation projects in the U.S.-Mexico border region and designated $80,000,000 of the Bank's undesignated retained earnings to the program. Of that amount, $40,000,000 was reserved exclusively for water conservation projects in each country. For the nine months ended September 30, 2021 and 2020, $0 and $95,594, respectively were disbursed under this program. As of September 30, 2021 and 2020, cumulative disbursements totaled $38,334,972 for the United States and $39,990,407 for Mexico. These disbursements were reported as a program expense.

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

Community Assistance Program (CAP)
In February 2011, the Board of Directors approved a grant program to support public projects in all sectors eligible for Bank financing. Subject to annual limits, the CAP program is funded from the Bank's undesignated retained earnings as authorized by the Board. As of September 30, 2021, a cumulative total of $14,092,840 has been allocated to the CAP. For the nine months ended September 30, 2021 and 2020, $395,934 and $1,335,575, respectively, were disbursed under this program. These disbursements have been reported as a program expense.

Technical Assistance Program (TAP)
The Bank designated a portion of its retained earnings as authorized by the Board of Directors to offer technical assistance and training to project sponsors for the purpose of strengthening their financial performance and ensuring the long-term sustainability of their infrastructure, subject to annual limits. For the nine months ended September 30, 2021 and 2020, $431,702 and $498,703, respectively, was disbursed under this program. These disbursements have been reported as a program expense.

As part of its technical assistance program, the Utility Management Institute (UMI) provides water utility managers and their staff with an opportunity for ongoing professional development aimed at enhancing their managerial and financial skills. For the nine months ended September 30, 2021 and 2020, $7,998 and $43,977, respectively were expended under this program.

8. Program Activities (continued)

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

Project Development Assistance Program (PDAP). The Bank administers grants from EPA, on a reimbursement basis, to assist communities in the development of water and wastewater projects that have been prioritized by EPA to receive BEIF grants. For the nine months ended September 30, 2021 and 2020, the Bank recognized $699,547 and $750,386, respectively, in technical assistance expenses, as well as $673,565 and $627,107 in grant administrative expenses, respectively. These funds have been recorded as program revenue and expenses in the consolidated statements of income.

U.S.-Mexico Environmental Border 2025 Program (formerly the U.S.-Mexico Environmental Border 2020 Program). The Bank administers grants from EPA, on a reimbursement basis, to support joint efforts of the two governments to improve the environment and protect the health of residents within 100 kilometers of the U.S.-Mexico border. The Bank provides logistical and administrative services to identify, contract and manage projects and workshops funded under the program. For the nine months ended September 30, 2021 and 2020, the Bank recognized $347,975 and $283,107, respectively, in technical assistance expenses, as well as $180,222 and $187,715 in grant administrative expenses, respectively. Program expenses are recognized as incurred, and reimbursed expenses are recognized as revenue.

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

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 nine months ended September 30, 2021 and 2020, no funds were disbursed under this program. Disbursements are recorded as a program expense in the consolidated statements of income.

9. Employee Benefits

401(a) Retirement Plan

The Bank has a 401(a) Retirement Plan for its employees. This plan provides for employee and nondiscretionary employer contributions. For the nine months ended September 30, 2021 and 2020, the Bank expended $915,444 and $875,850, respectively, relating to the plan.

Post-retirement Health Insurance Plan

The Bank has a post-retirement health insurance plan for qualifying employees based on number of years of service and age. Qualified retirees may purchase group health insurance coverage at the current employee rate subject to the plan limits. During 2019,

9. Employee Benefits (continued)

an actuarial study of the plan was performed by a certified third party to estimate the prior, current and long-term benefit obligation as of December 31, 2019. The plan is funded by the Bank as benefits are paid. The Bank paid benefits of $24,436 and $25,845 for the nine months ended September 30, 2021 and 2020. As of September 30, 2021, the unfunded portion of the plan totaled $3,077,239 and is reflected in the consolidated balance sheet as a component of accrued liability and long-term liability of $66,250 and $3,010,989, 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 September 30, 2021 and December 31, 2020.

	September 30, 2021	December 31, 2020
Beginning balance	$ 2,840,674	$ 2,518,519
Service expense	200,250	267,000
Interest expense	60,750	81,000
Net benefits paid	(24,435)	(25,845)
Ending balance	$ 3,077,239	$ 2,840,674

The change in post-retirement health plan assets as of September 30, 2021 and December 31, 2020 is presented in the following table.

	September 30, 2021	December 31, 2020
Beginning balance	$ –	$ –
Employer contributions	24,435	25,845
Net benefits paid	(24,435)	(25,845)
Ending balance	$ –	$ –

The following table presents post-retirement health plan liabilities as of September 30, 2021 and December 31, 2020.

	September 30, 2021	December 31, 2020
Current liabilities	$ 66,250	$ 61,000
Non-current liabilities	3,010,989	2,779,674
Total	$ 3,077,239	$ 2,840,674

9. Employee Benefits (continued)

The net periodic benefit cost of the post-retirement health plan for the nine months ended September 30, 2021 and 2020 is presented in the following table.

	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Service expense	$ 200,250	$ 200,250
Interest expense	60,750	60,750
Total	$ 261,000	$ 261,000

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 September 30, 2021 and December 31, 2020 are presented below.

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

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

October 1 - December 31, 2021	$ 15,250
Year ending December 31:	
2022	68,000
2023	82,000
2024	117,000
2025	152,000
2026 - 2030	1,105,000

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.

10. Fair Value of Financial Instruments (continued)

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.

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.

10. Fair Value of Financial Instruments (continued)

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.

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.

10. Fair Value of Financial Instruments (continued)

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

	September 30, 2021		December 31, 2020	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets				
Cash and cash equivalents	$ 150,390,785	$ 150,390,785	$ 63,465,192	$ 63,465,192
Held-to-maturity securities	4,134,248	4,143,768	3,473,904	3,491,626
Available-for-sale securities	824,540,980	824,540,980	941,141,640	941,141,640
Loans, net	1,000,101,269	1,078,377,411	1,017,898,165	1,089,205,130
Interest receivable	10,834,050	10,834,050	12,349,446	12,349,446
Cross-currency interest rate swaps	130,456,876	130,456,876	163,521,831	163,521,831
Interest rate swaps	6,214,371	6,214,371	10,798,809	10,798,809
Options	4,005,423	4,005,423	12,253,253	12,253,253
Liabilities				
Accrued interest payable	8,328,169	8,328,169	9,482,523	9,482,523
Short-term debt, net	5,264,000	5,264,000	5,264,000	5,264,000
Long-term debt, net	1,115,337,425	1,115,627,205	1,117,510,817	1,118,044,838
Long-term post-retirement benefits payable	3,010,989	3,010,989	2,779,674	2,779,674
Cross-currency interest rate swaps	380,093	380,093	6,953,255	6,953,255
Interest rate swaps	532,761	532,761	10,718,238	10,718,238

The Bank's financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2021 and December 31, 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.

10. Fair Value of Financial Instruments (continued)

	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total Fair Value
September 30, 2021				
Assets				
Available-for-sale (AFS) securities:				
U.S. government securities	$ 349,263,703	$ –	$ –	$ 349,263,703
U.S. agency securities	228,601,738	–	–	228,601,738
Corporate debt securities	148,837,935	–	–	148,837,935
Other fixed-income securities	83,241,609	–	–	83,241,609
Mexican government securities (UMS)	6,711,702	–	–	6,711,702
Mortgage-backed securities	7,884,293	–	–	7,884,293
Total AFS securities	824,540,980	–	–	824,540,980
Cross-currency interest rate swaps	–	130,456,876	–	130,456,876
Interest rate swaps	–	6,214,371	–	6,214,371
Options	–	4,005,423	–	4,005,423
Hedged items for loans	–	–	(76,066,666)	(76,066,666)
Total assets at fair value	$ 824,540,980	$ 140,676,670	$ (76,066,666)	$ 889,150,984
Liabilities				
Cross-currency interest rate swaps	$ –	$ 380,093	$ –	$ 380,093
Interest rate swaps	–	532,761	–	532,761
Hedged items for notes payable	–	–	13,957,294	13,957,294
Total liabilities at fair value	$ –	$ 912,854	$ 13,957,294	$ 14,870,148
December 31, 2020				
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

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 nine months ended September 30, 2021 and the year ended December 31, 2020. Additional information on how the Bank measures fair value is provided in Note 2.

	Fair Value of Level 3 Instruments	
	September 30, 2021	December 31, 2020
Assets		
Beginning balance	$ (33,183,106)	$ (62,856,585)
Total realized and unrealized gains (losses):		
Included in earnings (expenses)	(42,883,560)	21,605,100
Included in other comprehensive income (loss)	–	–
Purchases	–	–
Settlements	–	8,068,379
Transfers in/out of Level 3	–	–
Ending balance	$ (76,066,666)	$ (33,183,106)
Liabilities		
Beginning balance	$ 60,574,814	$ (5,494,297)
Total realized and unrealized gains (losses):		
Included in earnings (expenses)	(46,617,520)	75,893,191
Included in other comprehensive income (loss)	–	–
Purchases	–	–
Settlements	–	(9,824,080)
Transfers in/out of Level 3	–	–
Ending balance	$ 13,957,294	$ 60,574,814

The Bank has no nonfinancial assets or liabilities measured at fair value on a recurring or non-recurring basis as of September 30, 2021 and December 31, 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.

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

11. Derivative Financial Instruments (continued)

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 $24,630,000 and $48,020,000 was posted from counterparties to the Bank as of September 30, 2021 and December 31, 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 September 30, 2021 and December 31, 2020 are presented in the following table. The fair value of these swaps is estimated using internal valuation models with observable market data inputs.

	September 30, 2021		December 31, 2020	
	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
Cross-currency interest rate swaps	$ 1,127,902,108	$ 130,076,783	$ 1,165,457,937	$ 156,568,576
Interest rate swaps	389,292,605	5,681,610	391,724,886	80,571
Options	175,965,221	4,005,423	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 September 30, 2021 and December 31, 2020.

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 $10,143,035 and $9,364,605 at September 30, 2021 and December 31, 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 nine months ended September 30, 2021 and 2020, changes in the aforementioned swaps and options included in the accompanying consolidated statements of income were $(1,608,811) and $(5,994,501), respectively.

Interest Rate Swaps – With regard to the interest rate swaps on outstanding loans and a portion of notes payable, the changes in the fair value of the swaps offset the changes in the fair value of the loans and debt due to changes in the USD OIS curve, while the ineffective portion is included in income (expense) from net hedging activities. For the nine months ended September 30, 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 nine months ended September 30, 2021 and 2020.

	Nine Months Ended September 30,	
	2021	2020
Fair value hedges with swaps and hedged items for loans	$ (946,163)	$ 1,819,391
Fair value hedges with swaps and hedged items for debt	(921,089)	(1,636,589)
Cash flow hedges with options and hedged items for debt	258,441	(6,177,303)
Credit valuation adjustment	194,087	(1,159,907)
Income (expense) from hedging activities, net	$ (1,414,724)	$ (7,154,408)

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.

13. Commitments

In the normal course of business, the Bank has various outstanding commitments, in addition to the loans receivable disclosed in Note 4 and the long-term borrowings disclosed in Note 6. Under agreements with consultants and contractors in effect at September 30, 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 $167,298 and $211,602, for the nine months ended September 30, 2021 and 2020, respectively. The following schedule summarizes the minimum future expenses for the lease.

Oct 1 - December 31, 2021	$	55,766
Year Ending December 31,		
2022		229,712
2023		232,493
2024		239,436
2025		240,731
2026		40,122
	$	1,038,260

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

14. Accounting Standards Updates (continued)

Bank on January 1, 2022 and will require a transition using a modified retrospective approach for leases existing at or entered into after the beginning of the earliest comparative period presented in the financial statements.

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

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

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

Supplementary Information

North American Development Bank
Statements of Income by Program (unaudited)
For the Nine Months Ended September 30, 2021 and 2020

September 30, 2021	CAP	TAP	UMI	WCIF	BEIF	PDAP	B2025	Other	Total
Program income:									
Non-program specific contribution:									
SEMARNAT	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
U.S. Department of State	-	-	-	-	-	-	-	1,902,000	1,902,000
Program-specific expense reimbursements and grant income:									
EPA	-	-	-	-	945,099	1,373,112	454,012	-	2,772,223
Other	-	-	-	-	-	-	-	-	-
Total program income	-	-	-	-	945,099	1,373,112	454,012	1,902,000	4,674,223
Program expenses:									
Operating expenses	-	-	-	-	945,099	673,565	180,222	-	1,798,886
Grant disbursements	395,934	431,702	7,998	-	-	699,547	347,975	-	1,883,156
Total program expenses	395,934	431,702	7,998	-	945,099	1,373,112	528,197	-	3,682,042
Net program income (loss)	$ (395,934)	$ (431,702)	$ (7,998)	$ -	$ -	$ -	$ (74,185)	$ 1,902,000	$ 992,181

September 30, 2020	CAP	TAP	UMI	WCIF	BEIF	PDAP	B2020	Other	Total
Program income:									
Non-program specific contribution:									
SEMARNAT	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,186,800	$ 1,186,800
U.S. Department of State	-	-	-	-	-	-	-	2,902,000	2,902,000
Program-specific expense reimbursements and grant income:									
EPA	-	-	-	-	815,016	1,377,493	430,406	-	2,622,915
Other	-	-	-	-	-	-	-	971	971
Total program income	-	-	-	-	815,016	1,377,493	430,406	4,089,771	6,712,686
Program expenses:									
Operating expenses	-	-	-	-	815,016	627,107	187,715	971	1,630,809
Grant disbursements	1,335,575	498,703	43,977	95,594	-	750,386	283,107	-	3,007,342
Total program expenses	1,335,575	498,703	43,977	95,594	815,016	1,377,493	470,822	971	4,638,151
Net program income (loss)	$ (1,335,575)	$ (498,703)	$ (43,977)	$ (95,594)	$ -	$ -	$ (40,416)	$ 4,088,800	$ 2,074,535