NORTH AMERICAN DEVELOPMENT BANK 2016 ANNUAL REPORT

Content

Transmittal Letter

April 2017

We are pleased to present the 2016 Annual Report of the North American Development Bank (NADB), which highlights the results of operations and activities undertaken during the year for the development and financing of infrastructure projects benefiting the citizens of the U.S.-Mexico border region.

This report contains the consolidated financial statements of NADB for the years ended December 31, 2016 and 2015, with an unqualified opinion issued by the independent auditor, Ernst & Young LLP. The following management discussion and analysis serves as an introduction to the financial statements to provide additional insights regarding the most relevant financial, lending and operating activities for the past fiscal year, in comparison with the prior fiscal year ended December 31, 2015.

We hope you find this report useful, and we thank you for your ongoing support of the North American Development Bank and its mission.

Alex Hinojosa
Acting Managing Director

Calixto Mateos-Hanel
Acting Deputy Managing Director

Box 1: Mandate and Governance

NADB is a binational financial institution established and capitalized by the governments of the United States and Mexico for the purpose of financing environmental infrastructure projects, as well as providing technical and other assistance, to support the development of eligible projects and advance the well-being of border residents. The scope of the Bank's mandate—including the geographic jurisdiction and infrastructure sectors in which it may operate—as well as its functions and limitations, are defined in an agreement between the two governments (the Charter).

Projects that qualify as eligible infrastructure are those that will prevent, control or reduce environmental pollutants, improve the drinking water supply or protect flora and fauna, provided that such projects also improve human health, promote sustainable development or contribute to a higher quality of life.

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

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

Eligible Infrastructure Sectors
Water Potable water supply, wastewater treatment and reuse, water conservation, storm drainage
Waste Management Sanitary landfills, collection & disposal equipment, dumpsite closure, recycling
Industrial / Hazardous Waste Treatment & disposal facilities, industrial site remediation
Air Quality Street paving and roadway improvements, ports of entry, public transportation, methane capture, industrial emissions
Clean Energy Solar, wind, biogas, biofuels, hydroelectric, geothermal
Energy Efficiency Industrial equipment retrofits, public lighting & building upgrades

Board of Directors
United States
Secretary of the Treasury*
Secretary of State
Administrator of the Environmental Protection Agency (EPA)
U.S. border state representative
U.S. border resident representative
Mexico
Secretary of Finance and Public Credit (SHCP)
Secretary of Foreign Relations (SRE)
Secretary of Environment and Natural Resources (SEMARNAT)
Mexican border state representative
Mexican border resident representative
* Board chair, 2016

Management Discussion & Analysis

Annual Highlights

During 2016, NADB continued to advance its environmental mandate on the border, disbursing US$146.92 million in loans and grants for the implementation of 22 certified projects, including 12 wastewater collection and/or treatment projects in Mexico. Although water-related projects remain a priority for the institution—seven of the 15 new projects in 2016 are in this key sector—the Bank continues to explore other opportunities to address critical environmental issues in the border region.

For example, among the projects approved in 2016 is a Property-Assessed Clean Energy (PACE) funding program to support energy efficiency, renewable energy and water conservation improvements in non-residential properties in the United States. This project will be the first to be financed by NADB under this type of legislation, providing a unique opportunity to promote and support the efforts of private businesses and industries over a widespread area of the U.S. border to improve efficiency and sustainability, on both a small and large scale, by reducing their energy and/or water consumption.

In addition, a second public transportation project for the purchase of low-emission buses in Mexico was approved and fully implemented during the year. The two bus programs have proven to be highly successful with a total of 343 buses financed by 12 companies in eight municipalities, including 107 compressed natural gas-fueled vehicles that comply with EPA 2013 emission standards. Given the revolving nature of the lines of credit for both programs, many more buses are expected to be financed over their ten-year disbursement period, providing a safe, comfortable and environmentally-friendly transportation system for hundreds of border residents.

NADB closed the year with an outstanding loan balance of US$1.41 billion, an increase of 6.5% over the previous year, reflecting moderate growth based on a prudent capital and risk management strategy. In 2016, NADB began taking a smaller stake in large projects, not only to reduce its credit risk exposure and manage its capital resources, but also to encourage increased investment from the private sector in public infrastructure and services.

As part of its project development and revenue diversification strategy, the Bank also began actively marketing its expertise in project finance on the border to private-sector sponsors requiring assistance in structuring viable financial packages, understanding the intricacies of new legislation and bidding processes in Mexico, and navigating the ins and outs of binational project development and implementation, especially in the water and clean energy sectors. In addition to strengthening sustainable infrastructure development along the border, these financial services are expected to become another solid source of income for the Bank.

In 2016, the Mexican and U.S. Governments each subscribed to an additional 150,000 shares of capital stock of the Bank, subject to the necessary legislation and availability of appropriations. The additional capital consists of 45,000 paid-in shares (US$450 million) and 255,000 callable shares (US$2.55 billion) for a total of US$3.00 billion. Mexico made an initial contribution of US$10.00 million in paid-in capital in September 2016, along with the corresponding callable capital (US$56.67 million).

With respect to the integration of NADB and the Border Environment Cooperation Commission (BECC), significant milestones were achieved in 2016, as the two institutions moved forward with their transition plan, including implementing the organizational structure of the merged institution, developing and implementing a joint balanced scorecard, and preparing a joint budget for 2017 in anticipation of achieving full legal integration during the year. Although still legally and financially separate organizations, the two institutions are now operating as a single entity, sharing the same merged departments headed by a single director from either NADB or BECC.

Under the new structure, the project departments have been realigned by financing type. In the case of all grant-funded projects, one department is responsible for the complete development cycle, from certification through closeout. For loan-funded projects, two departments continue to split these same responsibilities, with one dedicated to project development and financial structuring and the other to project implementation and loan administration. All studies and institutional strengthening activities, including impact assessments of completed projects, continue to be managed under the umbrella of the joint technical assistance program. With the organizational integration now complete, the legal merger is expected to proceed seamlessly, allowing the merged institution to remain focused on its mission of developing and financing infrastructure in the border region and improving the quality of life of its communities.

During this transition process, the Risk Management and Control Department played a key role, reviewing and mapping the processes of both institutions to clearly define the role and responsibilities of each department, eliminate any overlaps in functions and ensure all functions are properly covered. As part of this preliminary analysis, general risks and current control measures were identified in all processes, and a risk classification and assessment methodology was used to prioritize them based on their current risk exposure. In 2017, risk management will focus on strengthening the controls and mitigation activities for those processes with the highest risk exposure.

Finally, as reflected in its credit ratings from Moody's Investors Service and Fitch Ratings, the Bank continues to maintain a solid financial position, with strong asset quality and excellent liquidity. A summary of key financial data and operational activity for the past five years is highlighted in Tables 1 and 2, respectively.

Table 1: NADB Financial Summary 2012-2016[1]

(US$ Thousands)

	2016	2015	2014	2013	2012
Balance Sheet Data					
Cash and investments	**$ 511,558**	$ 504,861	$ 442,954	$ 545,525	$ 388,574
Loans outstanding[2]	**1,411,296**	1,324,777	1,185,514	1,011,212	869,981
Total assets	**1,812,866**	1,780,599	1,633,369	1,573,076	1,302,304
Borrowings outstanding, gross	**1,187,505**	1,190,550	1,059,953	1,046,386	730,000
Total liabilities	**1,208,832**	1,215,017	1,090,683	1,054,422	780,457
Total equity	**604,034**	565,582	542,686	518,654	521,848
Callable capital	**2,351,667**	2,295,000	2,295,000	2,295,000	2,295,000
Income Statement Data					
Total interest income	**$ 59,012**	$ 51,246	$ 43,710	$ 39,543	$ 24,321
Loans	**52,427**	45,892	38,487	35,149	19,344
Investments	**6,585**	5,354	5,224	4,394	4,977
Interest expense	**19,950**	15,101	13,548	10,838	5,363
Net interest income	**39,061**	36,145	30,163	28,705	18,958
Total operating expenses	**17,934**	18,143	10,816	19,451	8,456
Provision for loan losses	**5,134**	8,559	2,199	10,544	-
Total non-interest income (expense)	**(369)**	2,388	(1,093)	(888)	(1,044)
Income before program activity	**20,758**	20,389	18,254	8,366	9,458
Net program expenses[3]	**1,088**	4,873	2,077	1,145	2,437
Net income	**19,670**	15,516	16,177	7,221	7,020
Ratios					
Total equity / loans outstanding	**42.8%**	42.7%	45.8%	51.3%	60.0%
Gross debt / callable capital	**50.5%**	51.9%	46.2%	45.6%	31.8%
Gross debt / Total equity	**196.6%**	210.5%	195.3%	201.8%	139.9%
Interest coverage[4]	**2.3x**	2.8x	2.6x	2.8x	3.0x
Liquid assets / total assets	**25.3%**	25.3%	23.8%	31.3%	25.7%
Income before program activity / total equity	**3.4%**	3.6%	3.4%	1.6%	1.8%
Income before program activity / average assets	**1.2%**	1.2%	1.1%	0.6%	0.9%
Credit Ratings					
Moody's Investors Service	**Aa1/P-1**	Aa1/P-1	Aa1/P-1	Aaa/P-1	Aaa/P-1
Fitch Ratings	**AA/F1+**	AA/F1+	AA/F1+	AA/F1+	--
Standard & Poor's	--	--	--	--	A+/A-1

[1] Excludes the U.S. domestic program (see Note 8 of the consolidated financial statements).

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

[3] Program expenses include grant financing and technical assistance funded from the Bank's retained earnings.

[4] Interest coverage ratio is defined as interest income minus operating expenses less provision for loan losses divided by interest expense.

Table 2: Project and Financing Operations 2012-2016

(US$ Thousands)

	2016	2015	2014	2013	2012
Project Certification					
Total projects certified[1]	**15**	14	16	19	19
By sector					
Water	**7**	7	10	8	8
Waste management	**5**	-	-	-	1
Air quality[2]	**1**	1	1	1	1
Basic urban infrastructure[3]	**-**	1	1	1	1
Clean and efficient energy	**2**	5	4	9	8
By financing type[4]					
Loans	**3**	8	7	11	13
NADB-funded grants	**7**	2	2	5	1
NADB-administered grants	**5**	4	7	3	6
Lending Operations					
Loans approved	**$ 96,878**	$ 239,177	$ 323,670	$ 273,242	$ 660,123
Loan contracted	**146,767**	178,262	304,323	349,881	559,120
Loans disbursed	**136,253**	249,556	254,163	214,964	501,500
Grant Operations					
NADB-funded grants[5]					
Approved	**$ 3,100**	$ 1,000	$ 765	$ 2,183	$ 450
Contracted	**1,600**	1,450	315	2,183	450
Disbursed[6]	**550**	3,694	1,318	455	1,749
NADB-administered grants[7]					
Approved	**25,022**	20,274	24,936	6,104	23,296
Contracted	**21,231**	16,219	12,047	7,658	24,221
Disbursed	**10,228**	8,698	14,673	17,459	11,736
Technical Assistance[8]					
Funding					
Approved	**$ 721**	$ 1,070	$ 944	$ 1,018	$ 894
Disbursed	**538**	1,179	759	690	$ 688
Projects					
Activities approved[8]	**22**	28	11	14	16
Studies completed	**4**	1	2	3	4
Seminars held	**15**	9	7	10	13

[1] Project certification and financing proposals are approved simultaneously by the Board of Directors.

[2] This category includes street paving, other roadway improvements, industrial emissions reduction and public transportation.

[3] These projects consist of works from various sectors, such as roadway improvements, water and sewer lines, storm drainage, and public lighting.

[4] In 2012 one wastewater project was certified to receive both a loan and a grant.

[5] Grants funded from designated retained earnings of the Bank for certified infrastructure projects (excludes technical assistance).

[6] Includes both grant disbursements and expenditures for project supervision for 2014-2016.

[7] Grants funded by EPA and administered by NADB through the Border Environment Infrastructure Fund (BEIF).

[8] Includes project development activities, training seminars and sector studies funded by NADB.

Project and Financing Operations

Project Certification

Under the merged structure, NADB and BECC continue to work together to develop and submit joint certification and financing proposals to their Board of Directors for approval. During 2016, the Board certified 15 projects, including a second public transportation project for the purchase of low-emission buses in Mexico and a PACE program to finance qualified energy efficiency, renewable energy and water conservation improvements in non-residential properties in the United States (Box 2). During the previous year, 14 projects were certified, including the first air quality project for the prevention of industrial emissions sponsored by a steel mill located in Mexico.

Table 2 provides a breakdown of the projects certified by environmental sector and financing type for the past five years. As shown in the table, water-related projects continue to be a priority for both institutions. Over the past five years, the Board has certified an average of 16 projects a year, and on average half (8) of those projects have been in the water sector. Additionally, on average, half of the projects received loans and half received grants.

Box 2: Promoting Sustainability through Efficiency

Border-wide Financing Program to Improve Water and Energy Efficiency in the United States

The Property-Assessed Clean Energy (PACE) funding program sponsored by CleanFund Commercial PACE Capital, Inc., provides long-term financing for qualified energy efficiency, renewable energy and water conservation improvements in non-residential properties, such as commercial, industrial and agricultural facilities. A qualified improvement is defined as a permanent improvement fixed to real property and intended to decrease water or energy consumption, including devices that use energy technology to generate electricity. Participants repay the loans through a voluntary property assessment or tax lien imposed by the local government at the request of the property owner. PACE helps property owners overcome market barriers, such as short payback periods and lack of access to capital, that often discourage investment in these types of projects.

Under the certified project, eligible properties must be located within the 100-km U.S. border region in cities and counties where PACE legislation has been enacted. At the time of certification, five border counties had the necessary legislation: San Diego, Imperial and Riverside in California and Cameron and Willacy in Texas. More areas will be included in the program as the applicable legislation is enacted.

Sample of Eligible Projects

- **Energy Efficiency:** Insulation, cool roofs, window replacement & treatments, ventilation, lighting, heating, cooling, refrigeration, water pumps
- **Renewable Energy:** Solar panels, cogeneration power systems
- **Water Conservation:** Low-flow fixtures, rainwater harvesting systems, irrigation systems and controls

Program Benefits

- Cost savings related to reduced energy and/or water consumption
- Improved value of the underlying real estate and compliance with new building codes
- Lower baseload and peak demand on utility systems curtailing the possibility of rolling brownouts
- Lower emissions of greenhouse gases/other pollutants and conservation of water resources
- Supports energy independence by reducing the need for foreign oil imports and new power plants

Loan Activity

During 2016, new loans totaling US$96.88 million were approved for four projects, including a loan increase for one project certified previously; loan agreements totaling US$146.77 million were signed with the sponsors of four projects, including two of the loans approved during the year; and US$136.25 million was disbursed to support seven projects in implementation. In comparison, during 2015, the Bank approved US$239.18 million in new loans for eight projects; contracted eight loans for US$178.26 million, and disbursed US$249.56 million to support the execution of 14 projects.

Following a robust expansion of its lending activity at the beginning of the decade, the Bank has reduced its participation in individual projects. Over the past four years, lending activity has leveled out with loan approvals averaging US$233.24 million a year and disbursements averaging US$213.73 million a year (Table 2). A breakdown of the lending activity by environmental sector for the past two years is shown in Table 3. In 2016, sector distribution was expanded to include the new energy efficiency project.

In 2016, wind energy accounted for 76.3% of disbursements, while air quality improvements represented 21.5%, due largely to the implementation of the second public transportation project. The remaining balance went to solar energy (1.5%) and other energy (0.7%).

All the loans disbursed in 2016 and 2015 went to projects located in Mexico, with the majority going to private-sector borrowers (99.3% and 89.8%, respectively). The rest of the 2016 disbursements went to a public-private partnership (0.7%), while the remainder of the 2015 disbursements were divided between public-sector (8.9%) and public-private (1.3%) borrowers. Despite recent growth in sector and regional concentrations, NADB strives to diversify its portfolio and expand its impact on both sides of the border.

The Bank closed the year with an estimated US$58.52 million in contracted loans pending disbursement, mainly for air quality and clean energy projects in Mexico. Likewise, the Bank had US$159.19 million in approved loans, for which loan agreements were under development, including two loans (US$61.00 million) for projects in the United States.

Table 3: Annual Lending Activity and Balances

(US$ Millions)

Environmental Sector	Approvals		Signings		Disbursements	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Air quality	**$ -**	$ 23.20	**$ 18.00**	$ 0.19	**$ -**	$ 0.19
Basic urban infrastructure*	**-**	13.65	**-**	13.65	**-**	13.65
Energy efficiency	**50.00**	-	**-**	-	**-**	-
Other clean energy	**-**	3.49	**-**	3.49	**0.97**	1.80
Public transportation	**26.25**	-	**26.25**	-	**29.36**	3.78
Solar energy	**11.00**	18.50	**-**	18.50	**2.02**	15.37
Water / wastewater	**9.63**	5.34	**9.63**	-	**-**	2.34
Water conservation	**-**	-	**-**	7.43	**-**	7.43
Wind energy	**-**	175.00	**92.89**	135.00	**103.90**	205.00
Total	**$ 96.88**	$ 239.18	**$ 146.77**	$ 178.26	**$ 136.25**	$ 249.56

* These projects consist of a mix of works from various sectors, such as street paving, water and sewer lines, storm drainage and public lighting.

Principal payments totaled US$49.73 million in 2016, including the prepayment of one loan for US$6.63 million. In comparison, the Bank received US$110.30 million in principal payments in 2015, including the prepayment of two loans totaling US$53.58 million, as well as the liquidation of the remaining balance of a delinquent loan totaling US$3.39 million.

Table 4 provides a summary of lending activity during the past two years and its impact on the loan portfolio.

Table 4: Summary of Annual Lending Activity and Balances

(US$ Millions)

	12/31/2016	12/31/2015
Outstanding balance, beginning of year*	**$ 1,324.78**	$ 1,185.51
Loan disbursements	**136.25**	249.56
Principal repayments	**(49.73)**	(110.29)
Loans written off	**-**	-
Outstanding balance, end of year*	**$ 1,411.30**	$ 1,324.78
Loans approved, pending contracting	**$ 159.19**	$ 209.08
Loans contracted, pending disbursement	**58.52**	51.82
Total loan commitments	**217.71**	260.90
Outstanding loans & loan commitments	**$ 1,629.01**	$ 1,585.68

* Outstanding balances, before allowance for loan losses, unamortized fees, and effect of foreign exchange adjustments and hedged items.

Project Implementation. During 2016, four projects funded with loans completed construction: two wind farms with a combined installed capacity of 252 megawatts in General Bravo, Nuevo Leon; a 57-million-gallon-a-day wastewater treatment plant in Hermosillo, Sonora (Box 3); and a storm drainage improvement project in El Paso, Texas (Box 4). In addition, the second border-wide financing program for the purchase of low-emission buses was launched in Mexico with 285 vehicles financed in eight municipalities in just over three months.

Box 3: Increasing Wastewater Treatment

Hermosillo, Sonora

A new state-of-the-art wastewater treatment plant began operations in November 2016 for this city of 784,300 residents. The new plant has the capacity to treat up to 57 million gallons a day (mgd), which is sufficient to provide 100% wastewater treatment coverage. Previously, only about 11.0% of the wastewater generated by the municipality was treated, while the rest of the raw sewage was either used for irrigation purposes in nearby agricultural areas or discharged to the Sonora River. In addition to the treatment facilities, the project included a cogeneration facility that will produce an estimated 60% of the electricity needed to operate the plant, as well as construction of a 1.4-mile collector main to connect the city's wastewater collection system to the new plant. This project is eliminating surface and groundwater contamination from raw sewage discharges and providing a safer source of water for agricultural purposes.

Box 4: Improving Flood Controls

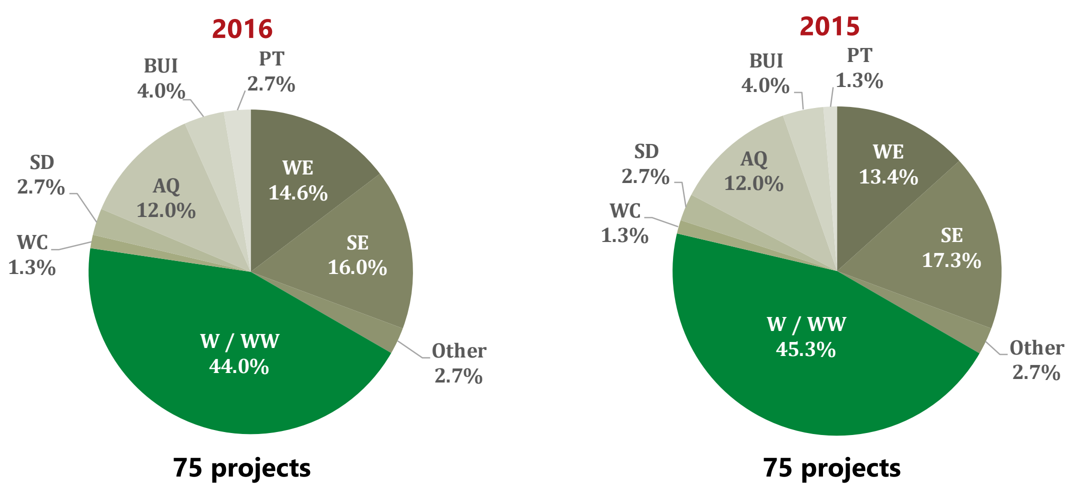
El Paso, Texas

The first phase of a comprehensive capital investment program to expand and improve the storm water system throughout the city was completed in November 2016. Although average rainfall is only about 8 inches a year, the region is subject to torrential rains during the summer monsoon season. In 2006, El Paso County was declared a federal disaster area with more than US$250 million in property damage from flooding. The project certified in 2009 covered improvements in the Central, East, Mission Valley, Northeast and Northwest watersheds. Partially funded with a US$53.00-million Build America Bond from NADB, the US$67.70 million project included improvements to the Pershing and Van Buren Dams and construction of the Magnolia Pump Station, as well as the expansion of reservoirs, culverts, channels and street inlets; lining of canals; and construction of storm drains, ponds and sediment basins. In addition to protecting human life, property and the environment from flooding, system improvements will also help recharge the Hueco Bolson aquifer in this arid region.

Loan Portfolio

The loan portfolio reflects the Bank's efforts to address each of the eligible sectors defined by the Board, which have different investment and development requirements, as the cost of building a landfill is much lower than that of a wastewater treatment plant or wind farm. Figure 1 below presents a breakdown of the number of projects per sector with loans outstanding at the close of 2016 and 2015, with the majority in the water and wastewater sector (33 and 34, respectively). In general terms, water-related projects represented 48% of the portfolio in 2016 compared to 49.3% in 2015, followed by clean energy with 33.3% in both years and those related to air quality improvement with 18.7% (compared to 17.3% in 2015).

Figure 1: Breakdown of Loan Portfolio by Number of Projects



* Air quality (AQ), Basic urban infrastructure (BUI), Public transportation (PT), Solar energy (SE), Storm drainage (SD), Water conservation (WC), Water/wastewater (W/WW), Wind energy (WE)

** Other includes cogeneration and landfill gas-to-energy projects.

NADB closed the year with an outstanding loan balance of US$1.41 billion, an increase of 6.5% over the balance at the end of 2015 (US$1.32 billion). As illustrated in Figure 2, since December 31, 2012, the loan portfolio has grown consistently, albeit at a more moderate pace in line with prudent risk management, averaging 12.9% annually.

A breakdown of outstanding loans by environmental sector, borrower type and geographic region as of December 31, 2016 and 2015 is provided in Figure 3.

Figure 2: Annual Loan Portfolio Performance

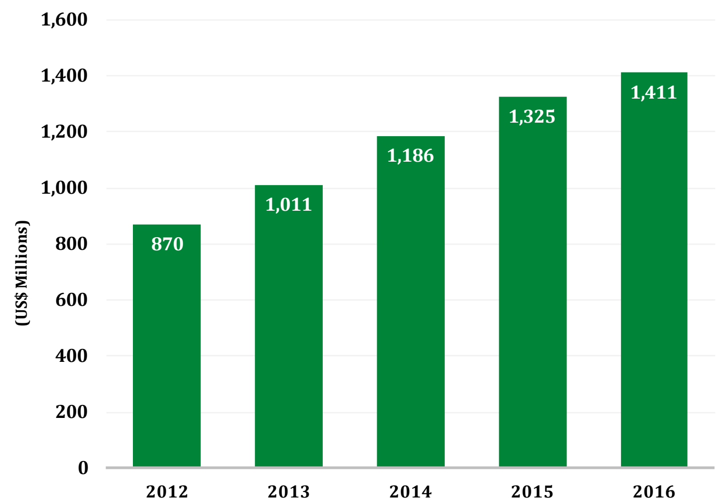
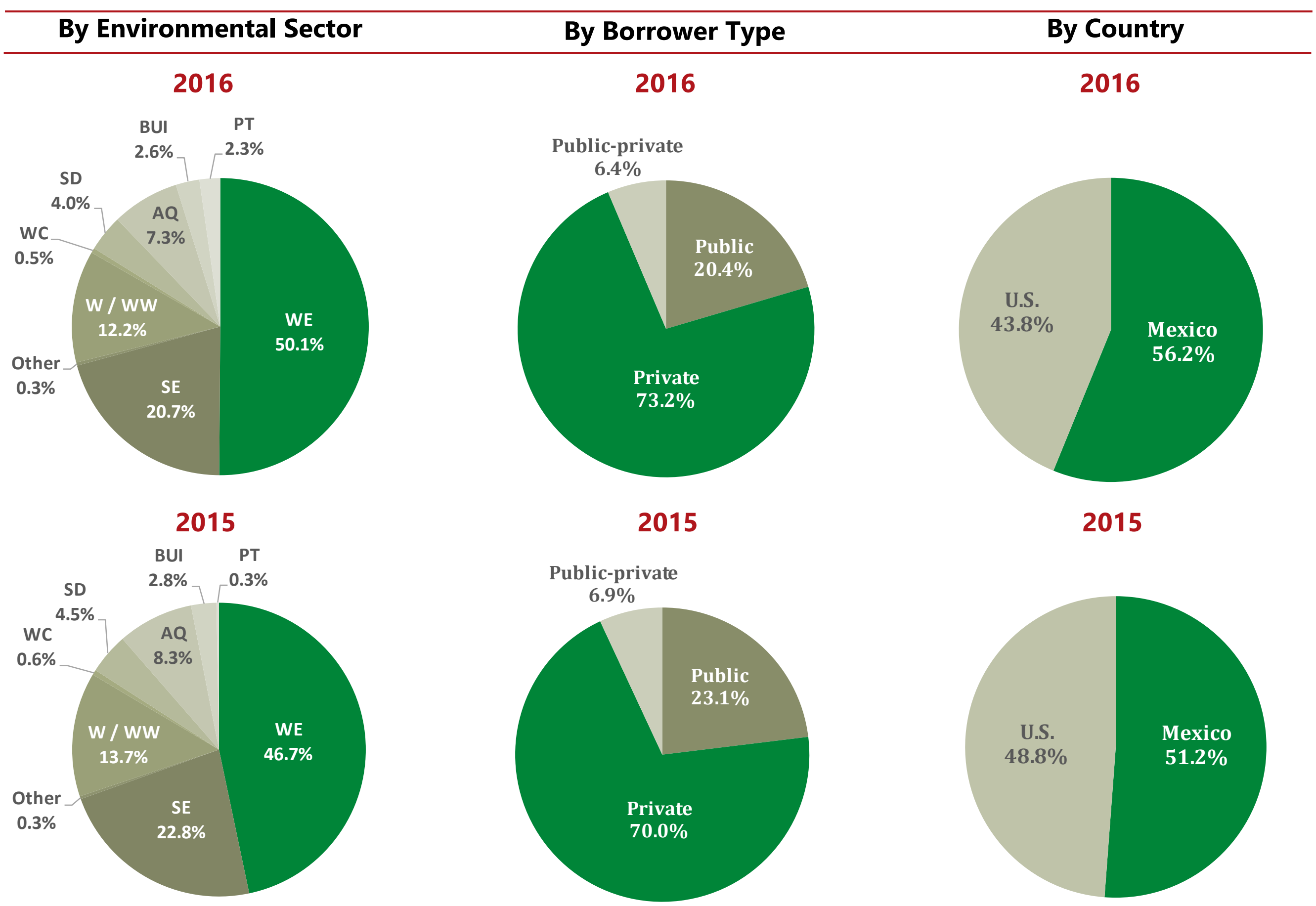


Figure 3: Loan Portfolio Distribution



* Air quality (AQ), Basic urban infrastructure (BUI), Public transportation (PT), Solar energy (SE), Storm drainage (SD), Water conservation (WC), Water/ wastewater (W/WW), Wind energy (WE)
** Other includes cogeneration and landfill gas-to-energy projects.
*** Public-private borrower generally refers to a loan structure in which a private company is the borrower, but the source of payment and/or guaranty is a public utility or local government.

In 2016, the main drivers of portfolio growth were private-sector borrowers investing in clean energy and public transportation improvements in Mexico.

Table 5 shows the changes in the amount of outstanding loans by environmental sector during the 12-month period ending December 31, 2016. Wind energy registered the largest increase (US$88.63 million), while the largest decline occurred in solar energy (US$11.00 million), mainly due to the prepayment of a solar energy loan for US$6.63 million. The most noteworthy change, however, occurred under public transportation, which grew by US$28.18 million, to more than eight times the 2015 level.

Table 5: Portfolio Evolution by Environmental Sector

(US$ Millions)

	12/31/2016	12/31/2015	% Change
Wind energy	**$ 707.22**	$ 618.59	14.3%
Solar energy	**291.53**	302.53	-3.6%
Water/wastewater	**172.14**	181.21	-5.0%
Air quality	**103.69**	110.70	-6.3%
Storm drainage	**56.25**	59.56	-5.6%
Basic urban infrastructure*	**36.38**	36.85	-1.3%
Public transportation	**31.87**	3.69	764.1%
Water conservation	**7.39**	7.42	-0.4%
Other clean energy**	**4.82**	4.23	14.2%
Total	**$ 1,411.30**	$ 1,324.78	

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

** Other clean energy includes cogeneration and landfill gas-to-energy projects.

These changes had relatively little effect on year-end portfolio distribution by sector (Figure 3). At the close of 2016, wind energy accounted for the largest portion of the loan portfolio at 50.1%, up slightly from 46.7% in 2015; followed by solar energy with 20.7%, down slightly from 22.8% in 2015; and water and wastewater, which remained fairly stable at 12.2% in 2016 compared to 13.7% in 2015.

Given that the border region offers ideal conditions for solar and wind energy projects and that the Mexican renewable energy market is gearing up under the new power industry legislation, the Bank expects to see continued demand for loans in those sectors. Nevertheless, of the US$217.71 million in approved loans pending signing and/or disbursement at the end of 2016, US$83.80 million (38.5%) are destined for clean energy projects, while the remainder is split between air quality improvements (34.3%) and water-related projects (27.2%).

In terms of borrowers, the loan portfolio is divided into three categories: public, private or public-private. In the latter case, a private company is the direct borrower, but the source of payment and/or guaranty is a public utility or local government and the Bank has recourse to both the private and public entity. During 2016, the volume of loans held by private-sector borrowers increased US$105.53 million to US$1.03 billion, while the volume of loans held by public-sector borrowers decreased US$17.28 million to US$288.31 million. Loans held by public-private borrowers remained fairly stable with a balance of US$90.23 million at the end of 2016 compared to US$91.96 million the previous year. Figure 3 shows the distribution of the loan portfolio by borrower type at the close of 2015 and 2016.

In terms of portfolio distribution by geographic region, growth continued along the same lines as the previous year albeit at a much slower pace. Loans invested in Mexican projects grew by 16.9% (US$114.61 million) to a total of US$792.80 million at the close of 2016, compared to an increase of 45.2% (US$211.23 million) in 2015. The amount held by U.S. borrowers decreased 4.3% (US$28.09 million) to a total of US$618.50 million, following a 10.0% decline (US$53.89 million) the previous year mainly due to the prepayment of a solar loan (US$41.08 million).

This activity widened the gap in distribution by country, increasing Mexican participation in the portfolio to 56.2% and reducing U.S. participation to 43.8% (Figure 3). This trend is expected to continue as lending activity in Mexico tends to cover a broader array of sectors than in the United States, where borrowers have access to more financing options. Nevertheless, of the US$96.88 million in new loans approved in 2016, 63% (US$61.00 million) is destined for U.S. projects.

Table 6: Portfolio Evolution by State*

(US$ Millions)

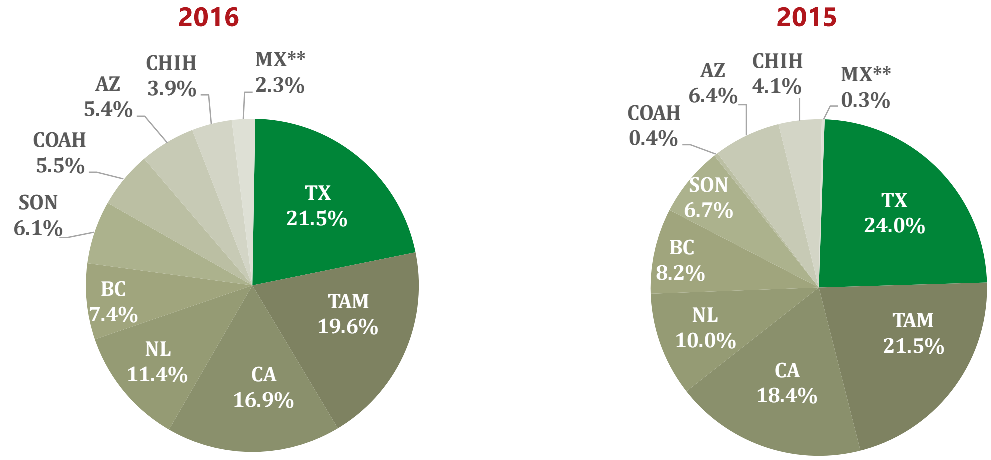
	12/31/2016	12/31/2015	% Change
Texas	**$ 303.82**	$ 317.55	-4.3%
Tamaulipas	**276.40**	284.78	-2.9%
California	**238.80**	243.71	-2.0%
Nuevo Leon	**160.82**	132.40	21.5%
Baja California	**103.99**	108.67	-4.3%
Sonora	**86.26**	88.96	-3.0%
Coahuila	**78.47**	4.93	1,491.6%
Arizona	**75.88**	85.33	-11.1%
Chihuahua	**54.99**	54.76	0.4%
Mexican border**	**31.87**	3.69	764.0%
Total	**$ 1,411.30**	$ 1,324.78	

* Includes loans to both public and private borrowers.
** Border-wide program, with current participants from Baja California, Chihuahua, Nuevo Leon and Sonora.

Changes in the amount of outstanding loans by state during the 12-month period ending December 31, 2016, are provided in Table 6. The largest disbursements were made in Coahuila (US$74.02 million), followed by US$29.88 million in Nuevo Leon and US$29.36 million in the Mexican border region, which represents the public transportation projects that are available in all six Mexican border states. During 2016, buses were financed in Baja California, Chihuahua, Nuevo Leon and Sonora.

This lending activity is resulting in a more even distribution of the portfolio by state (Figure 4). Although most of the portfolio is still concentrated in the same three states (CA, TX and TAM), the level of concentration continues to decline, from 63.9% in 2015 to 58.0% in 2016, while the three states with the lowest concentration (AZ, CHIH and COAH) climbed from 10.9% in 2015 to 14.8% in 2016. New Mexico is the only eligible state with no outstanding loan. At the close of 2016, Texas accounted for 21.5% of the loan portfolio, down from 24.0% at the beginning of the period, followed by Tamaulipas with 19.6% (compared to 21.5% in 2015) and California with 16.9% (compared to 18.4% in 2015).

Figure 4: Loan Portfolio Distribution by State*



* Includes loans to both public and private borrowers.
** Border-wide program, with current participants from Baja California, Chihuahua, Nuevo Leon and Sonora.

Non-performing Loans. No loans were classified as non-performing at the close of 2016 and 2015. The Bank classifies loans as non-performing when payments of principal or interest on the loan are delinquent for 90 days or more, or where reasonable doubt exists as to the borrower's ability to make timely payment.

In addition to allocating specific loan loss provisions for non-performing loans, in 2013, NADB began creating general provisions on loans made to private-sector borrowers based on probabilities of default and expected recovery rates. In 2016, the general allowance methodology for private-sector borrowers was expanded to include public and public-private borrowers. As of December 31, 2016 and 2015, the general allowance totaled US$25.05 million and US$19.92 million, respectively.

Lending Limits. Under its charter, the total amount of outstanding loans (and guaranties) may not at any time exceed the total amount of unimpaired subscribed capital of the Bank, plus the unimpaired reserves and undistributed surplus that are included in its capital resources. As of December 31, 2016, the total unimpaired subscribed capital of the Bank was just under US$2.77 billion (paid-in capital and corresponding callable capital) and its unimpaired reserves and undesignated retained earnings came to US$159.60 million, for a total loan limit of close to US$2.93 billion, an increase of US$87.21 million (3.1%) over the loan limit of US$2.84 billion at the end of 2015. While most of the 2016 increase comes from an influx of new capital (US$10.00 million in paid-in capital and US$56.67 million in callable capital), the remaining US$20.55 million derives from retained earnings. At the close of 2016, the balance of outstanding loans (US$1.41 billion) represented 48.2% of this limit.

The Bank also imposes limits per project and per borrower. By policy, NADB cannot lend a project more than 85% of the eligible project costs. Since 2013, the single obligor limit (SOL) is set at 20% of the sum of funded, unimpaired paid-in capital, plus undesignated retained earnings, the Special Reserve, and the Capital Preservation Reserve. An additional 10% may be made available for obligors that meet certain risk-related criteria. The sum of

Table 7: Single Obligor Limits

(US$ Millions)

	12/31/2016	12/31/2015	Change
20% SOL	**$ 106.09**	$ 101.81	$ 4.28
30% SOL	**159.13**	152.71	6.42

those funds totaled US$530.43 million at the close of 2016, an increase of US$21.38 million compared to US$509.05 million at the beginning of the year, resulting in a 4.2% increase in the SOL as indicated in Table 7.

Grant Activity

NADB-administered Grants. NADB administers grant funds provided by EPA through the Border Environment Infrastructure Fund (BEIF) for priority water and wastewater projects. These funds are received from EPA prior to disbursement by the Bank to the grantees, and any BEIF-related operating expenses incurred by the Bank are reimbursed by EPA. Consequently, these funds are reflected in NADB's consolidated financial statements, but have no economic effect on its operations.

During 2016, BEIF grants totaling US$25.02 million were approved for six projects, including additional funding for one project approved previously; US$21.23 million was contracted for seven projects, including four of the grants approved during the year; and US$10.23 million was disbursed to support 10 projects in implementation. A summary of annual financing activity for the past two years, as well as the overall status of the BEIF program at the end of 2016, is presented in Table 8.

Table 8: Border Environment Infrastructure Fund Annual Financing Activity and Program Status

(US$ Millions)

	2015	2016	Cumulative
EPA funding allocations:	$ 6.97	**$ 9.56**	$ 693.14
For projects	6.24	**9.18**	665.57
For program administration	0.73	**0.38**	27.57
Grants approved	20.27	**25.02**	656.94
Grants contracted	16.22	**21.23**	644.21
Grants disbursed	8.70	**10.23**	602.86
Cancellations*	(10.64)	**-**	(65.93)
Contracted grants, not yet disbursed			$ 41.35
Approved grants, not yet contracted			12.74
Funding available for future projects			8.63

* Unused funds deobligated from completed or cancelled projects and returned to the BEIF program for projects in development.

For the years ended December 31, 2016 and 2015, NADB recognized US$843,300 and US$832,143, respectively, as reimbursement for administrative expenses incurred in running the program. Since program inception in 1997, NADB has been reimbursed US$22.41 million for administrative expenses, which represents 3.2% of the funds allocated by EPA to the program.

NADB-funded Grants. With the approval of the Board of Directors, NADB may use a portion of its retained earnings to finance critical environmental infrastructure projects in low-income communities with grants through the Community Assistance Program (CAP).

During 2016, the Bank approved US$3.10 million in CAP grants for seven projects, contracted US$1.60 million for four projects and disbursed US$316,956 to support the implementation of three projects. Among the projects approved for CAP grants were five solid waste projects—the first in this sector to be funded through the program. Since program inception in 2013, grant approvals have averaged US$1.76 million annually.

A summary of annual financing activity through CAP for the past two years, as well as the overall status of the program at the end of 2016, is presented in Table 9.

Table 9: Community Assistance Program Annual Financing Activity and Program Status

(US$ Millions)

	2015	2016	Cumulative
Retained earnings allocated	$ -	**$ -**	$ 11.47
Funds allocated for supervision	0.15	**0.12**	0.51
Grants approved	1.00	**3.10**	6.79
Grants contracted	1.45	**1.60**	5.29
Grants disbursed*	1.44	**0.43**	2.26
Cancellations**	(0.26)	**-**	(0.26)
Contracted grants, not yet disbursed			$ 3.03
Approved grants, not yet contracted			1.50
Funding available for future projects			4.17

* Includes project grants and supervision disbursements.

** Unused funds deobligated from completed projects and returned to the CAP program for future projects.

A small portion of CAP funding is used to cover the supervision costs of projects financed under the program. A cumulative total of US$514,944 and US$394,121 were committed to supervision contracts as of December 31, 2016 and 2015, respectively. For the years ended in those same dates, US$112,812 and $179,918, respectively, was expended under supervision contracts.

For fiscal years 2015 and 2016, no new funding was allocated to the CAP from retained earnings. As of December 31, 2016, NADB had a balance of US$4.17 million in uncommitted CAP funding available for future projects.

Project Implementation. During 2016, five water-related projects completed construction: four funded with NADB grants and one funded with a BEIF grant. These projects included water conservation improvements for an irrigation district in Texas (Box 5) and rehabilitation or installation of sewer lines and residential hookups in four communities in Mexico, which altogether are collecting and/or transporting about 2.46 million gallons a day of wastewater for proper treatment. In addition, construction began on an arsenic removal facility to improve drinking water for a community in Texas, which is being funded by a BEIF grant.

Box 5: Harvesting Storm Water for Irrigation

Hidalgo County, Texas

In May 2016, construction of a new pump station was completed for Engelman Irrigation District No. 6 in Hidalgo County, Texas. The vertical reclaim water pump will divert up to 25 cubic feet/second (cfs) of storm water from the Hidalgo County Master Drainage System into the irrigation system, allowing the District to utilize a source of water that used to be lost. The pump station is improving the operational efficiency of the water delivery system, which is expected to reduce energy consumption. The project certified in 2007 also included the replacement of 16,795 ft. of leaking pipelines, which was completed in March 2012, and the lining of a reservoir, which is still pending. Due to increased costs for the pump station and pipe installation, the District has postponed the last project component indefinitely.

Box 6: Stopping Sewage Flows to Rio Grande

Piedras Negras, Coahuila

Work to repair flood damage to the wastewater collection system was completed in April 2016. Two sections of the Rio Bravo Collector had collapsed, interrupting wastewater conveyance to the treatment plant and causing approximately 2.3 million gallons a day of raw sewage to be discharged into the Rio Grande River. In addition to replacing the damaged sections of the collector, the project also included replacing a sewer main near El Soldado Creek in the Santa Maria subdivision and repairs to Lift Station No. 4. Besides directly benefitting 65,000 local residents, the project has eliminated a significant source of pollution of the Rio Grande, providing a safer and healthier water supply for communities along both banks of the river.

Technical Assistance

To support project sponsors and border communities in the development of sustainable projects for certification and financing, NADB and BECC provide technical assistance in three categories: project development, institutional capacity-building and sector studies to identify needs and generate knowledge about a new sector or technology. Since January 2015, a joint committee oversees and administers the merged Technical Assistance Program (TAP). During 2016, the committee approved a total of US$971,676 to support 22 studies, training seminars and other development activities. A breakdown of the funding committed by each institution is provided in Table 10.

Table 10: Technical Assistance Committee Approvals in 2016

(US$ Millions)

Category	Funding Commitment		Total	
	NADB	BECC	Amount	No.
Project development activities	**$ 0.15**	$ 0.15	$ 0.30	**9**
Sector studies*	**0.30**	0.05	0.35	**3**
Capacity building**	**0.27**	0.05	0.32	**10**
Total	**$ 0.72**	$ 0.25	$ 0.97	**22**

*Studies to identify needs, promote sound public policy or generate knowledge about a new sector or technology.
**Training seminars, workshops, forums and other measures to help strengthen the administrative and financial capacities of project sponsors.

NADB committed US$423,838 in TAP grants to partially fund 12 studies, mainly to support the development of four storm drainage improvement projects and three wastewater system expansion or rehabilitation projects. The sector studies included developing a binational environmental strategy plan for Arizona and Sonora and a manual of technical guidelines for design of low-impact development techniques for Mexican municipalities, as well as implementation of the Emerging and Sustainable Cities initiative in Hermosillo, Sonora—the first Mexican border city to adopt this urban sustainability planning tool developed by the Inter-American Development Bank (Box 7). NADB also committed US$270,000 from its Utility Management Institute (UMI) budget to support 10 seminars and forums mainly related to water utility management, adapting to new weather patterns and its implications for water resources, and incorporating natural systems in infrastructure design. In comparison, NADB approved US$1.07 million to support 16 studies and 12 seminars in 2015.

During 2016, four studies were completed, including updating the water and wastewater master plans for the utilities in Reynosa and Matamoros, Tamaulipas; developing a strategic plan for the Mexican solar industry; and analyzing options for reducing the salinity of the El Morillo Drain in Tamaulipas (Box 8). Moreover, the 10 approved training seminars were presented during the year, several in collaboration with the Latin American and Caribbean water center, *Centro del Agua para América Latina y el Caribe* (CDA) of the Monterrey Technological Institute (ITESM). In addition, NADB co-hosted a seminar on Strengthening Fiscal Responsibility and Debt Management with Fitch Ratings, which examined the impact of the recent Mexican Financial Discipline Law on different public entities at different levels of government. Altogether, the ten seminars were attended by approximately 770 participants.

For the years ended December 31, 2016 and 2015, NADB disbursed US$537,557 and US$1.18 million, respectively, in grant funds for studies and training. These grants are funded with previously designated retained earnings, with exception of the UMI, which is budgeted on an annual basis. Over the past five years, technical assistance disbursements have averaged US$770,779 annually (Table 2).

For fiscal years 2016 and 2015, no new funding was allocated to the TAP from NADB's retained earnings; however, US$450,000 was budgeted in both years for UMI. As of December 31, 2016, NADB had a balance of US$2.25 million in TAP funds available for studies.

Box 7: Cultivating Sustainability in Urban Development

Hermosillo, Sonora

The Inter-American Development Bank (IDB) Emerging and Sustainable Cities (ESC) initiative directly supports governments in the development and implementation of urban sustainability plans and uses a comprehensive, multidisciplinary approach to identify, organize and prioritize urban actions to tackle the main roadblocks preventing the sustainable growth of emerging cities in Latin America. In 2016, NADB teamed up with IDB to introduce the program to Mexican border communities and selected Hermosillo as the first candidate. Once the program is successfully implemented there, NADB plans to replicate it in other communities throughout the border region.

The border research institute, *Colegio de la Frontera Norte* (COLEF), was tapped to oversee the implementation of the two-stage, five-phase ESC methodology. The kickoff meeting in August was attended by 97 government, academic and community stakeholders, to gather information on the main challenges and opportunities in a wide array of sectors, as well as the plans, programs and projects the City is considering to address these issues. Based on the results, 127 indicators were identified, ranging from water services, waste management and vulnerabilities to natural disasters to social services, economic development and municipal finances, among many others. After determining the current value of the city's indicators and ranking them in terms of the benchmarks, the findings were presented to the same group in a second meeting in December. The next step will be to send out a general survey to determine the infrastructure priorities of the community. The entire project is expected to be completed in June 2017.

Box 8: Reducing the Salinity of the Rio Grande

El Morillo Drain in Tamaulipas

Several options were analyzed for reducing the high concentration of total dissolved solids (TDS) in the water of the El Morillo Agricultural Drain, which discharges to the Rio Grande, including diluting it with underground water from wells, treated wastewater from the local utility or surface water from a nearby lake. None of those options were deemed viable mainly due to the high salinity of the water in the area. The option recommended as the best from a technical and financial standpoint is to build a desalinization plant with the capacity to treat 68 million gallons a day, using a mass-balance approach that incorporates water from the Puertecitos and Huizaches Drains, the Rio Grande and effluent from Wastewater Treatment Plant No. 1 in Reynosa, Tamaulipas. This approach addresses seasonal fluctuations in water flows through the drain and would reduce average salinity to well below the target level of 1,000 parts per million. The study results are currently under review by BECC, NADB and the Mexican Section of the International Boundary and Water Commission.

Results of Operation

The main source of revenue for NADB is derived from interest income on its loan portfolio and investment holdings. Expenses mainly consist of interest paid on borrowed funds and operating costs, which include provisions for loan losses. Table 11 provides a breakdown of the main operating income and expense categories for the years ended December 31, 2016 and 2015, as well as the change between those two years. Key elements influencing the results of operation are described below.

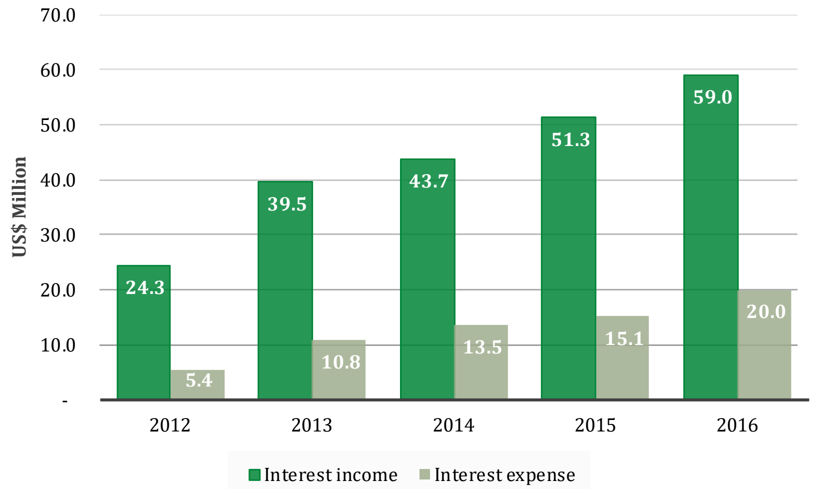
Table 11: Operating Income & Expenses

(US$ Millions)

	2016	2015	Difference
Loan interest income	**$ 52.43**	$ 45.89	$ 6.54
Investment interest income	**6.58**	5.35	1.23
	59.01	51.24	7.77
Interest expense	**19.95**	15.10	4.85
Net interest income	**39.06**	36.14	2.92
Operating expenses	**17.93**	18.14	(0.21)
Net operating income	**21.13**	18.00	3.13
Total non-interest income (expense)	**(0.37)**	2.39	(2.76)
Income before program activities	**$ 20.76**	$ 20.39	$ 0.37

Net interest income. As shown in the table above, net interest income increased 8.1% in 2016, which can mainly be attributed to the continued growth of the loan portfolio and a slight decline in gross outstanding debt. The loan portfolio grew US$86.52 million during 2016 to close at US$1.41 billion, while gross outstanding debt decreased US$3.05 million to a total of US$1.19 billion.

Figure 5: Interest Income vs. Interest Expense



Operating Expenses. Table 12 provides a breakdown of the operating expense categories for the years ended December 31, 2016 and 2015, along with the change between those two years. Total operating expenses remained relatively stable in 2016 compared to the previous year. The increase in personnel expenses in 2016 is mainly attributable to the conversion of internal consultants to full staff positions, which was partially offset by effective control of administrative expenses and lower loan loss provision requirements due to the more moderate growth of the loan portfolio. The increase in external consultant and contractor expenses was primarily related to increased due-diligence activities and risk reviews of projects in development.

During 2016, the Bank made general provisions for loan losses totaling US$5.13 million, of which US$1.89 million corresponds to loans held by public and public-private borrowers, as the Bank implemented its expanded general allowance policy, which formerly applied only to private-sector borrowers. During 2015, the increase in general provisions for loan losses was driven by increased lending to the private sector, which grew 19.7%. (US$152.56 million) during the year.

Table 12: Operating Income & Expenses

(US$ Millions)

Category	2016	2015	Difference
Personnel	**$ 8.28**	$ 5.59	$ 2.69
General & administrative	**1.47**	1.71	(0.24)
External consultants / contractors	**2.72**	2.21	0.51
Provision for loan losses	**5.13**	8.56	(3.43)
Depreciation	**0.14**	0.07	0.07
Other	**0.19**	-	0.19
Total	**$ 17.93**	$ 18.14	$ (0.21)

Non-interest income and expenses. This category mainly consists of non-cash transactions that are recorded on a mark-to-market basis, including net foreign exchange gains (losses) and net gains (losses) from swaps and other real estate owned, as well as net gains (losses) on sales of available-for-sale investment securities, loan fees and other miscellaneous income and expenses (Table 13). For the year ended December 31, 2016, the Bank recorded total non-interest expenses of US$368,984, compared to total non-interest income of US$2.39 million the previous year.

Table 13: Non-interest Income and Expense

(US$ Millions)

Category	2016	2015
Gains on sales of available-for-sale investments	**$ 0.14**	$ 0.04
Net income from hedging activities	**1.10**	3.58
Net expense from foreign exchange activities	**(0.70)**	(0.50)
Fees and other income	**0.20**	0.43
Loss on real estate owned	**(1.11)**	(0.95)
Total	**$ (0.37)**	$ 2.60

Table 14: Program Expenses

(US$ Millions)

Program	2016	2015
Community Assistance Program (CAP)	**$ 0.43**	$ 1.43
Water Conservation Investment Fund (WCIF)*	**0.12**	2.26
Technical Assistance Program (TAP)	**0.33**	0.85
Utility Management Institute (UMI)	**0.21**	0.33
Total	**$ 1.09**	$ 4.87

* This grant program was formally terminated in 2013. Grant funds totaling US$918,921 were pending disbursement for the last two projects under construction as of December 31, 2016.

Program Expenses. These expenses consist of grant disbursements for studies, training and project implementation, which are funded with previously designated retained earnings, with the exception of UMI, which is budgeted on an annual basis. A breakdown of grant disbursements by program for the past two years is shown in Table 14. Over the past five years, grant disbursements have averaged US$2.28 million annually. More information about these programs, is provided under Grant Activity and Technical Assistance.

Financial Position

Equity

As of December 31, 2016, total equity was US$604.03 million, an increase of 6.8% (US$38.45 million) compared to US$565.58 million at the close of 2015. The increase mainly consists of US$19.67 million in net income and US$10 million in paid-in capital received.

Capital. At the beginning of 2016, NADB had US$405 million in paid-in capital, along with US$2,295 million in corresponding callable capital. During 2016, the Mexican and U.S. Governments each subscribed an additional 150,000 shares of capital stock of the Bank with a par value of US$10,000 per share, subject to the necessary legislation and availability of appropriations. The additional capital consists of 22,500 paid-in shares (US$225 million) and 127,500 callable shares (US$1.275 billion) from each country for a total of US$3.00 billion.

Mexico made an initial contribution of US$10.00 million in paid-in capital in September 2016, along with the corresponding callable capital. As of December 31, 2016, NADB had US$415 million in paid-in capital, along with US$2,352 million in corresponding callable capital. A breakdown of the capital stock by source and type is provided in Table 15. Additional details about the capitalization of the Bank are provided in Note 7 of the consolidated financial statements.

Table 15: Capital Funded*

(US$ Millions)

	12/31/2016	12/31/2015
Source		
Mexico	**$ 1,416.67**	$ 1,350.00
United States	**1,350.00**	1,350.00
Total	**$ 2,766.67**	$ 2,700.00
Type		
Paid-in	**$ 415.00**	$ 405.00
Callable	**2,351.67**	2,295.00
Total	**$ 2,766.67**	$ 2,700.00

* Excludes 10% of initial paid-in capital (US$45 million) and the associated callable capital from each country, which was allocated to domestic programs (see Note 8 of the consolidated financial statements).

Retained Earnings and Reserves. During 2016, retained earnings grew 12.8% to a total of US$173.06 million from US$153.39 million at the end of 2015 and are held in the General Reserve.

In accordance with its retained earnings policy, NADB also maintains four specific reserves, which are described in Note 2 of the consolidated financial statements. Annual allocations from undesignated retained earnings to the reserve funds are made as necessary, and if available, to maintain the levels mandated under the policy. At the close of 2016 and 2015, all the reserves were fully funded.

Table 16 provides a breakdown of the retained earnings allocated to reserves and programs at the end of 2015 and 2016. The amount allocated to reserves increased US$14.88 million (14.9%) in 2016, mainly because of debt service and capital preservation reserve requirements. During the same period, the amount designated to programs decreased US$877,523 (6.1%) due to grant disbursements. With US$114.54 million of retained earnings allocated to reserves and US$13.46 million designated to fund programs, the Bank had US$45.06 million in undesignated retained earnings at the end of 2016, an increase of US$5.67 million (14.4%) over the balance at the end of 2015 (US$39.39 million).

Table 16: Reserved and Designated Retained Earnings

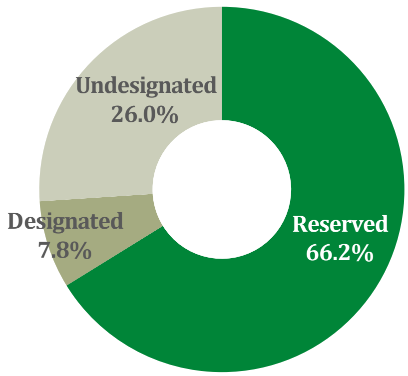
(US$ Millions)

	12/31/2016	12/31/2015
Reserved retained earnings		
Debt Service Reserve	**$ 30.80**	$ 24.61
Operating Expenses Reserve	**13.37**	10.40
Special Reserve*	**30.00**	30.00
Capital Preservation Reserve	**40.37**	34.65
Total reserved	**$ 114.54**	$ 99.66
Designated retained earnings		
Community Assistance Program (CAP)	**$ 8.81**	$ 9.24
Water Conservation Investment Fund (WCIF)	**0.92**	1.04
Technical Assistance Program (TAP)	**3.73**	4.06
Total designated	**$ 13.46**	$ 14.34

* This reserve may be used to offset losses on outstanding loans or to pay expenses relating to the enforcement of the Bank's rights under outstanding loan and guaranty agreements.

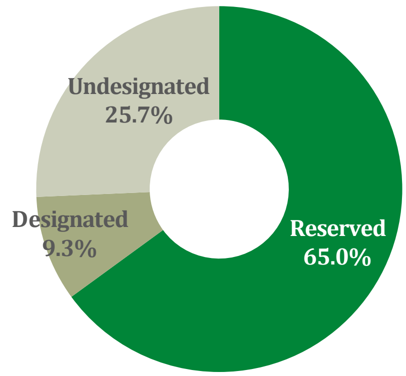
Figure 6: Retained Earnings

2016



US$173.06 million

2015



US$153.39 million

Debt

NADB leverages its funds by issuing debt in international capital markets or with other financial institutions for the purpose of financing its lending operations or refinancing existing borrowings. Its annual borrowing plan is reviewed and approved by the Board of Directors.

NADB borrowed US$2.22 million in 2016, compared to US$133.23 million in 2015. The Bank did not issue any new debt in the capital markets during 2016; however, under a fixed-rate loan agreement for up to US$50 million contracted with the German development bank, KfW, in November 2012, NADB drew down US$2.22 million to fund eligible wastewater projects in Mexico. During 2015, the Bank issued a ten-year non-amortizing note in the Swiss capital market with a face value of CHF 125 million at a fixed coupon rate that generated proceeds of US$128.71 million, as well as drew down US$4.52 million on the aforesaid loan agreement for Mexican wastewater projects.

All debt has been issued at fixed rates and in U.S. dollars, except for one fixed-rate issue in Swiss francs. Most of the debt has been hedged through interest rate swaps, effectively changing it to floating rates. The debt issue in Swiss francs was hedged by a cross-currency interest rate swap, effectively changing it to a floating rate in U.S. dollars. A breakdown of gross outstanding debt by type, currency and maturity is shown in Table 17.

Table 17: Gross Debt

(US$ Millions)

	12/31/2016	12/31/2015
By Type		
Notes payable	**$ 1,158.71**	$ 1,158.71
Other borrowings	**28.79**	31.84
Total	**$ 1,187.50**	$ 1,190.55
By Currency		
U.S. dollars	**$ 1,058.79**	$ 1,061.84
Swiss francs	**128.71**	128.71
Total	**$ 1,187.50**	$ 1,190.55
By Maturity		
Short term	**$ 5.26**	$ 5.26
Long term	**1,182.24**	1,185.29
Total	**$ 1,187.50**	$ 1,190.55

In accordance with its debt limit policy, total debt outstanding may not exceed at any time the callable portion of its subscribed capital shares, plus the minimum liquidity level required under the liquidity policy. With US$2.352 billion in subscribed callable capital and a minimum liquidity level of US$207.00 million for 2016, the maximum debt limit during the year was US$2.559 billion, 4.7% higher than the maximum limit in 2015 (US$2.443 billion). This increase reflects the increase in subscribed callable capital in 2016 (US$56.67 million) and a lower minimum liquidity requirement for 2015 (US$147.70 million). At the close of 2016, total debt outstanding (US$1.188 billion) accounted for 46.4% of the debt limit.

Liquidity Management

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

Under its liquidity policy, the Bank's minimum level of liquid holdings is equal to the highest consecutive 12 months of the following 18 months of expected debt service obligations, committed net loan disbursements and projected operating expenses for the relevant fiscal year. Minimum liquidity requirements are determined prior to the beginning of each fiscal year and may be revised during the year in the event of major changes in outlook. In accordance with this policy, the minimum liquidity balance for the 2016 fiscal year was set at US$207.00 million, and liquidity remained above this level throughout the year.

Table 18: Liquid Assets

(US$ Millions)

Type of Security	12/31/2016	12/31/2015
Cash and cash equivalents	**$ 151.21**	$ 113.65
U.S. Treasury securities	**117.33**	134.42
U.S. agency securities	**62.53**	71.59
Mortgage-backed securities	**-**	0.01
Mexican government securities (UMS)	**11.54**	13.64
Taxable municipal securities	**0.25**	2.78
Other permissible securities*	**114.90**	115.04
Total	**$ 457.77**	$ 451.13

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

For the first four months of 2017, the minimum liquidity level will be US$151.3 million and in May will increase by US$300 million to US$451.3 million for the rest of the year due to a US$300-million bond issue that matures in October 2018. To meet this liquidity requirement, NADB will issue additional debt in the first half of 2017.

The Bank's liquid asset holdings are in the form of cash, cash equivalents (mainly overnight repurchase agreements) and investments in longer term marketable securities (fixed-income securities). All investments held in the liquidity portfolio are designated as available-for-sale. As of December 31, 2016, 58.7% of the liquid asset portfolio was comprised of highly liquid assets (cash, cash equivalents and U.S. Treasuries). The remaining 41.3% was comprised of other types of liquid assets held by the Bank. A breakdown of the Bank's liquid assets at the close of 2016 and 2015 is provided in Table 18.

The portfolio of liquid assets remained fairly stable, increasing US$6.7 million or 1.5% in 2016 compared to the prior-year balance. At the close of 2016, the Bank's liquid assets represented 25.3% of total assets (US$1,813 million) and 38.6% of total gross debt (US$1,188 million), as compared to 25.3% of total assets (US$1,781 million) and 37.9% of total gross debt (US$1,191 million) at the end of 2015.

The Bank manages its investment portfolio to ensure that its liquid assets are prudently invested to preserve capital and provide necessary liquidity, in compliance with the policies and guidelines approved by its Board. Under these policies, the Bank is restricted from investing more than 5% of its investment portfolio in the securities of any one issuer, excluding obligations of the U.S. government, the Mexican government and U.S. government agencies. The majority of the securities must be rated AA (or its equivalent) or higher by a recognized securities rating agency. There are only two exceptions: 1) Mexican government securities; and 2) corporate debt securities denominated in U.S. dollars and rated A (or its equivalent) or higher, which cannot exceed 25% of the total investment portfolio.

Risk Management

Given the nature of its business, NADB is subject to credit, market, liquidity and operational risks. The Bank has always operated within a conservative risk management framework in accordance with the provisions of the Charter and the policies approved by the Board of Directors. In 2014, the Bank established the Risk Management and Control Department (RMC) to centralize the risk management function and continually assess and reinforce all aspects of its risk management strategies and tools.

Credit Risk

As a result of its core activity of providing infrastructure loans, NADB is subject to potential losses arising from the failure of a borrower to pay principal and/or interest on a loan in accordance with the agreed-upon terms (loan portfolio credit risk), as well as from the possible default of an investment or swap counterparty (counterparty risk).

Loan Portfolio Credit Risk. To mitigate this risk, NADB has implemented several layers of protection. First, it has established prudent policies limiting its exposure per project and per obligor, as well as actively seeks to share the risk with other financial institutions. Secondly, the Bank follows a well-established loan review and structuring process based on a thorough analysis of the technical and financial characteristics of the project, as well as the managerial capacity and credit quality of the borrower. As part of this process all loan proposals must be reviewed and approved by the Funding Committee prior to submission to the Board. To support the Funding Committee's analysis, an expert advisor may be hired to provide an independent assessment of the potential risks associated with a given loan. In addition, the Bank continually monitors covenant compliance and the financial stability of each borrower throughout the term of the loan. In 2016, RMC began working to strengthen the procedures for follow-up on loan projects and to refine the credit rating methodology for each loan and the portfolio as a whole.

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

Counterparty Risk. The main sources of the Bank's counterparty risk are the financial instruments in which the Bank invests its liquidity and the swap transactions it enters into with a financial institution as the counterparty. The Bank maintains cash and cash equivalents, investments, and certain other financial instruments with various major financial institutions, performs periodic evaluations of their financial performance and relative credit standing, and limits the amount of credit exposure with any one institution. The selection of potential swap counterparties requires Board authorization, and NADB signs an International Swap and Derivatives Association (ISDA) agreement with appropriate collateral support provisions with the commercial banks with which it enters into swap transactions. As its hedging needs have evolved, the Bank has expanded its list of eligible counterparties with the dual purpose of allowing for price competition while simultaneously diversifying counterparty risk exposure. All swaps are currently with eight counterparties, two of which are backed by the Government of Mexico. The other six are commercial financial institutions with ratings ranging from AA to BBB from two internationally-recognized rating agencies, with some institutions having a split rating.

Market and Liquidity Risk

The Bank is exposed to market risks related to general market movements, mainly through fluctuations in interest and exchange rates affecting earnings on its loan and investment portfolios and the cost of its external borrowings. Liquidity risk arises from an inability to meet contractual obligations in a timely manner without adversely affecting the daily operations or the financial condition of the institution.

To mitigate market risks, NADB makes extensive use of financial derivatives, mainly interest-rate and cross-currency swaps, for the sole purpose of hedging its positions. Loans with repayment sources in Mexican pesos must be hedged to U.S. dollars (unless the source of funds is also in pesos), while fixed-rate loans and investments are mostly swapped to a variable rate.

To maintain adequate liquidity and protect the investment portfolio from significant losses caused by interest rate movements, the average duration of the portfolio may not exceed four years. Moreover, the Bank structures the portfolio so that its investment securities mature concurrent with anticipated cash flow requirements, with additional consideration for unanticipated cash demands. Additional information about the Bank's liquidity and investment policies is provided in the preceding section on Liquidity Management.

Operational Risk

Operational risk is the potential loss arising from external events or from the inadequacy or failure of internal processes and systems or human error. It includes fraud and failures in the execution of legal, fiduciary and contractual responsibilities. These risks stem from the manner in which the Bank is operated, as opposed to the risk arising from its financial transactions. NADB manages its operational risk through a system of internal controls based on established policies and procedures for all significant areas of operation, including funds management, disbursements, procurement and financial reporting.

During 2016, RMC proceeded with the preliminary assessment and mapping of the operations of NADB and BECC, clearly defining the responsibilities of each department under the merged institution and identifying any overlaps and gaps in functions. RMC completed its review of 18 of the 20 processes identified during the year, and expects to complete the last two in early 2017. As part of this preliminary analysis, general risks and current control measures were identified in all processes, and a risk classification and assessment methodology was used to prioritize them based on current risk exposure. In 2017, RMC will begin a detailed review of all sub-processes, with a focus on strengthening the controls and mitigation activities for those processes with the highest risk exposure. All the information gathered will be fed into an Enterprise Risk Management System in order to follow up on any incidences of risk that materialize, introduce further controls and identify new and more specific risks.

Additionally, NADB and BECC are in the process of developing a single Enterprise Resource Planning (ERP) system that will provide workflow and control mechanisms for administrative, financial and project processes under the merged institution. The ERP system will consist of a suite of integrated applications that will collect, store, manage and interpret organizational data from all departments in order to provide a real-time integrated view of core business processes and the ability to report on the status of ongoing projects. During 2016, the functional, nonfunctional and interface requirements of the merged institution were defined, and technical options for the system were analyzed, with input from all departments and the assistance of information technology consultants. The processes mapped by RMC served as the foundation for the design of the system. The next step is to procure and begin installing the new ERP system during 2017.

Finally, in 2016 the Bank decided to outsource the internal audit function as a means of strengthening its operational framework with an emphasis on risk management. Five firms were invited to participate in a competitive process, which led to three firms submitting proposals for internal audit services. Ultimately, a contract was awarded through December 2017 to a licensed firm with over 40 years of experience providing auditing and accounting services to both public and private entities. The firm began its internal audit efforts in 2016 and completed a full review of one of NADB's processes by year-end.

Basis For Reporting and Critical Accounting Policies

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

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

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

Consolidation

At the request of the U.S. Government, NADB holds and administers the funds of the U.S. Community Assistance and Investment Program (USCAIP or the U.S. Domestic Program) and, therefore, its accounts are consolidated with those of the Bank. However, the U.S. domestic program's operations and allocated capital are completely independent of those of the Bank, and any net income earned by the program and its profits, losses, expenses and disbursements do not affect the retained earnings or paid-in capital of the Bank. The supplementary information provided at the end of the consolidated financial statements includes combining statements that show the breakdown of NADB and USCAIP accounts. Additional information about the U.S. domestic program can be found in Note 8 to the consolidated financial statements.

External Auditors

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

Consolidated Financial Statements and Supplemental Information

North American Development Bank
Years Ended December 31, 2016 and 2015
With Report of Independent Auditors

Report of Independent Auditors

ERNST & YOUNG

The Board of Directors
North American Development Bank

We have audited the accompanying consolidated financial statements of North American Development Bank (the Bank), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of North American Development Bank at December 31, 2016 and 2015, and the consolidated results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Supplementary Information

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

Ernst & Young, LLP

San Antonio, Texas
March 31, 2017

Consolidated Balance Sheets

	December 31 2016	December 31 2015
Assets		
Cash and cash equivalents:		
Held at other financial institutions in demand-deposit accounts	$ **193,964**	$ 127,078
Held at other financial institutions in interest-bearing accounts	**28,833,505**	31,052,800
Repurchase agreements	**122,700,000**	83,800,000
	151,727,469	114,979,878
Held-to-maturity investment securities, at amortized cost	**53,782,155**	53,730,753
Available-for-sale investment securities, at fair value	**306,562,226**	337,477,241
Loans outstanding	**1,411,625,673**	1,325,135,449
Allowance for loan losses	**(25,075,659)**	(19,941,922)
Unamortized loan fees	**(10,682,210)**	(9,661,632)
Foreign currency exchange rate adjustment	**(55,027,169)**	(43,446,961)
Hedged items, at fair value	**(151,854,451)**	(51,606,468)
Net loans outstanding	**1,168,986,184**	1,200,478,466
Interest receivable	**26,806,845**	11,226,560
Grant and other receivable	**7,320,234**	699,125
Furniture, equipment and leasehold improvements, net	**461,759**	257,012
Other assets	**98,029,324**	59,103,755
Total assets	$ **1,813,676,196**	$ 1,777,952,790
Liabilities and equity		
Liabilities:		
Accounts payable	$ **7,456,087**	$ 1,813,084
Accrued liabilities	**441,447**	350,020
Accrued interest payable	**16,593,968**	9,079,465
Undisbursed grant funds	**6,328**	1,000
Other liabilities	**–**	6,210,968
Short-term debt	**5,262,000**	5,262,000
Long-term debt, net of discount and unamortized debt issuance costs	**1,176,158,912**	1,177,851,550
Hedged items, at fair value	**2,931,548**	10,180,086
Net long-term debt	**1,179,090,460**	1,188,031,636
Total liabilities	**1,208,850,290**	1,210,748,173
Equity:		
Paid-in capital	**415,000,000**	405,000,000
General Reserve:		
Allocated paid-in capital	**2,460,790**	3,027,256
Retained earnings:		
Designated	**11,780,134**	12,920,792
Reserved	**114,553,374**	99,671,114
Undesignated	**45,058,709**	39,394,125
Accumulated other comprehensive income	**15,967,278**	7,185,567
Non-controlling interest	**5,621**	5,763
Total equity	**604,825,906**	567,204,617
Total liabilities and equity	$ **1,813,676,196**	$ 1,777,952,790

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

Consolidated Statements of Income

	Year Ended December 31	
	2016	**2015**
Interest income:		
Loans	**$ 52,430,015**	$ 45,910,933
Investments	**6,586,686**	5,355,434
Total interest income	**59,016,701**	51,266,367
Interest expense	**19,950,461**	15,101,220
Net interest income	**39,066,240**	36,165,147
Operating expenses:		
Personnel	**8,282,656**	5,590,704
General and administrative	**1,467,292**	1,712,742
Consultants and contractors	**2,720,662**	2,205,079
Provision for loan losses	**5,133,737**	8,559,254
Other	**193,253**	214,167
Depreciation	**137,153**	76,409
U.S. Domestic Program	**268,461**	285,955
Total operating expenses	**18,203,214**	18,644,310
Net operating income	**20,863,026**	17,520,837
Non-interest income and expenses:		
Gains on sales of available-for-sale securities	**137,177**	39,995
Income (expense) from hedging activities, net	**1,101,921**	3,584,628
Income (expense) from foreign exchange activities, net	**(701,842)**	(501,788)
Fees and other income	**200,000**	429,078
Loss on other real estate owned	**(1,106,240)**	(950,000)
Total non-interest income (expense)	**(368,984)**	2,601,913
Income before program activities	**20,494,042**	20,122,750
Program activities:		
U.S. Environmental Protection Agency (EPA) grant income	**843,300**	832,143
EPA grant administration expense	**(843,300)**	(832,143)
Technical Assistance Program expense	**(537,557)**	(1,179,090)
Community Assistance Program expense	**(429,633)**	(1,436,053)
Water Conservation Investment Fund expense	**(120,808)**	(2,257,725)
Net program expenses	**(1,087,998)**	(4,872,868)
Income before non-controlling interest	**19,406,044**	15,249,882
Net loss attributable to non-controlling interest	**(142)**	(242)
Net income attributable to NADB	**$ 19,406,186**	$ 15,250,124

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

Consolidated Statements of Comprehensive Income

	Year Ended December 31	
	2016	**2015**
Income before non-controlling interest	**$ 19,406,044**	$ 15,249,882
Net loss attributable to non-controlling interest	**(142)**	(242)
Net income attributable to NADB	**19,406,186**	15,250,124
Other comprehensive income (loss):		
Available-for-sale investment securities:		
Change in unrealized gains (losses) during the period, net	**15,481**	(344,579)
Reclassification adjustment for net gains included in net income	**(137,177)**	(39,995)
Total unrealized loss on available-for-sale investment securities	**(121,696)**	(384,574)
Foreign currency translation adjustment	**158,889**	147,893
Unrealized gains (losses) on hedging activities:		
Foreign currency translation adjustment, net	**(11,580,208)**	(11,501,378)
Fair value of cross-currency interest rate swaps, net	**20,324,726**	19,117,644
Total unrealized gain on hedging activities	**8,744,518**	7,616,266
Total other comprehensive income	**8,781,711**	7,379,585
Total comprehensive income	**$ 28,187,897**	$ 22,629,709

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

Consolidated Statement of Changes in Equity

	Paid-in Capital	General Reserve: Allocated Paid-in Capital	General Reserve: Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest	Total Equity
Beginning balance, January 1, 2015	$ 405,000,000	$ 4,337,076	$ 136,735,907	$ (194,018)	$ 6,005	$ 545,884,970
Transfer to Targeted Grant Program of the U.S. Domestic Program	–	(1,309,820)	–	–	–	(1,309,820)
Net income	–	–	15,250,124	–	–	15,250,124
Other comprehensive loss	–	–	–	7,379,585	–	7,379,585
Non-controlling interest	–	–	–	–	(242)	(242)
Ending balance, December 31, 2015	405,000,000	3,027,256	151,986,031	7,185,567	5,763	567,204,617
Capital contribution	**10,000,000**	**–**	**–**	**–**	**–**	**10,000,000**
Transfer to Targeted Grant rogram of the U.S. Domestic Program	**–**	**(566,466)**	**–**	**–**	**–**	**(566,466)**
Net income	**–**	**–**	**19,406,186**	**–**	**–**	**19,406,186**
Other comprehensive income	**–**	**–**	**–**	**8,781,711**	**–**	**8,781,711**
Non-controlling interest	**–**	**–**	**–**	**–**	**(142)**	**(142)**
Ending balance, December 31, 2016	**$ 415,000,000**	**$ 2,460,790**	**$ 171,392,217**	**$ 15,967,278**	**$ 5,621**	**$ 604,825,906**

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

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2016	**2015**
Operating activities		
Net income	**$ 19,406,186**	$ 15,250,124
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	**137,153**	76,409
Amortization of net premium (discounts) on investments	**907,746**	1,618,069
Change in fair value of swaps, hedged items and other non-cash items	**68,912,405**	43,358,596
Non-controlling interest	**(142)**	(242)
Gain on sales of available-for-sale investment securities, net	**(137,177)**	(39,995)
Provision for loan losses	**5,133,737**	8,559,254
Change in other assets and liabilities:		
Increase in interest receivable	**(15,580,285)**	(768,416)
(Increase) decrease in receivable and other assets	**(4,813,027)**	2,081,279
Increase in accounts payable	**5,643,003**	746,878
Increase in accrued liabilities	**91,427**	57,795
Increase in accrued interest payable	**7,514,503**	684,724
Net cash provided by operating activities	**87,215,529**	71,624,475
Lending, investing, and development activities		
Capital expenditures	**(342,452)**	(156,100)
Loan principal repayments	**49,762,528**	110,630,097
Loan disbursements	**(136,252,752)**	(249,555,763)
Purchase of held-to-maturity investments	**(2,261,000)**	(2,292,397)
Purchase of available-for-sale investments	**(240,224,271)**	(257,306,015)
Proceeds from maturities of held-to-maturity investments	**2,235,000**	2,250,000
Proceeds from sales and maturities of available-for-sale investments	**270,221,619**	222,045,417
Net cash used in lending, investing, and development activities	**(56,861,328)**	(174,384,761)
Financing activities		
Capital contribution	**10,000,000**	–
Proceeds from other borrowings	**2,216,528**	4,521,469
Proceeds from note issuance	**–**	129,503,444
Principal repayment of other borrowings	**(5,262,000)**	(2,631,000)
Grant funds from the Environmental Protection Agency (EPA)	**10,650,006**	9,633,948
Grant disbursements – EPA	**(10,644,678)**	(9,633,948)
Grant activity – U.S. Domestic Program	**(566,466)**	(1,309,820)
Net cash provided by financing activities	**6,393,390**	130,084,093
Net increase in cash and cash equivalents	**36,747,591**	27,323,807
Cash and cash equivalents at January 1, 2016 and 2015	**114,979,878**	87,656,071
Cash and cash equivalents at December 31, 2016 and 2015	**$ 151,727,469**	$ 114,979,878
Supplemental cash information		
Cash paid during the year for interest	**$ 30,730,491**	$ 30,439,744
Significant noncash transactions		
Foreign currency translation adjustment	**$ (11,580,208)**	$ (11,501,378)
Change in fair value of cross-currency interest rate swaps, net	**20,324,726**	19,117,644
Change in fair value of available-for-sales investments, net	**(121,696)**	(384,574)

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

Notes to Consolidated Financial Statements

December 31, 2016

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 community adjustment and investment projects throughout the U.S. and Mexico in support of the purposes of the North American Free Trade Agreement (NAFTA) (the Domestic Programs). On March 16, 1994, the President of the United States issued an Executive Order designating the Bank an international organization under the International Organization Immunities Act.

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

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

On June 2, 1998, the Board of Directors adopted a resolution authorizing the Bank to establish a limited-purpose financial institution (*sociedad financiera de objeto limitado, SOFOL*) for the purpose of facilitating Bank lending to the Mexican public sector. In January 1999, the *Corporación Financiera de América del Norte, S.A. de C.V. SOFOL* (COFIDAN) began operations in Mexico City and, in October 2006, COFIDAN was converted from a SOFOL to a non-regulated, multipurpose financial institution (SOFOM, E.N.R.), and its name was modified to *Corporación Financiera de América del Norte, S.A. de C.V. SOFOM E.N.R.* As of December 31, 2016, 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 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 and are presented in a manner consistent with that of an international organization. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. These estimates include the valuation of investments, allowance for loan losses, the fair value of derivative instruments and other real estate owned

2. Summary of Significant Accounting Policies (continued)

included in other assets, and the fair value of derivative instruments included in other liabilities and in long-term debt. Actual results could differ from those estimates.

Principles of Consolidation

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

Cash and Cash Equivalents

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

Repurchase Agreements

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

Investment Securities

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

> *Held-to-maturity* – This category is composed of those debt securities for which the Bank has the positive intent and ability to hold to maturity. These securities are carried at amortized cost.
>
> *Trading* – This category is composed of debt securities that are bought and held for resale in the near term. These securities are carried at fair value, and changes in market value are recognized in the consolidated statements of income.
>
> *Available-for-sale* – This category is composed of debt securities that are not classified as either trading or held-to-maturity securities. These securities are carried at fair value, with unrealized holding gains and losses excluded from earnings and reported as a net amount in a separate component of comprehensive income or loss until realized.

The accretion of discounts and the amortization of premiums are computed using the interest method. Realized gains and losses are determined using the specific identification method. Investments in a loss position are reviewed in order to determine whether the unrealized loss, which is considered an impairment, is temporary or other-than-temporary. In the event of other-than-temporary impairment, the cost basis of the investment would be written down to its fair value, and the credit component of the loss would be included in current earnings. The Bank had no securities classified as other-than-temporarily impaired as of December 31, 2016 and 2015.

Taxation

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

2. Summary of Significant Accounting Policies (continued)

Furniture, Equipment, and Leasehold Improvements

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

General Reserve

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

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

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

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

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

Loans and Allowance for Loan Losses

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

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

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

2. Summary of Significant Accounting Policies (continued)

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, the ability of the borrower to fulfill the contractual repayment terms is fully expected, and the loan is not classified as "doubtful" or "loss." If previously unrecognized interest income exists upon reinstatement of a nonaccrual loan to accrual status, interest income will only be recognized upon receipt of cash payments applied to the loan.

In cases where a borrower experiences financial difficulties and the Bank makes certain 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 specific allowance is established for impaired loans that exhibit a distinct possibility that the Bank may sustain some loss. Impairment of these loans is measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate or the fair value of the collateral, if the loan is collateral-dependent. In 2013, under the International Program, a general allowance for loans to private-sector borrowers was established based on statistical cumulative default and recovery rates for project finance loans. In 2016, the general allowance methodology was expanded to include public and public-private borrowers.

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 provision for loan losses and is decreased through reversals of provision for loan losses and loan charge-offs. Upon final settlement of impaired loans, any remaining loss is charged off.

Credit Quality

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

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

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

2. Summary of Significant Accounting Policies (continued)

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

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

Program Activities

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

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

Foreign Currency

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

The lending activities of the Bank include making loans that are denominated in Mexican pesos. For such loans, the Bank enters into cross-currency interest rate swaps that mitigate its exposure to fluctuations in foreign currency exchange rates and interest rates. As of December 31, 2016, the Bank had entered into swap counterparty agreements with *Fondo de Apoyo a Estados y Municipios* (FOAEM), a fund owned by the Government of Mexico and administered by the federally run development bank, *Banco Nacional de Obras y Servicios Publicos, S.N.C.* (Banobras); directly with Banobras outside the FOAEM arrangement; and with six other financial institutions. The foreign currency translation adjustment on loans denominated in Mexican pesos as of December 31, 2016 and 2015 was $(55,027,169) and $(43,446,961), respectively. Changes in the foreign currency translation adjustment are reported through other comprehensive income.

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

2. Summary of Significant Accounting Policies (continued)

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

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

Fair Value

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

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

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

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

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

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.

In 2016, the Bank adopted ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-30) – Simplifying the Presentation of Debt Issuance Costs.* ASU 2015-03 requires that debt issuance costs related to a debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The consolidated balance sheet as of December 31, 2015 reflects a $4,285,143 decrease in other assets and a $4,285,143 decrease in long-term debt, net of discount and unamortized debt issuance costs.

3. Investments

All investments held by the Bank are classified as either held-to-maturity or available-for-sale securities. The following schedule summarizes investments as of December 31, 2016 and 2015.

		Gross Unrealized		
	Amortized Cost	Gains	Losses	Fair Value
December 31, 2016				
Held-to-maturity:				
U.S. agency securities	**$ 3,868,082**	**$ 3,857**	**$ (23,507)**	**$ 3,848,432**
Mexican government securities (UMS)	**49,914,073**	**3,760,927**	**–**	**53,675,000**
Total held-to-maturity investment securities	**53,782,155**	**3,764,784**	**(23,507)**	**57,523,432**
Available-for-sale:				
U.S. government securities	**117,552,445**	**73,113**	**(299,703)**	**117,325,855**
U.S. agency securities	**62,587,782**	**176,961**	**(232,308)**	**62,532,435**
Corporate debt securities	**80,420,243**	**110,155**	**(240,116)**	**80,290,282**
Other fixed-income securities	**34,887,582**	**4,217**	**(34,100)**	**34,857,699**
Mexican government securities (UMS)	**11,661,736**	**4,957**	**(110,738)**	**11,555,955**
Mortgage-backed securities	**–**	**–**	**–**	**–**
Total available-for-sale investment securities	**307,109,788**	**369,403**	**(916,965)**	**306,562,226**
Total investment securities	**$ 360,891,943**	**$ 4,134,187**	**$ (940,472)**	**$ 364,085,658**
December 31, 2015				
Held-to-maturity:				
U.S. agency securities	$ 3,842,082	$ 1,188	$ (6,178)	$ 3,837,092
Mexican government securities (UMS)	49,888,671	4,611,329	–	54,500,000
Total held-to-maturity investment securities	53,730,753	4,612,517	(6,178)	58,337,092
Available-for-sale:				
U.S. government securities	134,578,402	35,197	(193,458)	134,420,141
U.S. agency securities	71,593,623	109,503	(108,783)	71,594,343
Corporate debt securities	86,571,067	71,599	(228,745)	86,413,921
Other fixed-income securities	31,410,892	19,308	(25,880)	31,404,320
Mexican government securities (UMS)	13,741,982	–	(104,682)	13,637,300
Mortgage-backed securities	7,141	75	–	7,216
Total available-for-sale investment securities	337,903,107	235,682	(661,548)	337,477,241
Total investment securities	$ 391,633,860	$ 4,848,199	$ (667,726)	$ 395,814,333

3. Investments (continued)

The following schedule summarizes unrealized losses and the fair value of investments aggregated by category and the length of time individual securities have been in a continuous unrealized loss position as of December 31, 2016 and 2015.

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2016						
Held-to-maturity:						
U.S. agency securities	**$ 2,767,178**	**$ 23,507**	**$ –**	**$ –**	**$ 2,767,178**	**$ 23,507**
Available-for-sale:						
U.S. government securities	**59,557,510**	**299,703**	**–**	**–**	**59,557,510**	**299,703**
U.S. agency securities	**19,363,071**	**232,308**	**–**	**–**	**19,363,071**	**232,308**
Corporate debt securities	**42,222,042**	**240,116**	**–**	**–**	**42,222,042**	**240,116**
Other fixed-income securities	**19,571,379**	**34,100**	**–**	**–**	**19,571,379**	**34,100**
Mexican government securities (UMS)	**7,817,425**	**110,738**	**–**	**–**	**7,817,425**	**110,738**
Total available-for-sale investment securities	**148,531,427**	**916,965**	**–**	**–**	**148,531,427**	**916,965**
Total temporarily impaired securities	**$ 151,298,605**	**$ 940,472**	**$ –**	**$ –**	**$ 151,298,605**	**$ 940,472**
December 31, 2015						
Held-to-maturity:						
U.S. agency securities	$ 1,528,507	$ 6,178	$ –	$ –	$ 1,528,507	$ 6,178
Available-for-sale:						
U.S. government securities	120,167,738	193,457	–	–	120,167,738	193,457
U.S. agency securities	44,930,182	108,784	–	–	44,930,182	108,784
Corporate debt securities	56,118,940	228,745	–	–	56,118,940	228,745
Other fixed-income securities	24,132,655	25,880	–	–	24,132,655	25,880
Mexican government securities (UMS)	13,637,300	104,682	–	–	13,637,300	104,682
Total available-for-sale investment securities	258,986,815	661,548	–	–	258,986,815	661,548
Total temporarily impaired securities	$ 260,515,322	$ 667,726	$ –	$ –	$ 260,515,322	$ 667,726

None of the unrealized losses identified in the preceding table are considered to be other-than-temporary since, as of December 31, 2016, the Bank did not have the intent to sell any of these securities and believed that it was more-likely-than-not that the Bank would not be required to sell any such securities before a recovery of cost.

3. Investments (continued)

Contractual maturities of investments as of December 31, 2016 and 2015 are summarized in the following tables.

	Held-to-Maturity Securities		Available-for-Sale Securities	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
December 31, 2016				
Less than 1 year	**$ 973,654**	**$ 974,685**	**$ 169,910,035**	**$ 169,947,758**
1–5 years	**56,549,778**	**52,807,470**	**136,652,191**	**137,162,030**
5–10 years	**–**	**–**	**–**	**–**
More than 10 years	**–**	**–**	**–**	**–**
Mortgage-backed securities	**–**	**–**	**–**	**–**
	$ 57,523,432	**$ 53,782,155**	**$ 306,562,226**	**$ 307,109,788**
December 31, 2015				
Less than 1 year	$ 575,057	$ 575,000	$ 187,802,072	$ 187,898,629
1–5 years	57,762,035	53,155,753	147,637,953	147,916,989
5–10 years	–	–	2,030,000	2,080,348
More than 10 years	–	–	–	–
Mortgage-backed securities	–	–	7,216	7,141
	$ 58,337,092	$ 53,730,753	$ 337,477,241	$ 337,903,107

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

The following table summarizes sale, call, and maturity activity of investment securities for the years ended December 31, 2016 and 2015.

	Year Ended December 31	
	2016	2015
Held-to-maturity investment securities:		
Proceeds from maturities	**$ 2,235,000**	$ 2,250,000
Available-for-sale investment securities:		
Proceeds from sales and maturities	**270,221,619**	222,045,417
Gross realized gains	**137,290**	150,969
Gross realized losses	**113**	110,974

3. Investments (continued)

The following table sets forth the net unrealized gains (losses) on securities available-for-sale and the reclassification adjustments required for the years ended December 31, 2016 and 2015.

	2016	2015
Net unrealized losses on investment securities available-for-sale, beginning of year	**$ (425,866)**	$ (41,291)
Net unrealized gains (losses) on investment securities available-for-sale, arising during the year	**15,481**	(344,580)
Reclassification adjustments for net gains on investment securities available-for-sale included in net income	**(137,177)**	(39,995)
Net unrealized losses on investment securities available-for-sale, end of year	**$ (547,562)**	$ (425,866)

4. Loans

The following schedule summarizes loans outstanding as of December 31, 2016 and 2015.

	International Program	U.S. Domestic Program	Total
December 31, 2016			
Loan balance	**$ 1,411,295,846**	**$ 329,827**	**$ 1,411,625,673**
Allowance for loan losses:			
General	**(25,052,471)**	**(23,188)**	**(25,075,659)**
Specific	**–**	**–**	**–**
Unamortized loan fees	**(10,682,210)**	**–**	**(10,682,210)**
Foreign currency exchange rate adjustment	**(55,027,169)**	**–**	**(55,027,169)**
Fair value of hedged items	**(151,854,451)**	**–**	**(151,854,451)**
Net loans outstanding	**$ 1,168,679,545**	**$ 306,639**	**$ 1,168,986,184**
December 31, 2015			
Loan balance	$ 1,324,777,048	$ 358,401	$ 1,325,135,449
Allowance for loan losses:			
General	(19,918,734)	(23,188)	(19,941,922)
Specific	–	–	–
Unamortized loan fees	(9,661,632)	–	(9,661,632)
Foreign currency exchange rate adjustment	(43,446,961)	–	(43,446,961)
Fair value of hedged items	(51,606,468)	–	(51,606,468)
Net loans outstanding	$ 1,200,143,253	$ 335,213	$ 1,200,478,466

4. Loans (continued)

At December 31, 2016 and 2015, the International Program had outstanding loan commitments on signed loan agreements totaling $58,518,271 and $51,817,048, respectively. At those same dates, the U.S. Domestic Program did not have any outstanding loan commitments on signed loan agreements. The International Program also had loan agreements under development for an additional $159,191,105 as of December 31, 2016.

The Bank under certain circumstances offered below-market-rate loans. As of December 31, 2016 and 2015, the Bank had below-market-rate loans outstanding for the International Program of $39,675,001 and $43,173,661, respectively. At December 31, 2016 and 2015, the U.S. Domestic Program did not have any below-market-rate loans.

The following table presents the loan portfolio by sector as of December 31, 2016 and 2015.

	December 31	
	2016	**2015**
International Program:		
Air quality	**$ 103,691,911**	$ 110,702,431
Basic urban infrastructure	**36,380,546**	36,853,882
Clean energy:		
Solar	**291,532,300**	302,531,030
Wind	**707,220,750**	618,587,633
Other	**4,823,929**	4,225,910
Public transportation	**31,865,601**	3,687,700
Storm drainage	**56,250,755**	59,561,462
Water and wastewater	**172,141,854**	181,210,270
Water conservation	**7,388,200**	7,416,730
Total International Program	**1,411,295,846**	1,324,777,048
U.S. Domestic Program	**329,827**	358,401
	$ 1,411,625,673	$ 1,325,135,449

4. Loans (continued)

The following table presents the loan portfolio by risk category as of December 31, 2016 and 2015. These risk categories are defined in Note 2, along with additional information on how the Bank evaluates credit quality.

	December 31	
	2016	**2015**
International Program		
Pass	**$ 1,394,063,313**	$ 1,324,777,048
Special Mention	**–**	–
Substandard	**17,232,533**	–
Doubtful	**–**	–
Total International Program	**1,411,295,846**	1,324,777,048
U.S. Domestic Program		
Pass	**–**	–
Special Mention	**329,827**	358,401
Substandard	**–**	–
Doubtful	**–**	–
Total U.S. Domestic Program	**329,827**	358,401
	$ 1,411,625,673	$ 1,325,135,449

There were no loans under the International Program on nonaccrual as of December 31, 2016 and 2015. The average impaired loan balance for the years ended December 31, 2016 and 2015 totaled $0 and $1,974,930, respectively. No interest income was recognized on the impaired loan for the year ended December 31, 2015. As of December 31, 2016 and 2015, the Bank had collateral from foreclosed loans reported as other assets of $2,978,307 and $4,786,389, respectively.

Under the U.S. Domestic Program, there was one loan on non-accrual as of December 31, 2016 with an outstanding balance of $329,827, and no loans on non-accrual as of December 31, 2015. The average impaired loan balance for the years ended December 31, 2016 and 2015 total $343,043 and $0, respectively. Interest income of $3,378 was recognized on the impaired loan for the year ended December 31, 2016.

4. Loans (continued)

An age analysis of past-due loans, including both accruing and non-accruing loans, as of December 31, 2016 and 2015, is shown in the following table.

	Loans 30–89 Days Past Due	Loans 90 or More Days Past Due	Total Past-due Loans
December 31, 2016			
International Program	**$ –**	**$ –**	**$ –**
U.S. Domestic Program	**–**	**329,827**	**329,827**
	$ –	**$ 329,827**	**$ 329,827**
December 31, 2015			
International Program	$ –	$ –	$ –
U.S. Domestic Program	–	358,401	358,401
	$ –	$ 358,401	$ 358,401

There were no loans past due 90 or more days accruing interest as of December 31, 2016 and 2015.

The following table summarizes the allowance for loan losses by classification as of December 31, 2016 and 2015.

	Allowance for Loan Losses			
	General Allowance	Specific Allowance	Total	Total Loans Outstanding
December 31, 2016				
International Program:				
Private:				
Construction	**$ 10,417,904**	**$ –**	**$ 10,417,904**	**$ 226,218,309**
Operation	**12,741,894**	**–**	**12,741,894**	**806,542,895**
Public	**1,441,539**	**–**	**1,441,539**	**288,307,752**
Public-private	**451,134**	**–**	**451,134**	**90,226,890**
Total International Program	**25,052,471**	**–**	**25,052,471**	**1,411,295,846**
U.S. Domestic Program	**23,188**	**–**	**23,188**	**329,827**
	$ 25,075,659	**$ –**	**$ 25,075,659**	**$ 1,411,625,673**
December 31, 2015				
International Program:				
Private:				
Construction	$ 10,300,322	$ –	$ 10,300,322	$ 258,088,762
Operation	9,618,412	–	9,618,412	669,139,482
Public	–	–	–	305,588,205
Public-private	–	–	–	91,960,599
Total International Program	19,918,734	–	19,918,734	1,324,777,048
U.S. Domestic Program	23,188	–	23,188	358,401
	$ 19,941,922	$ –	$ 19,941,922	$ 1,325,135,449

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

4. Loans (continued)

The following schedule summarizes the allowance for loan losses for the years ended December 31, 2016 and 2015.

	Allowance for Loan Losses				
		Loan Loss Provisions			
	Beginning Balance	Specific	General	Loan (Charge-offs) Recoveries	Ending Balance
December 31, 2016					
International Program:					
Private:					
Construction	**$ 10,300,322**	**$ –**	**$ 117,582**	**$ –**	**$ 10,417,904**
Operation	**9,618,412**	**–**	**3,123,482**	**–**	**12,741,894**
Public	**–**	**–**	**1,441,539**	**–**	**1,441,539**
Public-private	**–**	**–**	**451,134**	**–**	**451,134**
Total International Program	**19,918,734**	**–**	**5,133,737**	**–**	**25,052,471**
U.S. Domestic Program	**23,188**	**–**	**–**	**–**	**23,188**
	$ 19,941,922	**$ –**	**$ 5,133,737**	**$ –**	**$ 25,075,659**
December 31, 2015					
International Program:					
Private:					
Construction	$ 5,528,110	$ –	$ 4,772,212	$ –	$ 10,300,322
Operation	5,827,518	–	3,790,894	–	9,618,412
Public	–	–	(3,852)	3,852	–
Public-private	–	–	–	–	–
Total International Program	11,355,628	–	8,559,254	3,852	19,918,734
U.S. Domestic Program	23,188	–	–	–	23,188
	$ 11,378,816	$ –	$ 8,559,254	$ 3,852	$ 19,941,922

5. Other Assets and Other Liabilities

The following table presents the gross and net balances of other assets and other liabilities, including the result of master netting arrangements for derivatives with certain swap counterparties, at December 31, 2016 and 2015.

	Gross Amount	Master Netting Arrangements	Net Amount
December 31, 2016			
Other assets			
Cross-currency interest rate swaps	**$ 255,338,489**	**$ (27,619,486)**	**$ 227,719,003**
Interest rate swaps	**12,513,231**	**(8,447,465)**	**4,065,766**
Collateral from swap counterparties	**(135,490,000)**	**–**	**(135,490,000)**
Credit valuation adjustment for swaps	**(1,243,752)**	**–**	**(1,243,752)**
Other real estate owned	**2,978,307**	**–**	**2,978,307**
Total other assets	**$ 134,096,275**	**$ (36,066,951)**	**$ 98,029,324**
Other liabilities			
Cross-currency interest rate swaps	**$ –**	**$ –**	**$ –**
Interest rate swaps	**–**	**–**	**–**
Total other liabilities	**$ –**	**$ –**	**$ –**
December 31, 2015			
Other assets			
Cross-currency interest rate swaps	$ 136,668,543	$ (29,973,461)	$ 106,695,082
Interest rate swaps	17,780,265	(2,053,020)	15,727,245
Collateral from swap counterparties	(67,600,000)	–	(67,600,000)
Credit valuation adjustment for swaps	(504,961)	–	(504,961)
Other real estate owned	4,786,389	–	4,786,389
Total other assets	$ 91,130,236	$ (32,026,481)	$ 59,103,755
Other liabilities			
Cross-currency interest rate swaps	$ 2,395,365	$ –	$ 2,395,365
Interest rate swaps	3,815,603	–	3,815,603
Total other liabilities	$ 6,210,968	$ –	$ 6,210,968

6. Debt

The following table summarizes the notes payable and other borrowings as of December 31, 2016 and 2015.

Issue Date	Maturity Date	Fixed Rate	December 31, 2016 Principal Amount	Unamortized Premium/ (Discount)	Unamortized Debt Issuance Costs	Fair Value of Hedged Items	Net Debt
Notes payable							
USD Issuance							
02/11/10	02/11/20	4.375%	$ **250,000,000**	$ **(203,000)**	$ **(502,811)**	$ **11,844,826**	$ **261,139,015**
10/26/12	10/26/22	2.400	**250,000,000**	**(500,472)**	**(865,430)**	**(3,429,048)**	**245,205,050**
12/17/12	10/26/22	2.400	**180,000,000**	**(2,202,230)**	**(548,185)**	**(4,130,413)**	**173,119,172**
12/17/12	12/17/30	3.300	**50,000,000**	**–**	**(239,978)**	**(888,004)**	**48,872,018**
10/10/13	10/10/18	2.300	**300,000,000**	**(400,402)**	**(595,962)**	**668,405**	**299,672,041**
CHF Issuance							
04/30/15	04/30/25	0.250	**128,706,754**	**666,880**	**(692,235)**	**(1,134,218)**	**127,547,181**
Total notes payable			**1,158,706,754**	**(2,639,224)**	**(3,444,601)**	**2,931,548**	**1,155,554,477**
Other borrowings							
08/15/13	06/30/17	1.900	**2,631,000**	**–**	**–**	**–**	**2,631,000**
08/15/13	12/30/17	1.900	**2,631,000**	**–**	**–**	**–**	**2,631,000**
08/15/13	06/30/18	1.900	**2,631,000**	**–**	**–**	**–**	**2,631,000**
08/15/13	12/30/18	1.900	**600,467**	**–**	**–**	**–**	**600,467**
04/11/14	12/30/18	1.900	**2,030,533**	**–**	**–**	**–**	**2,030,533**
04/11/14	06/30/19	1.900	**2,631,000**	**–**	**–**	**–**	**2,631,000**
04/11/14	12/30/19	1.900	**2,632,000**	**–**	**–**	**–**	**2,632,000**
04/11/14	06/30/20	1.900	**526,785**	**–**	**–**	**–**	**526,785**
08/14/14	06/30/20	1.900	**2,105,215**	**–**	**–**	**–**	**2,105,215**
08/14/14	12/30/20	1.900	**2,632,000**	**–**	**–**	**–**	**2,632,000**
08/14/14	06/30/21	1.900	**1,008,985**	**–**	**–**	**–**	**1,008,985**
02/13/15	06/30/21	1.900	**1,623,015**	**–**	**–**	**–**	**1,623,015**
02/13/15	12/30/21	1.900	**1,470,635**	**–**	**–**	**–**	**1,470,635**
07/29/15	12/30/21	1.900	**1,161,365**	**–**	**–**	**–**	**1,161,365**
07/29/15	06/30/22	1.900	**266,455**	**–**	**–**	**–**	**266,455**
09/16/16	06/30/22	1.900	**2,216,528**	**–**	**–**	**–**	**2,216,528**
Total other borrowings			**28,797,983**	**–**	**–**	**–**	**28,797,983**
			$1,187,504,737	**$ (2,639,224)**	**$ (3,444,601)**	**$ 2,931,548**	**$ 1,184,352,460**

6. Debt (continued)

			December 31, 2015				
Issue Date	Maturity Date	Fixed Rate	Principal Amount	Unamortized Premium/ (Discount)	Unamortized Debt Issuance Costs	Fair Value of Hedged Items	Net Debt
Notes payable							
USD Issuance							
02/11/10	02/11/20	4.375%	$ 250,000,000	$ (268,250)	$ (664,429)	$ 16,479,919	$ 265,547,240
10/26/12	10/26/22	2.400	250,000,000	(586,472)	(1,014,144)	(1,949,072)	246,450,312
12/17/12	10/26/22	2.400	180,000,000	(2,580,656)	(642,384)	(3,344,004)	173,432,956
12/17/12	12/17/30	3.300	50,000,000	–	(257,167)	(575,548)	49,167,285
10/10/13	10/10/18	2.300	300,000,000	(459,503)	(931,716)	1,300,346	299,909,127
CHF Issuance							
04/30/15	04/30/25	0.250	128,706,754	743,365	(775,303)	(1,731,555)	126,943,261
Total notes payable			1,158,706,754	(3,151,516)	(4,285,143)	10,180,086	1,161,450,181
Other borrowings							
03/07/13	06/30/16	1.900	1,653,972	–	–	–	1,653,972
08/15/13	06/30/16	1.900	977,028	–	–	–	977,028
08/15/13	12/30/16	1.900	2,631,000	–	–	–	2,631,000
08/15/13	06/30/17	1.900	2,631,000	–	–	–	2,631,000
08/15/13	12/30/17	1.900	2,631,000	–	–	–	2,631,000
08/15/13	06/30/18	1.900	2,631,000	–	–	–	2,631,000
08/15/13	12/30/18	1.900	600,467	–	–	–	600,467
04/11/14	12/30/18	1.900	2,030,533	–	–	–	2,030,533
04/11/14	06/30/19	1.900	2,631,000	–	–	–	2,631,000
04/11/14	12/30/19	1.900	2,632,000	–	–	–	2,632,000
04/11/14	06/30/20	1.900	526,785	–	–	–	526,785
08/14/14	06/30/20	1.900	2,105,215	–	–	–	2,105,215
08/14/14	12/30/20	1.900	2,632,000	–	–	–	2,632,000
08/14/14	06/30/21	1.900	1,008,985	–	–	–	1,008,985
02/13/15	06/30/21	1.900	1,623,015	–	–	–	1,623,015
02/13/15	12/30/21	1.900	1,470,635	–	–	–	1,470,635
07/29/15	12/30/21	1.900	1,161,365	–	–	–	1,161,365
07/29/15	06/30/22	1.900	266,455	–	–	–	266,455
Total other borrowings			31,843,455	–	–	–	31,843,455
			$ 1,190,550,209	$ (3,151,516)	$ (4,285,143)	$ 10,180,086	$ 1,193,293,636

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.

6. Debt (continued)

The fair value of the hedges relating to interest rate swaps on a portion of the notes payable was reported at December 31, 2016 as other assets of $4,065,766 and other liabilities of $0 and at December 31, 2015 as other assets of $15,727,245 and other liabilities of $3,815,603. The fair value of the hedges relating to cross-currency interest rate swaps on notes payable not denominated in U.S. dollars was reported at December 31, 2016 as other assets of ($2,309,109) and at December 31, 2015 as other liabilities of $2,395,365. For additional information on the fair value of financial instruments and derivatives, see Notes 11 and 12.

Other Borrowings

On November 8, 2012, the Bank signed a loan commitment with another development bank to borrow up to $50 million to fund eligible projects in Mexico. This loan amortizes semiannually, with the first principal payment paid on December 30, 2015 and final principal payment due on December 30, 2024. As of December 31, 2016 and 2015, the outstanding balance was $28,797,983 and $31,843,455, respectively.

The following table summarizes the maturities of the notes payable and other borrowings as of December 31, 2016 and 2015.

	December 31	
	2016	**2015**
Less than 1 year	**$ 5,262,000**	$ 5,262,000
1–2 years	**305,262,000**	5,262,000
2–3 years	**5,263,000**	305,262,000
3–4 years	**255,264,000**	5,263,000
4–5 years	**5,264,000**	255,264,000
5–10 years	**561,189,737**	564,237,209
More than 10 years	**50,000,000**	50,000,000
Total	**$ 1,187,504,737**	$ 1,190,550,209

The following table summarizes the short-term and long-term debt as of December 31, 2016 and 2015.

	December 31	
	2016	**2015**
Short-term debt:		
Notes payable	**$ –**	$ –
Other borrowings	**5,262,000**	5,262,000
Total short-term debt	**5,262,000**	5,262,000
Long-term debt:		
Notes payable	**1,158,706,754**	1,158,706,754
Other borrowings	**23,535,983**	26,581,455
Total long-term debt	**1,182,242,737**	1,185,288,209
Total debt	**$ 1,187,504,737**	$ 1,190,550,209

7. Equity

Subscribed Capital

At December 31, 2016 and 2015, the Bank had authorized and subscribed 600,000 and 300,000 shares of capital stock, respectively, with a par value of $10,000 per share. As defined in the Charter, capital includes unqualified and qualified subscribed shares. Unqualified subscribed shares have either been funded or authorized for purchase by the subscribing country. Capital is further classified as callable or paid-in capital at December 31, 2016 and 2015 as follows.

	Mexico		United States		Total	
	Shares	Dollars	Shares	Dollars	Shares	Dollars
December 31, 2016						
Subscribed capital	300,000	$ 3,000,000,000	300,000	$ 3,000,000,000	600,000	$ 6,000,000,000
Less:						
Qualified callable capital	(121,833.3333)	(1,218,333,333)	(127,500)	(1,275,000,000)	(249,333.3333)	(2,493,333,333)
Unqualified callable capital	(133,166.6667)	(1,331,666,667)	(127,500)	(1,275,000,000)	(260,666.6667)	(2,606,666,667)
Qualified paid-in capital	(21,500)	(215,000,000)	(22,500)	(225,000,000)	(44,000)	(440,000,000)
Total funded paid-in capital	23,500	235,000,000	22,500	225,000,000	46,000	460,000,000
Less transfer to General Reserve for Domestic Programs	–	(22,500,000)	–	(22,500,000)	–	(45,000,000)
Total paid-in capital	23,500	$ 212,500,000	22,500	$ 202,500,000	46,000	$ 415,000,000
December 31, 2015						
Subscribed capital	150,000	$ 1,500,000,000	150,000	$ 1,500,000,000	300,000	$ 3,000,000,000
Less callable capital	(127,500)	(1,275,000,000)	(127,500)	(1,275,000,000)	(255,000)	(2,550,000,000)
Total funded paid-in capital	22,500	225,000,000	22,500	225,000,000	45,000	450,000,000
Less transfer to General Reserve for Domestic Programs	–	(22,500,000)	–	(22,500,000)	–	(45,000,000)
Total paid-in capital	22,500	$ 202,500,000	22,500	$ 202,500,000	45,000	$ 405,000,000

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 US$10,000 per share, subject to the necessary legal requirements and availability of appropriations. The capital stock is further classified as 22,500 qualified paid-in capital shares or US$225,000,000 and 127,500 qualified callable shares or US$1,275,000,000. On September 26, 2016, Mexico made its first contribution of the additional paid-in capital of $10,000,000 or 1,000 shares of paid-in capital and unqualified 5,666.6667 shares of callable capital.

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 US$10,000 per share, subject to the necessary legislation and availability of appropriations. The capital stock is further classified as

7. Equity (continued)

22,500 qualified paid-in capital shares or US$225,000,000 and 127,500 qualified callable shares or US$1,275,000,000.

The subscriptions of members to paid-in capital and callable capital stock shall be in several installments, effective on or before December 31, 2016 through December 31, 2022, or such later dates as the Board of Directors shall determine. The callable portion of the subscription for capital shares of the Bank will be subject to call only when required to meet obligations, as outlined in Article II, Section 3(d), of Chapter II of the Charter.

Retained Earnings

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

	December 31	
	2016	**2015**
Designated retained earnings		
International Program:		
Water Conservation Investment Fund (WCIF)	**$ 918,920**	$ 1,039,728
Technical Assistance Program (TAP)	**3,728,057**	4,055,139
Community Assistance Program (CAP)	**8,811,470**	9,241,103
Total International Program	**13,458,447**	14,335,970
U.S. Domestic Program	**(1,678,313)**	(1,415,178)
Total designated retained earnings	**11,780,134**	12,920,792
Reserved retained earnings		
International Program:		
Debt Service Reserve	**30,800,868**	24,609,470
Operating Expenses Reserve	**13,372,300**	10,396,093
Special Reserve	**30,000,000**	30,000,000
Capital Preservation Reserve	**40,370,311**	34,654,799
Total International Program	**114,543,479**	99,660,362
U.S. Domestic Program:		
Special Reserve	**9,895**	10,752
Total reserved retained earnings	**114,553,374**	99,671,114
Undesignated retained earnings		
International Program	**45,058,709**	39,394,125
Total undesignated retained earnings	**45,058,709**	39,394,125
Total retained earnings	**$ 171,392,217**	$ 151,986,031
Retained earnings by program		
International Program	**$ 173,060,635**	$ 153,390,457
U.S. Domestic Program	**(1,668,418)**	(1,404,426)
Total retained earnings	**$ 171,392,217**	$ 151,986,031

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

7. Equity (continued)

Accumulated Other Comprehensive Income

The following table presents the changes in accumulated other comprehensive income (loss) for the years ended December 31, 2016 and 2015.

	Beginning Balance	Period Activity	Ending Balance
December 31, 2016			
Unrealized loss on available-for-sale investment securities	**$ (425,865)**	**$ (121,696)**	**$ (547,561)**
Foreign currency translation adjustment	**214,219**	**158,889**	**373,108**
Unrealized gain (loss) on hedging activities:			
Foreign currency translation adjustment	**(43,446,961)**	**(11,580,208)**	**(55,027,169)**
Fair value of cross-currency interest rate swaps	**50,844,174**	**20,324,726**	**71,168,900**
Net unrealized gain on hedging activities	**7,397,213**	**8,744,518**	**16,141,731**
Total accumulated other comprehensive income	**$ 7,185,567**	**$ 8,781,711**	**$ 15,967,278**
December 31, 2015			
Unrealized gain (loss) on available-for-sale investment securities	$ (41,291)	$ (384,574)	$ (425,865)
Foreign currency translation adjustment	66,326	147,893	214,219
Unrealized gain (loss) on hedging activities:			
Foreign currency translation adjustment	(31,945,583)	(11,501,378)	(43,446,961)
Fair value of cross-currency interest rate swaps	31,726,530	19,117,644	50,844,174
Net unrealized gain (loss) on hedging activities	(219,053)	7,616,266	7,397,213
Total accumulated other comprehensive gain (loss)	$ (194,018)	$ 7,379,585	$ 7,185,567

8. Domestic Programs

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

Mexico

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

8. Domestic Programs (continued)

United States

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

In accordance with the Charter and MOU with the United States, net assets of the Bank in the amounts of $792,372 and $1,622,830 were designated for the U.S. Domestic Program at December 31, 2016 and 2015, respectively. The revenue related to these amounts for the years ended December 31, 2016 and 2015 were $5,161 and $20,463, respectively. Additionally, expenses directly related to the operation of the U.S. Domestic Program of $268,461 and $285,955, are included in the operations of the Bank for the years ended December 31, 2016 and 2015, respectively. All expenses and disbursements are paid out of the U.S. Domestic Program funds. Deficit retained earnings on the U.S. Domestic Program capital funds as of December 31, 2016 and 2015 were $1,668,418 and $1,404,426, respectively. Under the U.S. Domestic Program, $513,695 in cash and cash equivalents was available for disbursement as of December 31, 2016.

In January 2009, the Finance Committee approved a Targeted Grant Program (TGP) to be funded with the remaining balance of the U.S. Domestic Program's allocated paid-in capital. As of December 31, 2016 and 2015, the U.S. Domestic Program's allocated paid-in capital totaled $2,460,790 and $3,027,256, respectively. For the years ended December 31, 2016 and 2015, $566,466 and $1,309,820, respectively, were disbursed through the TGP. These disbursements were reported as a deduction from allocated paid-in capital.

9. Program Activities

Program activities are comprised of the following:

	Year Ended December 31	
	2016	**2015**
Program income:		
EPA grant	**$ 843,300**	$ 832,143
Total program income	**843,300**	832,143
Program expenses:		
EPA grant administration	**(843,300)**	(832,143)
Technical Assistance Program	**(537,557)**	(1,179,090)
Water Conservation Investment Fund	**(429,633)**	(1,436,053)
Community Assistance Program	**(120,808)**	(2,257,725)
Total program expenses	**(1,931,298)**	(5,705,011)
Net program expenses	**$ (1,087,998)**	$ (4,872,868)

9. Program Activities (continued)

EPA Grants

The Bank administers grant funds from EPA through the Border Environment Infrastructure Fund (BEIF). EPA grant awards since the initial grant made in April 1997 to December 31, 2016 total $692,812,849. Under the terms of the grants, the Bank reviews and submits prospective projects to EPA, which approves the projects. EPA then disburses funds to the Bank, which directs the grant monies to the specified project. The Bank also oversees progress and compliance requirements for EPA and receives an allocation of the EPA grant funds for administrative expenses incurred.

As of December 31, 2016, EPA has approved project funding proposed by the Bank totaling $656,940,544, of which $602,857,358 has been disbursed through the Bank. The Bank recognized $843,300 and $832,143 as reimbursement of expenses incurred for the years ended December 31, 2016 and 2015, respectively. These funds have been recorded as program revenue and expenses in the consolidated statements of income.

Technical Assistance Program (TAP)

The Bank uses a portion of its retained earnings as authorized by the Board of Directors to offer technical assistance and training to project sponsors for the purpose of strengthening their financial performance and ensuring the long-term sustainability of their infrastructure. Through the TAP, assistance is provided in three categories: project development, institutional capacity-building measures, and sector studies to identify needs and generate knowledge about a new sector or technology. For the years ended December 31, 2016 and 2015, $327,082 and $849,195, respectively, was disbursed under this program. These disbursements were funded with previously designated retained earnings and have been reported as a program expense.

As part of its technical assistance program, the Utility Management Institute (UMI) provides water utility managers and their staff with an opportunity for ongoing professional development aimed at enhancing their managerial and financial skills. For the years ended December 31, 2016 and 2015, $210,475 and $329,895, respectively, was expended under this program.

Water Conservation Investment Fund (WCIF)

In August 2002, the Board of Directors established the WCIF to finance water conservation projects in the U.S.-Mexico border region and designated $80,000,000 of the Bank's undesignated retained earnings to the program. Of that amount, $40,000,000 was reserved exclusively for water conservation projects in each country. For the years ended December 31, 2016 and 2015, $120,808 and $2,257,725 respectively, were disbursed under this fund. As of December 31, 2016, cumulative disbursements total $38,035,477 for the United States and $39,990,407 for Mexico. These disbursements were funded with previously designated retained earnings and have been reported as a program expense.

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

9. Program Activities (continued)

Community Assistance Program (CAP)

In February 2011, the Board of Directors approved a grant program to support public projects in all sectors eligible for Bank financing. The CAP program is funded from the Bank's undesignated retained earnings as authorized by the Board. As of December 31, 2016, a cumulative total of $11,473,415 has been allocated to the CAP. For the years ended December 31, 2016 and 2015, $429,633 and $1,436,053, respectively, were disbursed under this program. These disbursements were funded with previously designated retained earnings and have been reported as a program expense.

10. Employee Benefits

401(a) Retirement Plan

The Bank has a 401(a) Retirement Plan for its employees. This plan provides for employee and nondiscretionary employer contributions. For the years ended December 31, 2016 and 2015, the Bank expended $751,187 and $604,386, respectively, relating to the plan.

Retiree Health Insurance Plan

The Bank has a retiree 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 plan limits.

11. Fair Value of Financial Instruments

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

Cash and Cash Equivalents

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

Securities Held-to-Maturity

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

Securities Available-for-Sale

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

Loans Receivable and Interest Receivable

The fair value of loans is estimated based on Level 2 observable inputs using discounted cash flow analyses and interest rates currently being offered for loans made by the Bank with similar terms to borrowers of similar credit quality, net of allowance for loan loss. The fair value of nonaccrual loans is estimated to equal the aggregate net realizable value of the underlying collateral and guaranties.

11. Fair Value of Financial Instruments (continued)

The carrying amount of accrued interest approximates its fair value. This valuation does not consider liquidity discounts currently being used by certain market participants, since measuring their impact would not be cost-beneficial for the Bank, given the nature of its loan portfolio.

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. Mexican-peso cash flows are discounted using the Mexico Benchmark Interbank Deposit Rate (TIIE) 28-day swap curve. U.S.-dollar cash flows are discounted using the USD Overnight Index Swap (OIS) curve.

Cross-currency Interest Rate Swaps

Cross-currency interest rate swaps are reported at fair value using Level 3 unobservable inputs. The fair value of these swaps is estimated based on discounting procedures, whereby each cash flow stream is discounted using the benchmark swap curve of the respective currency and converting the resulting net present value at the spot exchange rate, as well as external pricing models and counterparty pricing. The Bank's cross-currency interest rate swaps are all Mexican-peso for U.S.-dollar operations except for one Swiss-franc for U.S.-dollar operation in connection with a debt issuance in Swiss francs. Mexican-peso cash flows are discounted using the TIIE 28-day swap curve. Swiss franc (CHF) cash flows are discounted using the CHF swap curve. U.S.-dollar cash flows are discounted using the USD OIS curve.

Interest Rate Swaps

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

Other Real Estate Owned

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

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 and the CHF swap curve for the Swiss franc issuance, as well as on external pricing models and counterparty pricing.

11. Fair Value of Financial Instruments (continued)

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

	December 31, 2016		December 31, 2015	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets				
Cash and cash equivalents	**$ 151,727,469**	**$ 151,727,469**	$ 114,979,878	$ 114,979,878
Held-to-maturity securities	**53,782,155**	**57,523,432**	53,730,753	58,337,092
Available-for-sale securities	**306,562,226**	**306,562,226**	337,477,241	337,477,241
Loans, net	**1,168,986,184**	**1,200,398,847**	1,200,478,466	1,222,140,888
Interest receivable	**26,806,845**	**26,806,845**	11,226,560	11,226,560
Cross-currency interest rate swaps	**227,719,003**	**227,719,003**	106,695,082	106,695,082
Interest rate swaps	**4,065,766**	**4,065,766**	15,727,245	15,727,245
Other real estate owned	**2,978,307**	**2,978,307**	4,786,389	4,786,389
Liabilities				
Accrued interest payable	**16,593,968**	**16,593,968**	9,079,465	9,079,465
Short-term debt	**5,262,000**	**5,262,000**	5,262,000	5,262,000
Cross-currency interest rate swaps	**–**	**–**	2,395,365	2,395,365
Interest rate swaps	**–**	**–**	3,815,603	3,815,603
Long-term debt, net	**1,176,158,912**	**1,178,937,246**	1,177,851,550	1,182,058,243

The Bank's financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2016 and 2015 are summarized in the following table by the valuation level of the inputs used to measure fair value. Additional information on how the Bank measures and classifies the levels of fair-value inputs is provided in Note 2.

11. Fair Value of Financial Instruments (continued)

	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total Fair Value
December 31, 2016				
Assets				
Available-for-sale (AFS) securities:				
U.S. government securities	**$ 117,325,855**	**$ –**	**$ –**	**$ 117,325,855**
U.S. agency securities	**–**	**62,532,435**	**–**	**62,532,435**
Corporate debt securities	**–**	**80,290,282**	**–**	**80,290,282**
Other fixed-income securities	**–**	**34,857,699**	**–**	**34,857,699**
Mexican government securities (UMS)	**–**	**11,555,955**	**–**	**11,555,955**
Mortgage-backed securities	**–**	**–**	**–**	**–**
Total AFS securities	**117,325,855**	**189,236,371**	**–**	**306,562,226**
Cross-currency interest rate swaps	**–**	**–**	**227,719,003**	**227,719,003**
Interest rate swaps	**–**	**–**	**4,065,766**	**4,065,766**
Hedged items for loans	**–**	**–**	**(151,854,451)**	**(151,854,451)**
Total assets at fair value	**$ 117,325,855**	**$ 189,236,371**	**$ 79,930,318**	**$ 386,492,544**
Liabilities				
Cross-currency interest rate swaps	**$ –**	**$ –**	**$ –**	**$ –**
Interest rate swaps	**–**	**–**	**–**	**–**
Hedged items for notes payable	**–**	**–**	**2,931,548**	**2,931,548**
Total liabilities at fair value	**$ –**	**$ –**	**$ 2,931,548**	**$ 2,931,548**
December 31, 2015				
Assets				
Available-for-sale (AFS) securities:				
U.S. government securities	$ 134,420,141	$ –	$ –	$ 134,420,141
U.S. agency securities	–	71,594,343	–	71,594,343
Corporate debt securities	–	86,413,921	–	86,413,921
Other fixed-income securities	–	31,404,320	–	31,404,320
Mexican government securities (UMS)	–	13,637,300	–	13,637,300
Mortgage-backed securities	–	7,216	–	7,216
Total AFS securities	134,420,141	203,057,100	–	337,477,241
Cross-currency interest rate swaps	–	–	106,695,082	106,695,082
Interest rate swaps	–	–	15,727,245	15,727,245
Hedged items for loans	–	–	(51,606,468)	(51,606,468)
Total assets at fair value	$ 134,420,141	$ 203,057,100	$ 70,815,859	$ 408,293,100
Liabilities				
Cross-currency interest rate swaps	$ –	$ –	$ 2,395,365	$ 2,395,365
Interest rate swaps	–	–	3,815,603	3,815,603
Hedged items for notes payable	–	–	10,180,086	10,180,086
Total liabilities at fair value	$ –	$ –	$ 16,391,054	$ 16,391,054

11. Fair Value of Financial Instruments (continued)

The following table summarizes the changes to the financial assets and liabilities measured at fair value on a recurring basis using unobservable inputs (Level 3) during the years ended December 31, 2016 and 2015. Additional information on how the Bank measures fair value is provided in Note 2.

	Fair Value of Level 3 Instruments		
	Cross-currency Interest Rate Swaps	Interest Rate Swaps	Hedged Items
Assets			
Beginning balance, January 1, 2016	**$ 106,695,082**	**$ 15,727,245**	**$ (51,606,468)**
Total realized and unrealized gains (losses):			
Included in earnings (expenses)	**100,699,195**	**(11,661,479)**	**(100,247,983)**
Included in other comprehensive income	**20,324,726**	**–**	**–**
Purchases	**–**	**–**	**–**
Settlements	**–**	**–**	**–**
Transfers in/out of Level 3	**–**	**–**	**–**
Ending balance, December 31, 2016	**$ 227,719,003**	**$ 4,065,766**	**$ (151,854,451)**
Beginning balance, January 1, 2015	$ 36,938,315	$ 18,433,614	$ 1,698,406
Total realized and unrealized gains (losses):			
Included in earnings (expenses)	53,303,097	(2,266,369)	(53,304,874)
Included in other comprehensive income (loss)	19,117,644	–	–
Purchases	–	–	–
Settlements	(2,663,974)	(440,000)	–
Transfers in/out of Level 3	–	–	–
Ending balance, December 31, 2015	$ 106,695,082	$ 15,727,245	$ (51,606,468)
Liabilities			
Beginning balance, January 1, 2016	**$ 2,395,365**	**$ 3,815,603**	**$ 10,180,086**
Total realized and unrealized (gains) losses:			
Included in (earnings) expenses	**(2,395,365)**	**(3,815,603)**	**(7,248,538)**
Included in other comprehensive (income) loss	**–**	**–**	**–**
Purchases	**–**	**–**	**–**
Settlements	**–**	**–**	**–**
Transfers in/out of Level 3	**–**	**–**	**–**
Ending balance, December 31, 2016	**$ –**	**$ –**	**$ 2,931,548**
Beginning balance, January 1, 2015	$ –	$ 20,426,135	$ 5,047,280
Total realized and unrealized (gains) losses:			
Included in (earnings) expenses	2,395,365	(16,610,532)	5,132,806
Included in other comprehensive (income) loss	–	–	–
Purchases	–	–	–
Settlements	–	–	–
Transfers in/out of Level 3	–	–	–
Ending balance, December 31, 2015	$ 2,395,365	$ 3,815,603	$ 10,180,086

11. Fair Value of Financial Instruments (continued)

The Bank entered into nine (9) cross-currency interest rate swaps and no interest rate swaps during the year ended December 31, 2016. Upon issuance, the fair value of the swaps is $0 and, therefore, is not portrayed in the purchases line item in the preceding table. The change in fair value of these instruments is included within the total gains (losses) line item.

The Bank has no nonfinancial assets or liabilities measured at fair value on a recurring basis. Certain nonfinancial assets and liabilities measured at fair value on a nonrecurring basis include foreclosed assets (upon initial recognition or subsequent impairment) and other nonfinancial long-lived assets measured at fair value for impairment assessment. The fair value of the collateral from foreclosed loans is measured using Level 3 unobservable inputs and is reported in other assets as other real estate owned of $2,978,307 and $4,786,389 at December 31, 2016 and 2015, respectively. For the years ended December 31, 2016 and 2015, the Bank recorded an impairment of $1,106,240 and $950,000, respectively, on the other real estate owned. The impairment is recorded as a non-interest expense in the consolidated statement of income.

12. Derivative Financial Instruments

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

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

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

Under its arrangement with FOAEM, neither the Bank nor the counterparty is required to post collateral to support the outstanding fair value of the swaps. Beginning in July 2009, under counterparty relationships with other financial institutions, collateral may be required to be posted by either the Bank or the counterparty. Cash collateral of $135,490,000 and $67,600,000 was posted from counterparties to the Bank as of December 31, 2016 and December 31, 2015, respectively. No collateral was posted by the Bank as of December 31, 2016 and 2015.

12. Derivative Financial Instruments (continued)

The notional amounts and estimated fair values of the swaps outstanding at December 31, 2016 and 2015 are presented in the following table. The fair value of these swaps is estimated using internal valuation models with observable market data inputs.

	December 31, 2016		December 31, 2015	
	Notional Amount	Estimated Fair Value, Net	Notional Amount	Estimated Fair Value, Net
Cross-currency interest rate swaps	**$ 655,539,583**	**$ 227,719,003**	$ 645,173,665	$ 104,299,717
Interest rate swaps	**1,326,246,801**	**4,065,766**	1,418,452,744	11,911,642

The referenced exchange rate received for the cross-currency interest rate swaps outstanding at December 31, 2016 and 2015 was 4.82% and 5.81%, respectively.

Swaps that are no longer deemed effective because of borrower default on the hedged loans are not included in the preceding table. There were no swaps that were considered ineffective due to borrower default as of December 31, 2016 and 2015.

Gains and Losses on Derivative Cash Flows

Cross-currency Interest Rate Swaps – The effective portion of the gain or loss due to changes in the fair value of cross-currency interest rate swaps designated as cash flow hedges is included in the accompanying consolidated statements of comprehensive income, while the ineffective portion is included in income (expense) from net hedging activities. The accumulated gain (loss) is reclassified into earnings as the hedged cash flows are received to offset the foreign currency gains (losses) that would have been recognized in earnings if the Bank had not been a party to the swaps. The accumulated net gain (loss) related to the swaps included in accumulated other comprehensive income totaled $16,141,732 and $7,397,213 at December 31, 2016 and 2015, respectively.

Gains or losses due to changes in the fair value of cross-currency interest rate swaps designated as fair value hedges and ineffective swaps are reported in income (expense) from net hedging activities. For the years ended December 31, 2016 and 2015, changes in the aforementioned swaps included in the accompanying consolidated statements of income were $1,447,745 and $2,974,496, respectively.

Interest Rate Swaps – With regard to the interest rate swaps on outstanding loans and a portion of the long-term notes payable, the changes in the fair value of the swaps offset the changes in the fair value of the loans and debt due to changes in the USD OIS curve, while the ineffective portion is included in income (expense) from net hedging activities. For the years ended December 31, 2016 and 2015, changes in the aforementioned swaps included in the accompanying consolidated statements of income were $394,266 and $1,115,092, respectively.

13. Credit Risk Associated with Financial Instruments

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

14. Commitments

In the normal course of business, the Bank has various outstanding commitments, in addition to the loans receivable disclosed in Note 4 and the long-term borrowings disclosed in Note 6. Under agreements with consultants and contractors in effect at December 31, 2016, 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 under an operating lease that expires on February 28, 2026. Rent expense totaled $102,563 and $12,381 for the years ended December 31, 2016 and 2015, respectively. The following schedule summarizes the minimum future expenses for the forgoing lease.

Year Ended December 31	
2017	$ 204,797
2018	211,792
2019	214,231
2020	221,831
2021	223,064
Thereafter	994,494
	$ 2,070,209

15. Accounting Standards Updates

Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (*Topic 606). ASU 2014-09 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations

15. Accounting Standards Updates (continued)

in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 is effective for the Bank on January 1, 2019. The Bank does not anticipate a significant impact to its consolidated financial statements since the primary source of revenue is interest income from loans and investments.

ASU 2015-02, *Consolidation (Topic 810) – Amendments to the Consolidation Analysis*. ASU 2015-02 implements changes to both the variable interest consolidation model and the voting interest consolidation model. ASU 2015-02 (i) eliminates certain criteria that had to be met in determining when fees paid to a decision-maker or service provider do not represent a variable interest, (ii) amends the criteria for determining whether a limited partnership is a variable interest entity and (iii) eliminates the presumption that a general partner controls a limited partnership in the voting model. ASU 2015-02 will be effective for the Bank on January 1, 2017 and is not expected to have a significant impact on the Bank's consolidated financial statements.

ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-1, among other things, (i) requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (iii) eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, (iv) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (v) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments, (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements and (vii) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities. ASU 2016-1 will be effective for the Bank on January 1, 2019 and is not expected to have a significant impact on the Bank's consolidated financial statements.

ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02, among other things, require lessees to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. ASU 2016-02 does not significantly change lease accounting requirements applicable to lessors; however, certain changes were made to align, where necessary, lessor accounting with the lessee accounting model and ASC Topic 606: Revenue from Contracts with Customers. ASU 2016-02 will be effective for the Bank on January 1, 2020 and will require transition using a modified retrospective approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Bank is evaluating the potential impact of ASU 2016-02 to its consolidated financial statements and disclosures.

15. Accounting Standards Updates (continued)

ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. In addition, ASU 2016-13 amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. ASU 2016-13 will be effective for the Bank on January 1, 2021. The Bank is evaluating the potential impact of ASU 2016-13 to its consolidated financial statements.

16. Other Significant Event

On December 3, 2014, the Board approved a resolution recommending the merger of NADB and BECC into a single institution. The proposed integration would preserve the current mission, purposes and functions of both organizations, including their environmental mandate and geographic jurisdiction. The integration is currently in process.

17. Subsequent Events

On March 10, 2017, the Bank issued 15-year notes in Norwegian krone in the amount of kr 1,445,000,000 ($173,448,566 USD), with a coupon rate of 2.47%, interest payments due annually on March 10, and first principal payment due on March 10, 2031.

The Bank has evaluated subsequent events for potential recognition and/or disclosure through March 31, 2017, the date these consolidated financial statements were issued.

Supplementary Information

Combining Balance Sheet by Program

December 31, 2016

	International Program	U.S. Domestic Program (A)	Eliminations	Total
Assets				
Cash and cash equivalents:				
Held at other financial institutions in demand deposit accounts	$ 193,964	$ –	$ –	$ 193,964
Held at other financial institutions in interest-bearing accounts	28,619,810	213,695	–	28,833,505
Repurchase agreements	122,400,000	300,000	–	122,700,000
	151,213,774	513,695	–	151,727,469
Held-to-maturity investment securities, at amortized cost	53,782,155	–	–	53,782,155
Available-for-sale investment securities, at fair value	306,562,226	–	–	306,562,226
Loans outstanding	1,411,295,846	329,827	–	1,411,625,673
Allowance for loan losses	(25,052,471)	(23,188)	–	(25,075,659)
Unamortized loan fees	(10,682,210)	–	–	(10,682,210)
Foreign currency exchange rate adjustment	(55,027,169)	–	–	(55,027,169)
Hedged items, at fair value	(151,854,451)	–	–	(151,854,451)
Net loans outstanding	1,168,679,545	306,639	–	1,168,986,184
Interest receivable	26,806,830	15	–	26,806,845
Grant and other receivable	7,320,234	–	–	7,320,234
Due from U.S. Domestic Program	9,997	–	(9,997)	–
Furniture, equipment and leasehold improvements, net	461,759	–	–	461,759
Other assets	98,029,324	–	–	98,029,324
Total assets	$ 1,812,865,844	$ 820,349	$ (9,997)	$ 1,813,676,196
Liabilities and equity				
Liabilities:				
Accounts payable	$ 7,454,439	$ 1,648	$ –	$ 7,456,087
Accrued liabilities	425,115	16,332	–	441,447
Due to International Program	–	9,997	(9,997)	–
Accrued interest payable	16,593,968	–	–	16,593,968
Undisbursed grant funds	6,328	–	–	6,328
Short-term debt	5,262,000	–	–	5,262,000
Long-term debt, net of discount and unamortized debt issuance costs	1,176,158,912	–	–	1,176,158,912
Hedged items, at fair value	2,931,548	–	–	2,931,548
Net long-term debt	1,179,090,460	–	–	1,179,090,460
Total liabilities	1,208,832,310	27,977	(9,997)	1,208,850,290
Equity:				
Paid-in capital	415,000,000	–	–	415,000,000
General Reserve:				
Allocated paid-in capital	–	2,460,790	–	2,460,790
Retained earnings:				
Designated	13,458,447	(1,678,313)	–	11,780,134
Reserved	114,543,479	9,895	–	114,553,374
Undesignated	45,058,709	–	–	45,058,709
Accumulated other comprehensive income	15,967,278	–	–	15,967,278
Non-controlling interest	5,621	–	–	5,621
Total equity	604,033,534	792,372	–	604,825,906
Total liabilities and equity	$ 1,812,865,844	$ 820,349	$ (9,997)	$ 1,813,676,196

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

Combining Statement of Income by Program

Year Ended December 31, 2016

	International Program	U.S. Domestic Program (A)	Total
Interest income:			
Loans	$ 52,426,637	$ 3,378	$ 52,430,015
Investments	6,584,903	1,783	6,586,686
Total interest income	59,011,540	5,161	59,016,701
Interest expense	19,950,461	–	19,950,461
Net interest income	39,061,079	5,161	39,066,240
Operating expenses:			
Personnel	8,282,656	–	8,282,656
General and administrative	1,467,292	–	1,467,292
Consultants and contractors	2,720,662	–	2,720,662
Provision for loan losses	5,133,737	–	5,133,737
Other	193,253		193,253
Depreciation	136,461	692	137,153
U.S. Domestic Program	–	268,461	268,461
Total operating expenses	17,934,061	269,153	18,203,214
Net operating income (loss)	21,127,018	(263,992)	20,863,026
Non-interest income and expenses:			
Gains on sales of available-for-sale securities	137,177	–	137,177
Other income (expense) from hedging activities, net	1,101,921	–	1,101,921
Other income (expense) from foreign exchange activities, net	(701,842)	–	(701,842)
Fees and other income	200,000	–	200,000
Loss on other real estate owned	(1,106,240)	–	(1,106,240)
Total non-interest income (expenses)	(368,984)	–	(368,984)
Income (loss) before program activities	20,758,034	(263,992)	20,494,042
Program activities:			
EPA grant income	843,300	–	843,300
EPA grant administration	(843,300)	–	(843,300)
TAP	(537,557)	–	(537,557)
CAP	(429,633)	–	(429,633)
WCIF	(120,808)	–	(120,808)
Net program expenses	(1,087,998)	–	(1,087,998)
Income (loss) before non-controlling interest	19,670,036	(263,992)	19,406,044
Net loss attributable to non-controlling interest	(142)	–	(142)
Net income (loss)	$ 19,670,178	$ (263,992)	$ 19,406,186
General Reserve, January 1, 2016			
Allocated paid-in capital	$ –	$ 3,027,256	$ 3,027,256
Retained earnings	153,390,457	(1,404,426)	151,986,031
Current period activity:			
Net income (loss)	19,670,178	(263,992)	19,406,186
TGP disbursements of the U.S. Domestic Program	–	(566,466)	(566,466)
General Reserve, December 31, 2016			
Allocated paid-in capital	–	2,460,790	2,460,790
Retained earnings	173,060,635	(1,668,418)	171,392,217
	$ 173,060,635	$ 792,372	$ 173,853,007

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

Combining Statement of Comprehensive Income by Program

Year Ended December 31, 2016

	International Program	U.S. Domestic Program (A)	Total
Income (loss) before non-controlling interest	$ 19,670,036	$ (263,992)	$ 19,406,044
Net loss attributable to non-controlling interest	(142)	–	(142)
Net income (loss)	19,670,178	(263,992)	19,406,186
Other comprehensive income (loss):			
Available-for-sale investment securities:			
Change in unrealized gain during the period, net	15,481	–	15,481
Reclassification adjustment for net gain included in net income	(137,177)	–	(137,177)
Total unrealized loss on available-for-sale investment securities	(121,696)	–	(121,696)
Foreign currency translation adjustment	158,889	–	158,889
Unrealized gains (losses) on hedging activities:			
Foreign currency translation adjustment, net	(11,580,208)	–	(11,580,208)
Fair value of cross-currency interest rate swaps, net	20,324,726	–	20,324,726
Total unrealized gain on hedging activities	8,744,518	–	8,744,518
Total other comprehensive income	8,781,711	–	8,781,711
Total comprehensive income (loss)	$ 28,451,889	$ (263,992)	$ 28,187,897

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

Combining Statement of Cash Flows by Program

Year Ended December 31, 2016

	International Program	U.S. Domestic Program (A)	Total
Operating activities			
Net income (loss)	$ 19,670,178	$ (263,992)	$ 19,406,186
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation	136,461	692	137,153
Amortization of net premium (discount) on investments	907,746	–	907,746
Change in fair value of swaps, hedged items and other non-cash items	68,912,405	–	68,912,405
Non-controlling interest	(142)	–	(142)
Gain on sales of available-for-sale investment securities, net	(137,177)	–	(137,177)
Provision for loan losses	5,133,737	–	5,133,737
Change in other assets and liabilities:			
(Increase) decrease in interest receivable	(15,582,102)	1,817	(15,580,285)
Increase in receivable and other assets	(4,813,027)	–	(4,813,027)
Decrease in due from U.S. Domestic Program and decrease due to International Program	15,877	(15,877)	–
Increase in accounts payable	5,641,355	1,648	5,643,003
Increase in accrued liabilities	91,277	150	91,427
Increase in accrued interest payable	7,514,503	–	7,514,503
Net cash provided by (used in) operating activities	87,491,091	(275,562)	87,215,529
Lending, investing, and development activities			
Capital expenditures	(342,452)	–	(342,452)
Loan principal repayments	49,733,954	28,574	49,762,528
Loan disbursements	(136,252,752)	–	(136,252,752)
Purchase of held-to-maturity investments	(2,261,000)	–	(2,261,000)
Purchase of available-for-sale investments	(240,224,271)	–	(240,224,271)
Proceeds from maturities of held-to-maturity investments	2,235,000	–	2,235,000
Proceeds from sales and maturities of available-for-sale investments	270,221,619	–	270,221,619
Net cash provided by (used in) lending, investing, and development activities	(56,889,902)	28,574	(56,861,328)
Financing activities			
Capital contribution	10,000,000	–	10,000,000
Proceeds from other borrowings	2,216,528	–	2,216,528
Principal repayment of other borrowings	(5,262,000)	–	(5,262,000)
Grant funds –- EPA	10,650,006	–	10,650,006
Grant disbursements – EPA	(10,644,678)	–	(10,644,678)
Grant activity – U.S. Domestic Program	–	(566,466)	(566,466)
Net cash provided by (used in) financing activities	6,959,856	(566,466)	6,393,390
Net increase (decrease) in cash and cash equivalents	37,561,045	(813,454)	36,747,591
Cash and cash equivalents at January 1, 2016	113,652,729	1,327,149	114,979,878
Cash and cash equivalents at December 31, 2016	$ 151,213,774	$ 513,695	$ 151,727,469

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

Border Environment Infrastructure Fund (BEIF)

As of and for the Year Ended December 31, 2016

Balance Sheet

	Region 6	Region 9	Total
Assets			
Cash	$ 3,445	$ 2,883	$ 6,328
Total assets	$ 3,445	$ 2,883	$ 6,328
Liabilities			
Undisbursed grant funds	$ 3,445	$ 2,883	$ 6,328
Total liabilities	$ 3,445	$ 2,883	$ 6,328

Statement of Income

	Region 6	Region 9	Total
Income:			
U.S. Environmental Protection Agency grant income	$ 297,624	$ 545,676	$ 843,300
Total income	297,624	545,676	843,300
BEIF operating expenses:			
Personnel	155,914	155,914	311,828
Consultants	103,451	370,796	474,247
General and administrative	27,857	5,054	32,911
Operational travel	10,402	13,912	24,314
Total BEIF operating expenses	297,624	545,676	843,300
Net income	$ –	$ –	$ –

Statement of Cash Flows

	Region 6	Region 9	Total
Operating activities			
Net income	$ –	$ –	$ –
Net cash provided by operating activities	–	–	–
Financing activities			
Grant funds – EPA	2,934,485	7,715,521	10,650,006
Grant disbursements – EPA	(2,931,540)	(7,713,138)	(10,644,678)
Net cash provided by financing activities	2,945	2,383	5,328
Net increase in cash and cash equivalents	2,945	2,383	5,328
Cash and cash equivalents at January 1, 2016	500	500	1,000
Cash and cash equivalents at December 31, 2016	$ 3,445	$ 2,883	$ 6,328

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

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