2021 Annual Report

North American
Development Bank

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Message from Management

We are pleased to share this annual report with our Board of Directors, investors and community stakeholders of the U.S.-Mexico border region. The projects funded by the North American Development Bank (NADBank or the Bank) are making a significant difference in the quality of life of more than 18 million U.S. and Mexican citizens. NADBank is dedicated solely to supporting the sustainable development of the border region. Our commitment to this goal requires strong relationships and collaboration to achieve the long-term environmental investments an economically and culturally dynamic region needs.

In 2021, NADBank continued its innovative work to support environmental infrastructure and sustainable development on several dimensions. The region faces the double challenge of maintaining its economic growth, cultural vitality and binational collaboration while improving environmental conditions and resiliency. For the Bank, this challenge includes providing universal water, wastewater and solid waste service coverage, replacing aging infrastructure and investing in climate change adaptation and mitigation. In short, it means continuing to provide financing so that the border region becomes a greener, more efficient and more livable place.

Recognizing NADBank's role in meeting these new challenges, at the end of 2021, the Bank's Board of Directors agreed to expand the environmental scope of the institution by incorporating a wider variety of eligible projects—such as sustainable buildings and industrial parks, green manufacturing and mobility—while maintaining a strong commitment to the priority areas of water and waste management. In addition to addressing legacy environmental issues, the new project types will allow the Bank to better invest in actions that combat climate change and promote a greener economy. This expansion is supported by the recent US$3 billion capital increase. With increased financial capacity, an updated strategic commitment to the environment and staff expertise developed over 25 years, NADBank is positioned to invest more innovatively in the environment and sustainable development along the border.

During the worst of the pandemic in 2020 and through the first half of 2021, border communities were particularly hurt due to restrictions on cross-border trade and movement. NADBank was not immune to those effects. 2021 saw the U.S.-Mexico border region recover economic growth, albeit unevenly across the region, providing the Bank a better environment in which to operate.

The year saw growth in gross domestic product of the border states above 5%, employment grew by more than 3%, exports from the U.S. (Q3) grew 11% and 19% from Mexico, and truck border crossings saw an increase of 9%. This report provides details on how NADBank worked within and in support of this initial recovery.

NADBank has always been at the forefront of environmental and climate finance. We are particularly proud that in 2021 the Mexican Green Finance Advisory Council (CCFV) recognized the Bank's leadership in sustainable financing in Mexico as the first multilateral bank to issue a green bond in the international market for financing projects in Mexico.

A few additional activities that merit highlighting:

- US$128 million in loans and grants disbursed to support implementation of 24 projects, of which 11 commenced operations, benefitting 382,000 residents. Over $38 million of those funds were invested in 19 water and wastewater projects.

- Financing approved for 13 projects representing over US$297 million in total investments, including continued support for recovery from the economic and social impacts of the COVID pandemic.

- Among these 13 projects, four support sustainable energy, including the construction of 45 energy storage facilities in Southern California and a new medical complex in Sonora, Mexico, which is seeking Leadership in Energy and Environmental Design (LEED) certification.

Looking ahead to 2022, we have a cautious outlook due to significant global developments and trends. Increasing interest rates could dampen investment or create cash flow challenges for borrowers with tighter margins. As a long-term development bank, we will work to provide the long-term and counter-cyclical support the border region needs. Also, the war in Europe will adversely affect the world and indirectly the border region. The consequences could be both negative due to depressed demand and investment, as well as positive through nearshoring, which is opening new markets for border region manufacturers and service providers as supply chains adjust to the disruption. Lastly, even though public health has improved substantially since the onset of COVID-19, future waves remain possible and border communities and enterprises continue to resolve the economic disruption the pandemic caused.

Despite the uncertainty, we have confidence in the resilience of the border region, as demonstrated during COVID-19 and throughout its history. With the support of our Board and dedicated staff, we will continue working with border communities and our many partners to address the environmental and development needs along our shared border.

2021 at a Glance

Extending our environmental reach...

...Board approves **expanded lending program** to help **tackle climate change and promote a green economy** on the border.

page 5

Investing in environmental sustainability...

...US$127.6 million disbursed in 2021 to support **24** infrastructure projects aimed at improving water services and air quality.

page 9

Our community impact...

Since 1994, **262 environmental infrastructure projects** in operation, directly benefitting more than **18 million** border residents.

page 13

Advancing partnerships and knowledge...

...Bringing together experts and border stakeholders **to generate and share knowledge** on emerging topics.

page 30

Financial results...

...NADBank delivered **solid results** despite global challenges.

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Our Mission

To provide financing, as well as technical and other assistance, to support the development and implementation of infrastructure projects that preserve, protect or enhance the environment of the border region in order to advance the well-being of the people of the United States and Mexico.

U.S.-Mexico Border 2021 Economic Indicators

26 million people

- 6.7 million in the U.S.
- 19.3 million in Mexico

11.8 million employed workers

- 3 million in the U.S.
- 8.8 million in Mexico

US$655 billion in combined GDP

- 2.2% of total U.S. GDP*
- 19.7% of total Mexican GDP*

US$600 billion in trade

- 33% of U.S. exports
- 58% of Mexico exports

* Gross domestic product (GDP) weighted by population of the 100-km region in the U.S. and 300-KM region in Mexico.

Border Crossings in 2021
(Millions)

Pedestrians	Personal vehicles	Passangers in personal vehicles	Trucks
27.9	58.5	96.6	6.9

Extending Our Environmental Reach

During its semi-annual meeting in December 2021, the Board of Directors agreed to expand the Bank's lending program to include investments in a wider variety of environmental infrastructure projects that will tackle climate change and promote a green economy, while at the same time maintaining its dedication and attention to priority projects in the core sectors of water, wastewater and municipal solid waste.

The new project types respond to the needs of a dynamic border region that continues to grow economically and demographically. This growth requires significant investments to expand basic infrastructure and replace aging facilities, while also presenting opportunities for investments to improve the environmental performance of all facets of the economy.

As highlighted on the following pages, the expansion of eligible project types reaffirms NADBank's commitment to its mission. All NADBank-funded projects will continue to provide environmental and social benefits pursuant to its mandate. Additionally, most of the projects will also help communities mitigate or adapt to the effects of climate change. Mitigation benefits will occur mainly from the clean production of energy (renewables, storage) and the efficiency with which energy is used throughout the economy, such as in sustainable buildings, food production, green manufacturing and mobility. Adaptation efforts will mainly focus on water supply (drought management, development of alternative sources) and extreme weather events (preventing flooding and heat islands).

NADBank-funded projects also provide important benefits to low-income and minority communities in the areas of basic water and municipal waste services. The new project types will expand the capacity of the Bank to benefit these groups by improving public transportation, affordable and efficient housing, and economic opportunities.

Border at a Glance

The border economy grew 5.3% on the U.S. side and 6.5% on the Mexican side in 2021.

The number of personal vehicles and trucks crossing the border in 2021 increased 16% and 9%, respectively, compared to 2020.

There are approximately 350 industrial parks in the Mexican border states, of which about 40% have already obtained a green certification.

More that 80% of the border populations lives in urban areas, which presents challenges for access to basic services, green spaces, mobility and public safety.

Water supply and wastewater treatment continue to be a challenge in light of population and economic growth, aging infrastructure and climate change.

New Opportunities for Green Investment

Energy Storage

Projects that enhance power grid stability, resiliency and reliability by storing energy produced during periods of high production and/or low demand for later use or that reduce the intermittency of renewable energy generating assets, such as wind and solar. Projects may include battery storage, pumped hydropower, compressed air systems and thermal energy storage, among other technologies.

Urban Development

Projects that promote comprehensive and sustainable urban planning, design and development, including, urban infrastructure and services, such as low-impact and green infrastructure and sustainable land developments; mixed-use development, transit-oriented development and re-densification; and “smart city” elements to improve sustainability.

Sustainable Buildings

Projects that replace traditional design, sourcing and construction techniques with sustainable design and building principles. Projects may include the construction or retrofitting of residential, institutional (e.g., schools, hospitals and government buildings), commercial or industrial buildings.

Sustainable Industrial Parks

Projects that incorporate practices for the efficient use of energy and resources, such as the construction or retrofitting of industrial parks and complexes through the installation of more efficient technologies that reduce energy or water consumption, greenhouse gas emissions or waste generation.

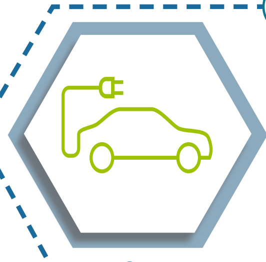
Green Manufacturing

Establishment of manufacturing practices with reduced environmental impact or the “greening” of production processes to use resources more efficiently and produce less pollution and/or waste. Projects may include efforts to increase energy efficiency, conserve or reuse water, reduce or recycle waste and minimize pollution.

Mobility

Projects that promote the clean and efficient mobilization of people and cargo, such as:

- public transportation systems, including vehicles and the infrastructure needed for their proper operation and access, such as bus rapid transit (BRT), light rail and subways;
- infrastructure for non-motorized transportation, such as bicycle lanes, pedestrian walkways and bicycle stations;
- infrastructure for efficient cargo transportation such as railways, transfer stations, low-emission cargo vehicles and efficient logistics merchandise distribution systems;
- international border crossings;
- multimodal passenger and cargo systems designed to help interconnect various means of transportation to create a more efficient system;
- infrastructure for using cleaner fuels, such as natural gas fueling stations for natural-gas powered vehicles (NGVs) and recharge stations for electric vehicles; and
- clean and efficient vehicles such as converting gasoline- and diesel-powered vehicles into NGVs, as well as financing for electric vehicles and non-motorized modes of transportation



Manufacturing of Green Products

The manufacture of products that use fewer natural resources or produce less pollution during their life cycle, when compared to conventional products. Projects may include, but are not limited to, investments in the manufacturing of more sustainable consumer goods or in equipment to produce renewable energy, electric vehicles or other green products.

Sustainable Food Value Chains

Projects that support and advance sustainable food value chains by promoting a more efficient use of resources and/or the reduction of pollutants, throughout their lifecycle. Projects may include investments:

- in agricultural practices or equipment that reduce the use of water, energy, fertilizers or pesticides;
- in agricultural practices or equipment that reduce erosion, runoff, green house gases emissions and/or other forms of pollution or environmental degradation; and
- to reduce the use of resources or generation of waste during food processing, packaging, storage, transportation, distribution and commercialization

Climate Change Adaptation and Climate Resilience

Projects that help communities increase resiliency to the effects of climate change, including changes to long-term weather patterns (e.g., precipitation), as well as the increased frequency and intensity of extreme weather-related events (e.g., droughts, floods and heat waves). Projects may include, among others:

- investments in low-impact, green or gray infrastructure designed to diversify and/or make water supplies drought-proof, increase flood protection and/or adapt to more severe heat waves; and
- retrofits of existing infrastructure to operate in extreme weather conditions.

Enhancing Our Environmental, Social and Governance (ESG) Framework

Since its creation more than two decades ago, NADBank has maintained a robust environmental review and due-diligence process aligned with its mandate. More recently, the Bank has been enhancing its policies and procedures in the context of new ESG international standards.

In 2021, NADBank performed a needs assessment of its internal policies and procedures and identified areas of opportunity to enhance the environmental and social analysis of its investments. As a result, NADBank is working on various initiatives that will better align its operations and reports to current best international practices related to impact and climate investment.

Internal ESG Initiatives

Environmental and Social Risk Management System (ESRMS)
to better analyze and track the potential impact of projects on the environment and communities, as well as identify preventive and remedial actions.

ESG Scoring and Rating System
to evaluate all investments to identify potential financial risks related to environmental, climate, social and governance issues that could impact their performance.

Enhanced communications and outreach procedures
with external stakeholders, as well as disclosure of ESG procedures, risks and opportunities, including climate risk.

Investing in Environmental Sustainability

Created to finance environmental infrastructure projects along the U.S.-Mexico border, NADBank provides financing to public and private entities for project implementation. In addition to loans, the Bank offers grants through its Community Assistance Program (CAP), as well as administers grants from other entities. Likewise, it provides and administers technical assistance for studies and other activities to support the development and long-term sustainability of those projects. In response to the crisis caused by the global pandemic, NADBank established the COVID-19 Recovery Program (ProRec) to provide both financing and technical assistance to help mitigate the economic and social impacts of the pandemic on border communities.

2021 Financing Activity

NADBank approved a total of US$141.8 million in funding, consisting of US$118.0 million for 10 new projects approved during the year and US$23.8 million in additional funding for three projects approved in prior years. These 13 projects represent a total investment of US$297.1 million and will benefit close to 945,700 border residents.

Table 1: 2021 Financing Activity
(Million USD)

	Approvals[1]		Disbursements	
	Financing	Projects	Financing	Projects
By Sector [2]				
Water	$ 31.44	8	$ 38.20	19
Air quality	92.93	2	86.21	3
ProRec	17.41	3	3.20	2
Total	$ 141.78	13	$ 127.61	24
By Program				
Loans	$ 133.39	6	$ 117.21	7
CAP [3]	1.00	2	1.42	5
BEIF [4]	7.39	5	8.98	12
Total	$ 141.78	13	$ 127.61	24

[1] In addition to funding for 10 new projects approved in 2021, US$23.8 million in funding was authorized for three projects approved in prior years.

[2] Water includes projects related to drinking water, wastewater and storm drainage; air quality includes renewable energy and energy efficiency projects; ProRec refers to projects financed through the COVID-19 Recovery Program.

[3] Community Assistance Program (CAP) funded by NADBank. In 2021, a grant provided by the U.S. Department of State covered CAP disbursements.

[4] Border Environment Infrastructure Fund (BEIF) funded by the U.S. Environmental Protection Agency (EPA) and administered by NADBank.

During the course of the year, NADBank disbursed a total of US$127.6 million in loans and grants to support the implementation 24 environmental infrastructure projects, including US$10.4 million in grants in the water sector provided by the U.S. Environmental Protection Agency (EPA) and the U.S. Department of State. Of the total amount disbursed, US$116.0 million went to 10 projects in the U.S. and US$11.6 million to 14 projects in Mexico.

New Projects Funded in 2021

Reliable Water Services

Underscoring the importance of this sector, six of the projects approved during the year are related to the expansion and improvement of water and wastewater systems that will benefit nine small communities. Two projects in El Paso County, Texas, will ensure sustainable and safe drinking water for approximately 9,330 residents, including first-time access for 282 households in three communities. Rehabilitation or expansion of wastewater collection and treatment systems in four U.S. communities and one Mexican community will ensure adequate service for close to 31,300 residents, as well as help prevent up to 15.6 million gallons a day of untreated sewage discharges from spills and leaks that could affect shared aquifers and rivers, including the Rio Grande.

Improving Air Quality

In the area of clean energy, NADBank approved two energy storage projects in California consisting of 45 facilities with a combined capacity of 133.5 megawatts in alternating current that will be built at eight sites throughout San Diego County and one site in Riverside County. The projects will be capable of storing and delivering electricity equivalent to the annual consumption of 14,088 people, which will improve grid reliability and help displace an estimated 31,190 metric tons/year of carbon dioxide emissions from fossil-fuel powered generation plants.

Supporting Recovery from the Pandemic

Three projects were approved to receive loans through ProRec, including the construction of a new hospital and medical specialties center in San Luis Rio Colorado, Sonora that will also serve residents from Yuma County, Arizona and Imperial County, California. In addition to increasing access to affordable healthcare services in the region, the new medical facilities will incorporate sustainable construction techniques and thermally efficient building materials that are expected to use 43% less water than a typical healthcare facility and 18% less electricity. In addition, two projects to refinance US$3.2 million in existing debt for a local government and a regional water utility in Texas were also approved and fully executed.

2021 Technical Assistance Activity

NADBank financed 20 technical assistance initiatives and five seminars with disbursements totaling US$1.5 million, including just over US$1.0 million provided by EPA for the development of water-related projects. Roughly half the funding went to support initiatives in each country.

While the majority of technical assistance is provided to public entities in the form of grants, through ProRec, NADBank awarded US$500,000 in reimbursable technical assistance to a microbank that will provide financing to help residents meet their basic housing needs and finance productive loans in economically distressed areas in San Quintín, Baja California.

Technical Assistance Investments
(US $1.5 million)

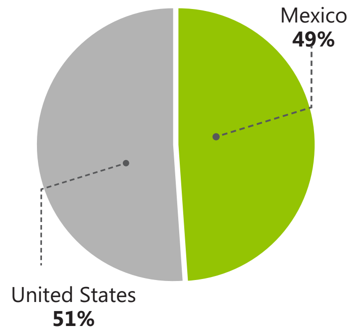


Table 2: 2021 Technical Assistance Activity
(Million USD)

	Approvals			Disbursements		
	Financing		Activities	Financing		Activities
By Sector [1]						
Water	$	1,274,602	20	$	1,396,605	22
Air quality		124,840	3		126,508	3
ProRec		500,000	1		–	–
Total	$	1,899,442	24	$	1,523,113	25
By Program [2]						
TAP	$	850,205	11	$	478,429	11
PDAP		1,035,939	13		1,044,684	14
Total	$	1,899,442	13	$	1,523,113	25

[1] Water includes initiatives and seminars related to drinking water, wastewater and green infrastructure; air quality includes renewable energy and emission studies; ProRec refers to activities financed through the COVID-19 Recovery Program (ProRec).

[2] Technical Assistance Program (TAP) funded by NADBank and Project Development Assistance Program (PDAP) funded by the U.S. Environmental Protection Agency (EPA) and administered by NADBank.

Through its Utility Management Institute (UMI), NADBank presented five webinars on topics related to institutional innovation, water management, energy efficiency and green infrastructure. While these seminars mainly target water utilities in the border region, the online format has allowed the Bank to reach a broader audience, including other public service sectors, such as solid waste management and urban development agencies, as well as private sector entities, beyond the border region (page 32).

Our Community Impact

Since its inception in 1994, NADBank has financed 288 environmental infrastructure projects, of which 262 are in operation and directly benefitting more than 18 million people in the border region. These projects are helping achieve a better quality of life for U.S. and Mexican residents by connecting their homes to safe and reliable water and wastewater services, preventing raw sewage discharges or recurrent flooding, providing for the safe disposal of municipal waste, or reducing air pollution through improved roadways, low-emission buses or cleaner renewable energy sources, among other benefits.

Many of these projects are also helping the region reduce greenhouse gas emissions and increase resilience to climate change. Climate mitigation benefits stem mainly from renewable energy and energy efficiency projects, while climate adaptation benefits arise mostly from stormwater and water conservation projects. Many other water projects (e.g., basic water and wastewater services) provide more indirect climate benefits.

262 projects in operation

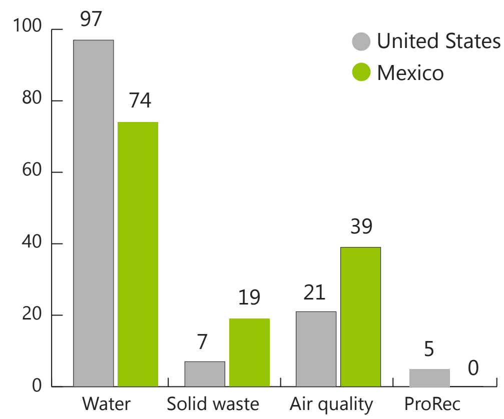
132 in Mexico
130 in the U.S.

US$3.25 billion in NADBank disbursements

US$1.86 billion in Mexico
US$1.39 billion in the U.S.

It is also important to note that the majority of the projects funded by NADBank have been a collaborative effort supported by equity investments from project sponsors, grants from state and federal agencies and loans from co-financing partners, among others. The total investment in these projects is close to US$9.93 billion, with every dollar invested by NADBank leveraging two dollars from other funding sources.

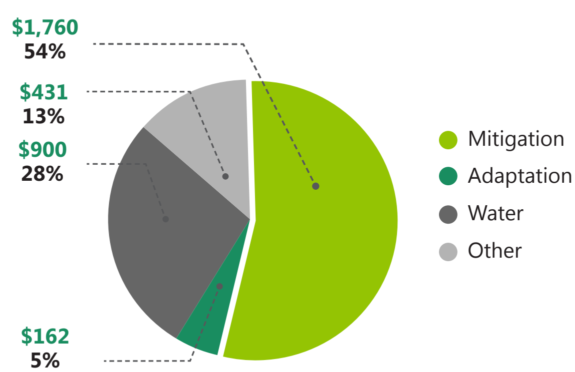
262 Projects in Operation



Water consists of projects related to drinking water, wastewater, water conservation and storm drainage; air quality consists of roadway improvements, clean and efficient energy, and public transportation; ProRec refers to projects financed through the COVID-19 Recovery Program.

NADBank Financing with Climate Change Benefits

(262 projects; US$3.25 billion USD)



Mitigation includes wind farms, solar parks, biogas and biofuel projects, energy storage and public transportation. Adaptation consists of water conservation and storm drainage projects. Water consists of drinking water and wastewater projects.

Water

Increasing access to sustainable and safe drinking water and eliminating exposure to unsanitary water conditions by collecting and treating wastewater in the U.S.-Mexico border region are fundamental objectives of NADBank. Conserving freshwater resources in this semi-arid and drought-prone region, as well as providing adequate stormwater management to prevent flooding and harness rainwater for beneficial uses also support these objectives.

To achieve those objectives, in addition to offering financing with its own funds, NADBank administers grants from the U.S. Environmental Protection Agency (EPA) through the Border Environment Infrastructure Fund (BEIF) for the implementation of priority water and wastewater infrastructure projects. In 2021, NADBank also received a grant from the U.S. Department of State that was designated for the CAP program, boosting its funding capacity.

Eligible Projects

- Drinking water supply, treatment & distribution
- Wastewater collection, treatment & reuse
- Water conservation
- Stormwater management & flood control

2021 Financing in Water

A total of US$31.4 million in financing was approved for eight water and/or wastewater projects, consisting of US$30.6 million for six new projects approved during the year and US$830,000 in additional funding for two projects approved in prior years. Over the course of the year, a total of US$38.2 million in loans and grants was disbursed to support 19 projects in various stages of implementation.

Table 3: 2021 Financing Activity in Water
(Thousand USD)

	Approvals[1]		Disbursements	
	Financing	Projects	Financing	Projects
By Project Type				
Water/wastewater	$ 31,435	8	$ 37,905	18
Storm drainage	-	-	295	1
Total	$ 31,435	8	$ 38,200	19
By Program				
Loans	$ 23,045	1	$ 27,804	2
CAP[2]	1,000	2	1,416	5
BEIF [3]	7,390	5	8,980	12
Total	$ 31,435	8	$ 38,200	19

[1] In addition to funding for six new projects approved in 2021, US$830,000 was authorized for two projects approved in prior years.

[2] Community Assistance Program (CAP) funded by NADBank. In 2021, a grant provided by the U.S. Department of State covered all CAP disbursements.

[3] Border Environment Infrastructure Fund (BEIF) funded by the U.S. Environmental Protection Agency (EPA) and administered by NADBank.

New Water Projects in Operation in 2021

Two drinking water and four wastewater projects completed construction and began operations during the year. These projects represent a total investment of US$36.5 million and are benefitting approximately 119,000 border residents.

Vista del Este Water System Replacement Project

Benefitting 1,068 residents in El Paso County, TX

CAP Grant: US$500,000

The new distribution system is providing safer and more reliable water services for the entire community, as well as preventing an estimated 13,700 gallons a day in water losses from leaks and line breaks in this drought-prone area. Relocating the waterlines from the alleys behind the residences to the front streets also allowed the installation of more fire hydrants in compliance with safety standards.

Rehabilitation of the Collector Poniente: Segment 1A

Benefitting 87,000 residents in Tijuana, B.C.

BEIF Grant: US$2.4 million

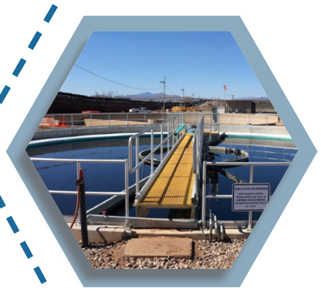
Rehabilitation of the final segment of this major sewer main, along with repairs to connect a collapsed segment of the Cañón del Sainz-Los Reyes sewer line to the main, are preventing the potential discharge of up to 6.0 million gallons a day of untreated wastewater that could flow into the Tijuana River, thus reducing the potential for transboundary flows.

Residential Wastewater Connections in the Rosa Azul Subdivision

Benefitting 913 residents in Socorro, TX

CAP Grant: US$478,208

The CAP grant covered up to 85% of the cost of installing 255 residential sewer connections and decommissioning an equal number of failing on-site septic systems for homeowners in this economically distressed community, expediting their access to this basic service and eliminating the risk for contamination of the shallow groundwater common to the area.



Bay Acres Wastewater Collection System and Wastewater Treatment Plant Expansion

Benefitting 17,378 residents in Douglas, AZ

BEIF Grant: US$7.6 million

The new sewer system, along with the closure of the failing on-site septic systems, has eliminated wastewater discharges to streets, backyards and alleyways in the Bay Acres subdivision, while improvements to the Douglas Wastewater Treatment Plant have increased the quality of the effluent that is discharged across the border in Agua Prieta, Sonora, pursuant to international agreements.

Water System Improvements Project

Benefitting 4,000 residents in Presidio, TX

BEIF Grant: US$3.0 million and NADBank Loan: US$1.5 million

In addition to providing first-time access to water services for 10 households and seven businesses along Highway 67, the sustainability of the entire system was increased by improvements that reduced pressure in the waterlines, preventing at least 80,000 gallons a day in water losses from frequent line breaks and leaks, as well as the potential for contamination of the water supply.

Wastewater Collection and Treatment Project

Benefitting 8,819 residents in Camargo, TAMS

BEIF Grant: US$2.5 million

This comprehensive wastewater improvement project included construction of a new treatment plant with the capacity to produce effluent for agricultural purposes, and expansion of the wastewater collection system to two unserved areas, providing first-time service to an estimated 890 residents. These improvements have reduced the risk of groundwater and surface water contamination, including in the San Juan River, which is a tributary of the Rio Grande.

Supporting Project & Institutional Development in Water

During the year, eight technical assistance initiatives were completed, benefitting 24 communities on both sides of the border through institutional capacity-building and the development of infrastructure projects to improve or expand water services. These initiatives represented a total investment of US$1.5 million, of which NADBank provided US$390,961 from its own funds for three projects, as well administered US$673,283 in EPA-funded PDAP grants for the other five projects.[1] The remaining costs were covered by the project sponsors.

Among the activities completed, NADBank supported the development of the final design for improvements to the wastewater treatment plant in Patagonia, Arizona, which was approved for financing prior to year-end, as well as a needs assessment and feasibility study of wastewater treatment plants for eight municipalities along the Sonora River. Moreover, NADBank funded a water rate study that customized a methodology and digital simulators to the utilities in 14 communities in four Mexican border states. With this tool, the utilities can plan and implement water rates by type of service based on different scenarios and projections, which is helping strengthen their financial capacity and sustainability.

In addition, through its Utility Management Institute (UMI), NADBank presented four online seminars related to water management and capacity-building for water utilities.

2021 Webinars related to Water Issues

The 21st Century Water Crisis and its Local Magnitude
Examined the causes and consequences of poor water management; achieving sustainability by optimizing urban and agricultural water use; applying a watershed-focused approach that balances needs with availability; and incorporating alternate water sources.

Energy and Operational Efficiency in Water Utilities
Focused on the potential impacts of inefficient utility operations; the main sources of energy consumption and losses in water operations; and opportunities for reducing energy consumption by upgrading equipment, properly maintaining infrastructure and installing renewable sources.

Managing Public Communication in Institutional Decision-making
Looked at how water utilities could improve public communication using a simplified social marketing model, including examples of how to design a strategy to promote more efficient water use and a model for communicating rate increases to customers.

Green Infrastructure: An Option in Urban Development
Highlighted important factors to consider when implementing green infrastructure, including establishing green infrastructure as local public policy, the importance of considering soil properties for filtration and plant establishment, selection of native plants and engaging neighboring communities in its ongoing maintenance.

[1] Part of these funds were disbursed prior to 2021 for studies that began in 2020.

Community Impact since 1995

To date, a total of 171 water-related projects have been completed for 45 communities in Mexico and 73 communities in the United States. In addition, five basic urban infrastructure projects in Mexico included water, wastewater and stormwater components.

These 171 projects represent a total investment of US$2.6 billion and are benefitting an estimated 12.8 million border residents, mainly by providing safe and reliable drinking water services and eliminating the risks of contamination from wastewater spills.

171 projects in operation

144 water and/or wastewater
24 water conservation
3 storm drainage

US$1.08 billion in NADBank disbursements

US$598.5 million in Mexico
US$478.3 million in the U.S.

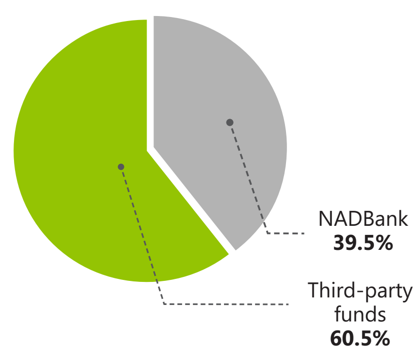
Table 4: Cumulative Financing Activity in Water
(Thousand USD)

		Funding Disbursed	Projects Funded
By Project Type			
Water/wastewater	$	914,959	144
Water conservation		85,753	24
Storm drainage		76,048	3
Total	$	1,076,760	171
By Funding Type[1]			
Loans	$	341,422	48
NADBank grants		83,519	36
Third-party grants[2]		651,819	123
Total	$	1,076,760	

[1] A total of 36 projects were financed with both a NADBank loan and a BEIF grant.

[2] Includes grants funded by the U.S. Environmental Protection Agency (EPA) through the Border Environment Infrastructure Fund (BEIF) and a grant provided by the U.S. Department of State and allocated to the Community Assistance Program (CAP) in 2021.

NADBank Disbursements in Water by Funding Source
(US$1.08 billion)



Environmental and Social Benefits

12.8 million people
benefitting in 118 communities

14,129 new water connections
installed for first-time service

402,796 new wastewater connections
installed for first-time service

259.5 million gallons a day
of wastewater discharges eliminated or prevented, equivalent to the volume generated by 5.1 million people

524 cubic feet per second
of water being saved for farmers and municipal water systems, sufficient to supply 4.2 million people

Infrastructure Investments

26 water treatment facilities
built, expanded or rehabilitated with sufficient capacity to supply 1.8 million people

64 wastewater treatment plants
built, expanded, or rehabilitated with sufficient capacity to serve 8 million people

1,876 miles of pipeline installed
equivalent to almost the entire length of the border –310 miles of waterlines and 1,566 miles of sewer lines.

1,033 miles
of improved canals and water conveyance systems in irrigation districts

125 million gallons
of reservoir capacity for stormwater, equivalent to about 200 Olympic swimming pools

Administered Grants for Water Projects

In addition to providing financing with its own funds, NADBank administers grant funding provided by other entities. Its longest standing and most successful collaboration has been with the U.S. Environmental Protection Agency (EPA), which has provided grant funding since 1997 to support high-priority public drinking water and wastewater infrastructure projects located within 100 km of both sides of the U.S.-Mexico border. This funding is channeled through the NADBank Border Environment Infrastructure Fund (BEIF), which provides grants for project implementation and through the Project Development Assistance Program (PDAP), which supports the planning and design of projects that have been prioritized to receive a BEIF grant. These programs have been key to increasing wastewater collection and treatment along both sides of the U.S.-Mexico border.

BEIF

To date, 122 projects partially funded with BEIF grants have completed construction and begun operations, benefitting an estimated 7.5 million border residents in 57 U.S. communities and 37 Mexican communities. These projects represent a total investment of nearly US$2.0 billion, with BEIF grants covering just over 33%. NADBank also provided loans totaling US$129.8 million for 36 of those projects.

122 projects in operation

63 in the U.S.

59 in Mexico

US$651.3 million in BEIF grants disbursed

US$336.8 million in the U.S

US$314.5 million in Mexico

Although almost half of the projects were funded and built in Mexico, they all provide a U.S. benefit, mainly by protecting shared aquifers and rivers from untreated wastewater discharges. The Mexican federal water agency, Comisión Nacional del Agua (CONAGUA), has been instrumental in supporting the financing and implementation of those projects.

PDAP

In 2021, just over US$1.0 million was disbursed to fund 15 studies and other activities related to the development of two water system improvement projects and 11 wastewater rehabilitation and expansion projects. Five of those initiatives were completed during the year, including the final designs for three projects that have already been approved to receive a BEIF grant.

Waste Management

Promoting comprehensive solid waste management systems, including recycling and waste reduction efforts, is a fundamental objective of NADBank. Proper waste disposal is crucial for protecting groundwater resources, preventing soil and air pollution and controlling the proliferation of disease-carrying vectors, such as rodents and insects.

Eligible Projects

- Sanitary landfill construction
- Closure of open-air dumpsites
- Collection and disposal equipment, including transfer stations
- Recycling and waste reduction facilities, including sludge management processes in wastewater treatment plants
- Industrial or hazardous waste treatment and disposal
- Site remediation

Community Impact since 1995

To date, a total of 26 municipal solid waste projects have been funded and completed, benefitting 32 communities in Mexico and seven communities in the United States. In addition, a cogeneration project for a wastewater treatment plant in Mexico also included improvements to reduce sludge generation. These 26 projects represent a total investment of US$49.6 million, of which NADBank provided US$10.5 million in loans and US$11.7 million in grants.

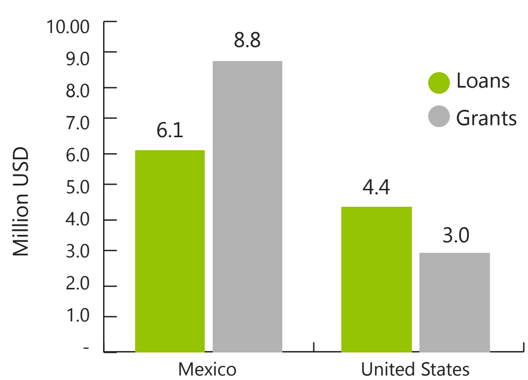
26 projects in operation

19 in Mexico
7 in the U.S.

US$22.2 million in NADBank disbursements

US$14.9 million in Mexico
US$7.3 million in the U.S.

NADBank Financing in Waste Management
(US$22.2 million)



Environmental and Social Benefits

3.5 million people
benefitting in 40 communities

3,365 metric tons a day
of new waste management capacity in landfills

29,730 cubic meters a year
of sludge diverted from landfills, equivalent to loading 10 dump trucks a day for an entire year

Infrastructure Investments

17 sanitary landfills
built or expanded for proper disposal of municipal solid waste

13 open-air dumpsites closed
preventing wind-blown litter, fires and proliferation of disease-carrying vectors

164 vehicles
purchased for waste collection or disposal

Air Quality

Supporting efforts to reduce the emission of greenhouse gases and other airborne pollutants produced by industrial processes, motor vehicles and fossil fuel-based power plants is essential for a healthy environment and a major factor in mitigating the effects of climate change. Clean energy and more efficient energy use, cleaner and more efficient forms of transportation, paved streets and other roadway improvements are helping achieve this goal.

Eligible Projects

- Industrial emissions reduction
- Street paving and other roadway improvements, including border crossings
- Public transportation
- Basic urban infrastructure[2]
- Clean and renewable energy generation
- Energy efficiency

2021 Financing in Air Quality

Two new projects to increase energy efficiency and grid reliability through the construction of energy storage facilities in California were approved to receive a total US$74.4 million in loans.[3] These projects will also help maximize the use of renewable energy production, while reducing the need to ramp up fossil-fuel power generation to meet demand, thereby reducing the emission of carbon dioxide and other pollutants. In addition, a US$22.9-million loan increase was authorized to boost the energy production of a solar park that was approved and began operation in 2013. During the year, loans totaling US$86.2 million were disbursed to support implementation of one of the energy storage facilities and two solar parks in the United States.

Table 5: 2021 Financing Activity in Air Quality
(Thousand USD)

	Approvals[1]		Disbursements	
	Loans	Projects	Loans	Projects
By Project Type				
Renewable energy	$ 22,929	1	$ 85,833	2
Energy efficiency	70,000	1	376	1
Total	$ 92,929	2	$ 86,209	3

[1] An energy efficiency project approved to receive a US$4.41-million loan is not included, as the loan was originally approved in 2020 for a project that was later cancelled.

[2] These projects include a mix of street paving, installation of water & sewer lines, storm drainage & public lighting.
[3] This figure includes US$4.41 million in loan funding approved in 2020 for an energy storage facility that was part of a larger portfolio of projects and was later cancelled by the sponsor due to unforeseen circumstances. Another project in the portfolio was approved in 2021 to use part of the loan proceeds.

New Air Quality Projects in Operation in 2021

Three projects completed construction and began operation, representing a total investment of US$297.4 million and benefitting an estimated 230,000 border residents.

Basic Urban Infrastructure Project

Benefitting 90,688 residents in Playas de Rosarito, B.C.

NADBank Loan: US$13.7 million

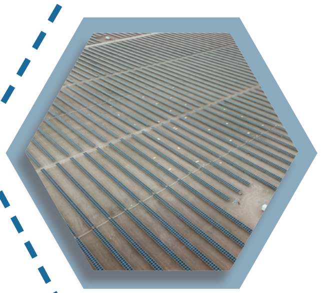
This comprehensive project, which primarily focused on improving air quality by paving dirt roads in residential areas and rehabilitating high-traffic roadways that were in poor condition, also entailed replacing waterlines and sewer lines in some areas prior to paving, as well as installing related storm drainage infrastructure, sidewalks and green areas.

Wildcat Energy Storage Project (Phase 1)

Benefitting 283 residents in Riverside County, CA

NADBank Loan: US$4.4 million

The first phase of this energy storage facility achieved substantial completion and began commercial operations with the capacity to store and deliver electricity equivalent to the annual consumption of 283 people. The project is helping increase the efficiency and reliability of the power grid, while also displacing harmful emissions from fossil-fuel powered generation plants.



BayWa Corazon Solar Project

Benefitting 138,970 residents in Webb County, TX

NADBank Loan: US$62.9 million

This 200-megawatt solar park located about 16 miles northeast of the city of Laredo, is expected to produce electricity equivalent to the annual consumption of 38,074 households, providing a safe and reliable clean energy alternative that reduces the demand for traditional fossil-fuel based energy generation and the related greenhouse gas emissions.

Supporting Air Quality Initiatives

During the year, NADBank approved US$124,640 in technical assistance funding for three initiatives, including US$25,000 to support air quality monitoring activities in the air basin formed by the Municipality of Juarez, Chihuahua, El Paso County, Texas and Doña Ana County, New Mexico (page 31).

NADBank also contracted a consultant to perform two studies to quantify and characterize the expected environmental impact of expanding two border crossings between Texas and Tamaulipas to reduce vehicle wait times by diverting commercial traffic from another crossing. The purpose of the two studies is to estimate the net difference in emissions in the region by comparing current emissions and wait times at the fourth busiest port of entry on the U.S.-Mexico border versus the emissions resulting from diverting part of that traffic to two other ports of entry in Mission and Donna, Texas.

Community Impact since 1995

To date, a total of 60 air quality improvement projects have been completed, benefitting 29 communities in Mexico and 19 communities in the United States. These projects represent a total investment of close to US$7.2 billion, of which NADBank provided US$2.1 billion in loan financing.

60 projects in operation

39 in Mexico

21 in the U.S.

US$2.12 billion in NADBank disbursements

US$1.25 billion in Mexico

US$870 million in the U.S.

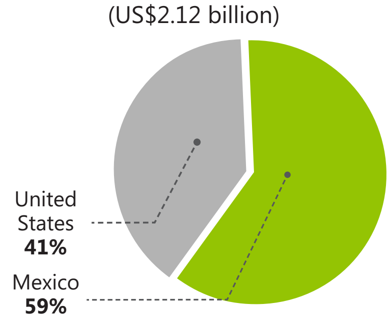
In addition to reducing airborne dust particles and vehicle exhaust fumes, street paving and more modern buses are also providing safer roadways for motorists, faster access for emergency services, and safer, more comfortable public transportation services. Likewise, using renewable energy and improving energy efficiency reduces the demand for fossil-fuel power generation, lowers energy and operational costs and creates economic opportunities.

Moreover, all the clean energy and public transportation projects are also helping mitigate the effects of climate change by displacing and/or reducing CO_2 emissions. Consequently, 41 of the air quality projects in operation, representing 82% of the Bank's financing in this sector to date, are directly supporting climate-change mitigation efforts.

Table 6: Cumulative Financing Activity in Air Quality
(Thousand USD)

Project Type	Funding Disbursed	Projects Funded
Renewable energy	$ 1,667,451	37
Energy efficiency	622	1
Roadway improvements	290,405	14
Basic urban infrastructure	82,878	5
Public transportation	76,642	3
Total	$ 2,117,998	60

NADBank Financing in Air Quality
(US$2.12 billion)



Environmental and Social Benefits

10.3 million people
benefitting in 48 communities

4.56 million metric tons a year
of carbon dioxide (CO_2) emissions avoided, equivalent to driving 12.2 million miles in a car

13,493 metric tons a year
of suspended particulate matter (PM_{10}) avoided

Infrastructure Investments

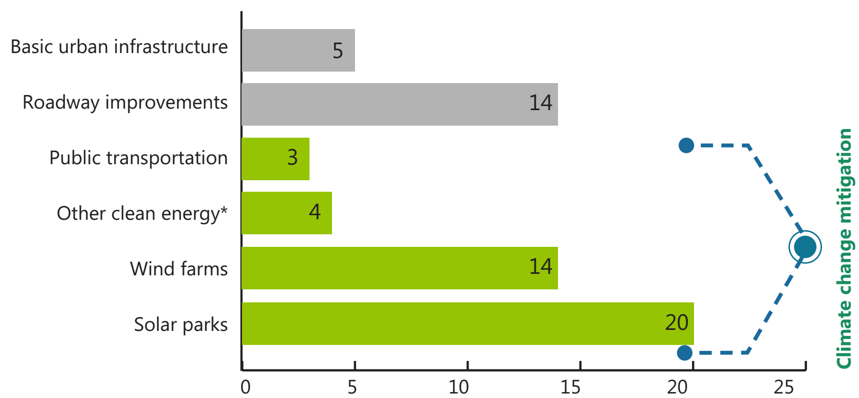
12.6 million square meters
of streets paved or rehabilitated

785 buses
with cleaner technology

20 solar parks
with a combined capacity of 1,104 megawatts

14 wind farms
with a combined capacity of 2,062 megawatts

Air Quality Projects in Operation with Climate-change Mitigation Benefits



* Other clean energy includes biogas, biofuel and energy efficiency projects.

Covid-19 Recovery Program (ProRec)

In May 2020, in response to the effects of the COVID-19 pandemic, the Board of Directors approved a two-year financing program to provide loans and technical assistance to support projects that have both environmental benefits and direct positive impacts on the economy and well-being of residents in the U.S.-Mexico border region.

Under ProRec, the Board may consider the approval of loan proposals for refinancing existing debt on environmental infrastructure (public and private projects) or for public entities, such as water utilities, whose mandate is aligned with the NADBank mission, as well as projects that have a recognizable environmental benefit but are focused on delivering significant social, health or economic benefits to border communities. Examples of these benefits may be job creation or preservation, the betterment of health and/or health services or improvement of technological connectivity and access to information.

2021 Financing through ProRec

NADBank approved US$17.4 million in loans for three projects, of which US$3.2 million was disbursed prior to year-end to refinance existing debt for a local government and a regional water utility in Texas. An estimated 32,900 Texan residents are benefitting from the two refinancing projects, as the savings on debt service payments lessen the potential need to increase taxes or water rates to support ongoing public services.

The third project received a loan for up to US$14.2 million for the design, construction and operation of a new hospital and medical specialties center in Sonora focused on serving seasonal agricultural workers. In addition to increasing access to affordable healthcare services in the region, the new medical facilities will incorporate sustainable construction techniques to reduce water and energy consumption—making them the first sustainable buildings to be funded by the Bank. The project sponsor is in the process of applying for Leadership in Energy and Environmental Design (LEED) certification with technical assistance from NADBank. The local community is also expected to benefit from the creation of 275 jobs during construction and more than 140 direct jobs once the new medical facilities are operating at full capacity.

In addition, NADBank awarded US$500,000 in reimbursable technical assistance through ProRec to a microbank that will provide microloans for home improvement and productive activities to low-income residents in economically distressed areas in San Quintín, Baja California. Access to affordable financing will allow people to install basic services–such as water, wastewater and electricity–or improve the structural integrity and weatherproofing of their homes. Likewise, loans will be available to support the development or expansion of small businesses, thus helping reduce the economic effects caused by the COVID-19 pandemic, especially for agricultural and indigenous communities.

Program Impact to Date

Since its inception in May 2020, five refinancing projects have been executed through this program with loan disbursements totaling US$35.3 million. NADBank also provided a ProRec technical assistance grant for US$50,000 to support one of those projects.

Environmental and Social Benefits

95,593 people
benefitting in 4 communities

US$821,727 in annual debt service obligation savings
freeing up cash flows that can be redirected to support the maintenance and operation of existing public services and environmental infrastructure

Advancing Partnerships and Knowledge for Sustainable Development

In carrying out its mission, NADBank actively pursues opportunities to partner with other public and private organizations to promote environmental sustainability in the border region. In fact, the success of many of its projects and technical assistance initiatives is thanks to the cooperative efforts of various entities coming together to pool, not only their financial resources, but also their technical expertise.

Drawing on its binational connections, NADBank brings together experts and stakeholders from both sides of the border to generate and share knowledge on emerging topics through studies, forums, webinars and other initiatives. Highlights of the collaborative and capacity-building activities undertaken by NADBank and its partners in 2021 are provided on the following pages.

Air Quality Monitoring Fund for the Juarez-El Paso-Doña Ana Air Basin

Texas Commission on Environmental Quality (TCEQ) Joint Advisory Committee (JAC) for the Improvement of Air Quality

In May 2021, NADBank and TCEQ signed a cooperative agreement to establish a fund within NADBank that will support air quality monitoring actions in the air basin formed by the Municipality of Juarez, Chihuahua, El Paso County, Texas and Doña Ana County, New Mexico. TCEQ provided an initial contribution of US$25,000 to the fund, which was matched by a technical assistance grant from NADBank. These funds will mainly be used to support the operation and maintenance of existing monitoring stations, as well as make potential investments in new infrastructure. This effort is being promoted and managed by the Joint Advisory Committee (JAC) for the Improvement of Air Quality in the Juarez-El Paso-Doña Ana Air Basin, which is composed of 11 high-level members from each country and provides an enduring platform for binational collaboration on air quality issues in the region.

U.S.-Mexico Border Environmental Forum

Green Energy and Binational Integration

Hosted by NADBank in August 2021, the event successfully brought together experts and innovators on a broad range of environmental topics, whose knowledge and initiatives can be replicated throughout the border region to strengthen efforts to improve the environment and boost the economy in a sustainable and inclusive manner for all residents. Through a series of panel talks, the dialogue centered on the U.S.-Mexico relationship and regional efforts to develop projects that help improve the environment, the need for infrastructure investments in the region, climate challenges related to water, new technologies, and how to continue building partnerships that will integrate and benefit both countries.

Utility Management Institute (UMI)

Capacity-building Webinars

Through UMI, NADBank contracts experts to present seminars on a variety of topics, mainly aimed at strengthening the financial and administrative capacities of water utilities in the border region. In response to the travel restrictions and safety protocols instituted during the pandemic in 2020, the training sessions have been adapted to a virtual format, allowing the Bank to reach a broader audience.

During 2021, five webinars were presented. The first focused on the importance of maximizing and co-creating public value in institutions with the collaboration of customers and other stakeholders to boost innovation, how to apply a methodology and structured innovation protocol ad hoc for any institution, and the leadership skills that are critical to successfully foster innovation.

The other four webinars were related to water issues or specifically geared to the institutional strengthening of water utilities and are described in more detail in the section on water (page 18). The materials presented in the webinars are available on the NADBank website.

Altogether, 1,122 people registered for the five webinars, with approximately 70% registering for at least four of the five sessions. The participants represented 56 border communities, as well as 82 U.S. and Mexican communities outside the border region.

2021 Webinars

- Developing New Areas for Institutional Innovation
- The 21st Century Water Crisis and its Local Magnitude
- Energy and Operational Efficiency in Water Utilities
- Managing Public Communication in Institutional Decision-making
- Green Infrastructure: An Option in Urban Development

U.S.-Mexico Border 2020 and 2025 Programs

U.S. Environmental Protection Agency (EPA) and Mexican Ministry of Environment and Natural Resources (SEMARNAT)

The Border 2020 Program, which is in the process of evolving into the Border 2025 Program, is a joint effort by both governments to improve the environment and protect the health of residents within 100 kilometers of both sides of the border. NADBank supports these efforts by providing logistical and administrative services with respect to identifying, contracting and managing the projects and workshops funded by EPA under the program.

At the beginning of the year, there were 16 initiatives approved under the previous Border 2020 program that were still in process with a total grant commitment of US$849,338. Those projects and corresponding grant commitments were rolled over to the new Border 2025 program. Eleven of those initiatives were completed during the year for a total cost of US$816,156 and benefitted 12 border communities. Border 2020 covered 64% of the total cost and the remainder was covered by the respective sponsors.

In June and October, NADBank issued two requests for proposals in coordination with EPA Regions 6 and 9 for new projects to be funded under the Border 2025 Program. Altogether, 92 proposals were received. The first initiatives are expected to be selected and begin implementation in January 2022.

More information about the Border 2020 and 2025 programs is available on the EPA website at www.epa.gov/border2020.

Table 7: Border 2020 Initiatives Completed in 2021
(Thousand USD)

Goal	Initiatives	Border 2020 Funds
1. Reduce air pollution	5	$ 261,812
2. Improve water quality	2	156,414
3. Promote sustainable waste management	3	84,048
4. Improve joint emergency preparedness	1	22,370
Total	11	$ 524,644

Management Discussion and Analysis of Financial Results

Executive Summary

At the end of 2021, NADBank had a healthy balance sheet—well-capitalized and liquid—invested in high quality securities. The institution also continued to receive strong shareholder support and has new opportunities for growth. The Bank received a second contribution from Mexico to the general capital increase. Financing demand will come from the recently expanded project types, the renewed focus on climate change from its shareholders and the Bank's work with agencies, funding partners and utilities along the border to address transboundary issues, such as wastewater flows. The quality of the development asset portfolio remains high, with all of the Bank's borrowers up to date with payment obligations. The Bank continues to meet the requirements of its credit, liquidity and debt policies.

NADBank Finances at a Glance

Figure 1: Total Assets

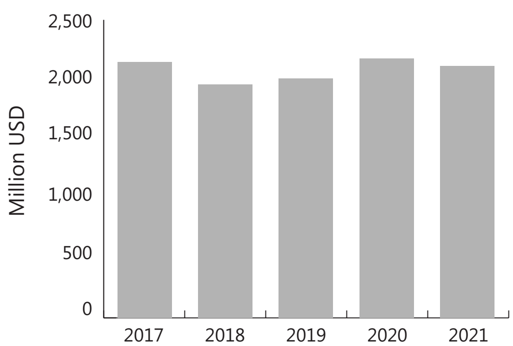


Figure 2: Total Liabilities and Equity

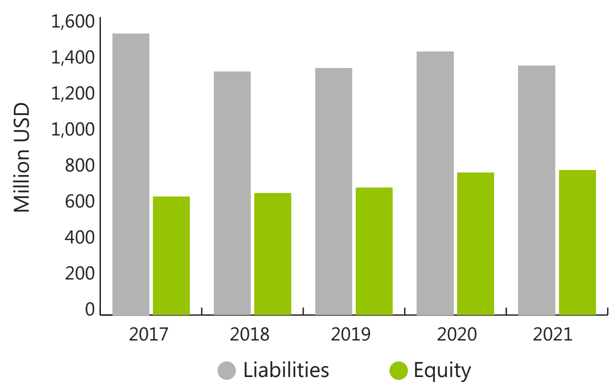


Figure 3: Operating Income

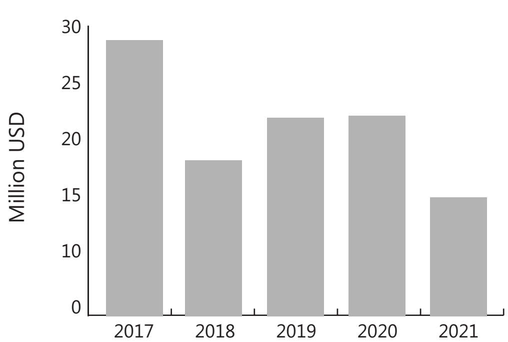
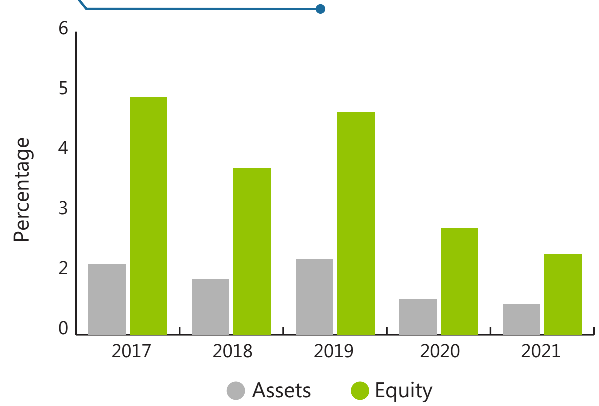


Figure 4: Return on Assets and Equity



During the year, NADBank disbursements grew 105% over 2020, driven mostly by loans for seven infrastructure projects. The NADBank Board approved 11 new projects, including three for BEIF grants. Development asset disbursements for the year just ended were US$117.2 million, up 129% from the previous year. New lending included two solar parks, a water and wastewater project and an energy storage portfolio in the United States. Loan disbursements increased as project implementation sped up, and the size of loans increased with the economic re-opening and the expectation of rate increases in the medium term. At year end, development assets were US$976.5 million, down 13% over 2020, due to US$184.5 million in prepayments, mostly related to renewable energy projects in Mexico.

Beyond the loan program, self-funded and administered grant disbursements in 2021 were US$12.5 million, up 2% from a year ago. The mix of self-funded and administered grant disbursements changed from 2020 to 2021 as NADBank received funding from the U.S. Department of State for the CAP program. Additionally, the Bank expanded the information presented on its self-funded and administered grant programs in its financial statements, with consistent and comparable reporting of all the programs.

In its December 2021 meeting, the Board expanded the loan program to include a wider variety of environmental infrastructure projects, adding mobility, energy storage, urban development and sustainable buildings, among others. At the same time, the Bank will maintain its dedication to the core water, wastewater and municipal solid waste sectors. The project pipeline at the end of 2021 is encouraging for disbursements in the coming year, with 63 projects in the loan program, four in the ProRec program and five in the CAP program. An agreement with TCEQ to jointly fund air quality monitoring stations, along with work to address transboundary wastewater flows with agencies, funding partners and utilities, will provide new grant and loan financing opportunities.

The following table shows the trend of loans, grants and technical assistance funded by NADBank for the last five years.

Table 8: Disbursements by Sector and Country

(Thousand USD)

	2017	2018	2019	2020	2021
Loans					
Water	$ 10,970	$ –	$ –	$ 11,867	$ 27,804
Solid waste	–	–	2,845	–	–
Air quality	4,971	15,010	16,570	6,953	–
Clean energy	84,096	151,648	144,879	245	86,209
Basic urban infrastructure[1]	1,389	351	–	–	–
ProRec	–	–	–	32,095	3,200
Total loans	101,426	167,009	164,294	51,160	117,213
Mexico	65,434	160,657	161,449	13,275	4,759
United States	35,992	6,352	2,845	37,885	112,454
NADBank Grants[2]					
Water	$ 1,553	$ 834	$ 405	$ 2,342	$ 352
Solid waste	238	1,535	77	28	–
Air quality	46	159	32	48	77
Clean energy	326	7	0	112	49
ProRec	–	–	–	50	–
Total NADBank grants	2,163	2,535	514	2,580	478
Mexico	1,304	2,069	210	574	217
United States	859	466	304	2,006	261
Third-party Grants					
Water	$ 11,480	$ 25,656	$ 11,905	$ 9,329	$ 11,646
Solid waste	25	69	53	78	91
Air quality	13	178	218	197	259
Clean energy	8	85	66	–	–
Total third-party grants	11,526	25,988	12,242	9,604	11,996
Mexico	3,972	4,318	6,044	5,133	7,551
United States	7,554	21,670	6,198	4,471	4,445
Total loan and grant disbursements	**$ 115,115**	**$ 195,532**	**$ 177,050**	**$ 63,344**	**$ 129,687**
Mexico	70,710	167,044	167,703	18,982	12,527
United States	44,405	28,488	9,347	44,362	117,160

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

[2] Includes financing for infrastructure projects and technical assistance initiatives.

In addition to loans, technical assistance and grants funded internally, the Bank also administers third-party funds to advance its mission. The BEIF program is funded by EPA for the implementation of water and wastewater infrastructure projects. Additionally, since the end of 2017, the Bank has administered two technical assistance programs funded by EPA: PDAP, which supports the development of water and wastewater projects; and the Border 2020/2025 Program. Finally, in 2021, the Bank received funds from the U.S. Department of State for its CAP program. Table 9 highlights the funds administered by the Bank over the past five years.

Table 9: Disbursement of Third-party Administered Funds
(Thousand USD)

	2017	2018	2019	2020	2021
By Program					
BEIF	$ 11,278	$ 24,959	$ 10,723	$ 8,097	$ 8,980
PDAP	192	617	977	1,101	1,044
Border 2020/2025	56	412	542	406	531
CAP	-	-	-	-	1,441
Total	$ 11,526	$ 25,988	$ 12,242	$ 9,604	$ 11,996

For the year ended December 31, 2021, NADBank delivered solid operational results despite the continued challenges of the COVID-19 pandemic and the impact of low interest rates. Operationally, staff returned to a hybrid in-office/work-from-home schedule in March 2021.

Operating income for 2021 was US$12.3 million, a 40% decrease from US$20.6 million in 2020, mainly due to a higher provision for loan losses and lower net interest income due to lower interest rates.

As of December 31, 2021, outstanding loans totaled US$976.5 million, a decrease of US$150 million from 2020, due to project prepayments enabled by the low-interest rate environment.

Investments: Liquid investments increased by 12% to 1,129.8 million at December 31, 2021. The Bank's minimum liquidity requirement was US$251 million at the beginning of 2021. During 2021, return on investments was 0.48% (0.86% in 2020).

External funding: NADBank did not engage in any external funding operation in 2021. The cost of borrowings for the year was 1.2% (1.7% in 2020), reflecting the decrease in interest rates globally.

Lending capacity: As of December 31, 2021, the lending capacity of the Bank was US$2,590 million, compared to US$2,546 million in 2020.

Table 10: Select Financial Data of NADBank
(Million USD)

	2017	2018	2019	2020	2021
Balance Sheet Data					
Total assets	$ 2,145.8	$ 1,959.0	$ 2,007.5	$ 2,177.2	$ 2,114.6
of which					
Gross loans outstanding	1,293.8	1,284.5	1,301.7	1,126.3	976.5
Cash & investments	955.0	799.2	753.5	1,008.1	1,129.8
Total liabilities	1,511.4	1,306.0	1,324.5	1,413.4	1,337.7
of which					
Outstanding borrowings	1,493.4	1,314.6	1,309.3	1,126.0	1,120.7
Deferred U.S. capital contribution	-	-	-	165.0	165.0
Total equity	634.3	653.0	683.0	763.8	776.9
of which					
Paid-in capital	415.0	415.0	415.0	475.0	486.5
Retained earnings and reserves	207.5	228.9	258.6	273.5	285.6
Income Statement Data					
Interest income	$ 68.6	$ 78.9	$ 84.3	$ 57.0	$ 47.1
Interest expense	31.6	47.2	44.6	21.2	14.3
Operating expense	12.4	17.6	19.1	15.1	17.6
Operating income	28.3	15.8	20.5	20.6	12.3
Net income	29.3	21.1	29.7	14.9	12.1
Ratios					
Loans / Equity (%)	204.0	196.7	190.6	147.5	125.7
Assets / Equity (%)	338.3	300.0	293.9	285.1	272.2
Gross debt / Callable capital (%)	57.3	50.4	50.2	39.3	41.9
Liquid Assets / Short-term debt (%)	312.8	15,184.5	295.2	19,151.1	729.2
Net income / Equity (%)	4.9	3.3	4.4	2.1	1.6
Operating income / Equity (%)	6.1	2.5	3.1	2.8	1.6
Non-accrual loans / Loans outstanding (%)	1.1	1.1	1.1	1.2	1.4
Operating expenses per $1 M outstanding loans ($)	9,596	13,680	14,663	13,410	17,973

Institutional Overview

NADBank was established on January 1, 1994, by an agreement between the Governments of the United States and Mexico (the Charter) to finance environmental infrastructure projects in the border region between the two countries. The Bank was designated as an international organization through an Executive Order of the president of the United States on March 16, 1994.

The Bank is governed by a Board of Directors appointed by the two governments (Appendix). The geographic area it serves extends 100 kilometers north of the U.S.-Mexico border in the U.S. states of Texas, New Mexico, Arizona and California and 300 kilometers south of the border in the Mexican states of Tamaulipas, Nuevo Leon, Coahuila, Chihuahua, Sonora and Baja California.

Unlike other multilateral institutions, NADBank does not exclusively finance federal governments or programs. It was created to provide financing to public and private entities for infrastructure projects that preserve, protect or enhance the environment in the border region.

Its main financing instruments are loans, grants and technical assistance. These instruments are funded by the Bank from three sources: borrowings from the capital markets and private placements; paid-in capital provided by shareholders; and accumulated retained earnings and reserves.

The Bank also administers grant funding provided by other entities. To facilitate lending to the Mexican public sector, the Bank established COFIDAN, a multipurpose financial institution. Its results are consolidated with those of the Bank.

Ratings

During 2021, both Moody's Investors Service and Fitch Ratings affirmed NADBank's credit rating at Aa1 and AA, respectively, reflecting the strength and stability of its finances, the prudent management of credit, its sound capital and liquidity position, as well as its strong risk management practices and continuous support from shareholders. Preserving a strong credit profile remains a strategic priority for NADBank management since it serves as the basis of its low cost of funding and active lending.

Table 11: NADBank Credit Ratings

	2017	2018	2019	2020	2021
Fitch	AA	AA	AA	AA	AA
Moody's	Aa1	Aa1	Aa1	Aa1	Aa1

"NADB's 'aa+' solvency assessment is underpinned by the bank's 'excellent' capitalisation metrics."

Fitch, March 17, 2021

"The bank compares favorably to most Aa-rated peers in terms of liquidity indicators."

Moody's, October 29, 2021

Shareholder Support

In 2015, the Bank's shareholders approved a general capital increase (GCI) of US$3 billion. Following the capital increase, the Bank has US$6 billion in subscribed capital, composed of US$5.1 billion of callable capital and US$900 million of paid-in capital.

The Bank has received GCI contributions from both shareholders. To date, Mexico has contributed US$21.5 million in paid-in capital, of which US$11.5 million were received in 2021. Mexico has also unqualified US$121.8 million in callable capital. To date, the United States has contributed US$225.0 million in paid-in capital, of which US$165.0 million is restricted from commitment until corresponding payments are received from Mexico, and has unqualified US$255 million of callable capital.

Table 12: NADBank Capital
(Thousand USD)

	2017	2018	2019	2020	2021
Total subscribed capital[1]	$ 6,000	$ 6,000	$ 6,000	$ 6,000	$ 6,000
of which					
Callable capital[2]	5,100	5,100	5,100	5,100	5,100
Qualified	2,493	2,493	2,493	2,238	2,173
Unqualified	2,607	2,607	2,607	2,862	2,927
Paid-in capital	415	415	415	475	487

[1] *Paid-in capital* consists of cash funds contributed to NADBank by the two governments. *Callable capital* is composed of funds that are pledged to be provided to NADBank from the two countries only if required to meet the Bank's guarantee obligations or obligations on borrowings of funds for inclusion in its capital resources as specified in the charter.
[2] *Qualified* capital shares are subject to the necessary legal requirements of each subscribing country. *Unqualified* capital shares have either been funded or authorized for purchase by the subscribing country.

As of December 31, 2021, total equity was US$776.9 million, an increase of 1.7% or US$13.1 million compared to US$763.8 million at the close of 2020. The increase was primarily due to US$11.5 million in additional paid-in capital and US$12 million in 2021 net income.

External Funding

During 2021, NADBank did not engage in any external funding operations. In 2020, NADBank completed two benchmark green bond issues in global capital markets for an approximate amount of US$352 million, maturing in 2028 and 2033.

The 2028 and 2033 green bonds were issued under the NADBank Green Bond Program and Green Bond Framework. As of December 31, 2021, 91% of the proceeds from those two bonds had been allocated to eligible projects.

The NADBank Green Bond Framework is in line with the 2018 Green Bond Principles of the International Capital Market Association (ICMA) and has been reviewed and certified by an independent third party. Further details about the NADBank Green Bond Program and its allocations is available on the Bank website (Green Bond Impact Report).

As of December 31, 2021, total gross debt was US$1,121 million, a decrease of 0.5% (US$5.3 million) compared to US$1,126 million at the close of 2020. The Bank's debt maturity schedule is shown in Figure 5.

Figure 5: NADBank Debt Amortization Profile

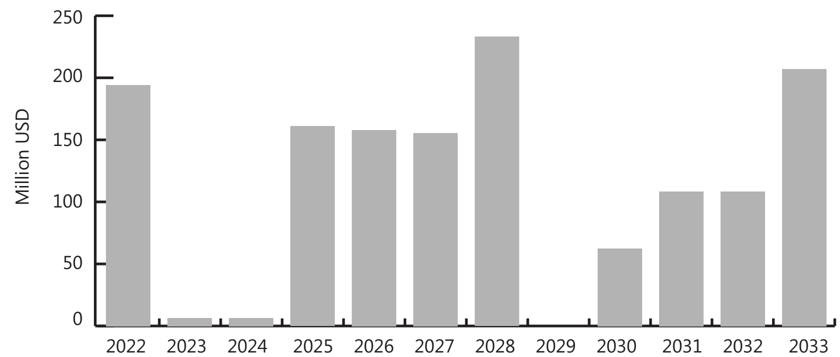


Table 13 shows gross outstanding debt by currency. NADBank hedges the foreign exchange risk of debt that is not denominated in U.S. dollars.

Table 13: Gross Debt by Currency
(Million USD)

	2020	2021
USD	$ 221.1	$ 215.8
CHF	731.5	731.5
NOK	173.4	173.4
Total	$ 1,126.0	$ 1,120.7

The NADBank debt limit policy indicates total debt outstanding may not exceed the callable portion of the subscribed capital shares, plus the minimum liquidity level required under the liquidity policy. With US$2,671.8 million in subscribed callable capital and a minimum liquidity level of US$251 million, the maximum debt limit in 2021 was US$2,922.8 million, compared to the maximum limit of US$2,839.7 million in 2020.[4] At the close of 2021, total debt outstanding (US$1,121 million) was 38% of the debt limit.

Development Asset Portfolio

In 2021, six loans were approved totaling US$133.4 million, five of which were contracted and executed prior to year-end. Altogether, a total of US$117.2 million was disbursed for seven projects.

During the year, NADBank received a total of US$267 million in principal payments, of which US$82.5 million were repayments and US$184.5 million were prepayments, including US$153.6 million for renewable energy projects in Mexico. In comparison, during 2020, the Bank received US$226.6 million in payments, of which US$78.7 million were repayments and US$147.9 million were prepayments.

[4] The callable capital excludes US$255 million associated with the Domestic Programs. More information is provided in Note 7 of the consolidated financial statements.

As a result of this activity, NADBank closed the year with an outstanding loan balance of US$976.5 million, a decrease of 13% compared to the balance at the end of 2020 (US$1,126.3 million).

Table 14: Outstanding Loan Portfolio
(Million USD)

	2017	2018	2019	2020	2021
Water	$ 213.8	$ 162.4	$ 121.3	$ 121.1	$ 129.7
Solid waste	-	-	2.8	2.3	1.8
Air quality	126.8	125.2	120.5	106.5	83.3
Clean energy	916.1	960.9	1,022.6	831.4	696.3
Basic urban infrastructure	37.1	36.0	34.5	32.9	31.2
ProRec	-	-	-	32.1	34.2
Total	$ 1,293.8	$ 1,284.5	$ 1,301.7	$ 1,126.3	$ 976.5

Additionally, at the end of the year, the Bank had US$81.7 million in loans contracted pending disbursement for eight projects, as well as up to US$228.9 million in approved loans pending contracting for seven projects. Consequently, as of December 31, 2021, loans outstanding and pending disbursement and commitment totaled just over US$1,287 million.

Loan Quality

The Bank rates its loan portfolio internally based on various risk methodologies tailored to each loan. The probability of default is estimated for each loan and mapped to the NADBank rating scale.

Table 15 shows the loan portfolio by NADBank internal ratings. Loans rated A-1 through A-3 represented 51% of loans outstanding in 2021 as compared to 83% for 2020. The decrease is attributable to certain renewable energy sector loans that may be affected by regulatory changes. As of December 31, 2021, all loans are current.

Table 15: Internal Rating of Loan Portfolio
(Million USD)

	2020	2021
A-1	$ 30.7	$ 26.7
A-2	291.5	194.7
A-3	616.1	278.3
B-1	171.4	146.3
B-2	–	152.9
B-3	–	132.5
C	2.8	31.6
D	13.8	13.5
E	–	–
Total	$ 1,126.3	$ 976.5

Investment Portfolio

As of December 31, 2021, the investment portfolio totaled US$1,129.8 million, up from US$1,008.1 million at year-end 2020, and represented 101% of total gross debt. The portfolio increased by US$121.7 million (12%) as a result of the paid-in capital contribution from Mexico, as well as principal and interest payments from the loan portfolio.

The NADBank investment policy limits the investment portfolio to highly rated, liquid fixed-income securities. Table 16 shows the guidelines for the Bank's investment portfolio and its allocation as of December 31, 2020 and 2021.

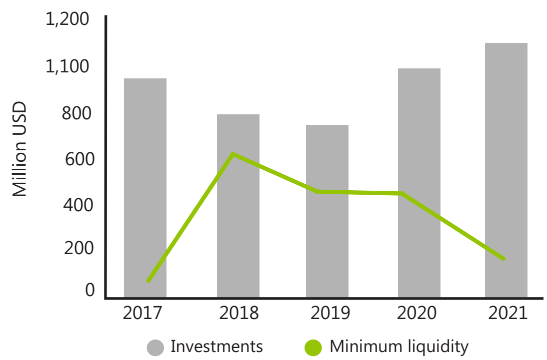
Table 16: NADBANK Investment Portfolio
(Million USD)

Type	Limit (% of total)[1]	2020 USD	2021 USD	2021 %
Cash and cash equivalents	-	$ 63.5	$ 163.9	14.5
U.S. Treasury securities	25	475.8	503.0	44.5
U.S. agency securities	45	209.1	237.7	21.0
United Mexican States securities	30	15.2	6.6	0.6
Corporate debt securities	25	195.1	132.3	11.7
Other fixed-income securities	35	49.4	86.3	7.7
Total		$ 1,008.1	$ 1,129.8	100

[1] Minimum level for U.S. Treasury securities; maximum level for all other sectors.

Figure 6 shows cash and investments relative to the minimum liquidity requirement determined by the NADBank Liquidity Policy.

Figure 6: Cash and Investments



Net Interest Income

Net interest income in 2021 was US$29.8 million, a 17% decrease compared to the previous year (US$35.7 million). Interest income from loans and investments decreased to US$47.1 million from US$57.0 million, but the decrease was significantly offset by a 33% decline in interest expense. The changes in interest income and expense responded to low levels of interest rates through 2021. The monetary easing that started in March 2020 meant that average rates were higher in 2020 than in 2021.

To facilitate understanding of the profitability of the Bank's development asset portfolio, the provision for loan losses is now included with net interest income, instead of as an operating expense. The criteria for creating provisions is unchanged. The Bank created provisions for loan losses of US$2.9 million in 2021, compared to US$18,637 in 2020, mostly driven by the uncertainty surrounding regulatory changes in the power sector in Mexico.

Interest Income from Loans

Interest income from loans totaled US$42.2 million for the year ended December 31, 2021, a 15% decrease compared to US$49.8 million for 2020. The decrease was primarily due to the decline in market interest rates and to US$184.5 million in loan prepayments during the year, facilitated by the low-interest rate environment.

Table 17: Interest Income
(Million USD)

	2020	2021
Loans	$ 49.8	$ 42.3
Investments	7.2	4.8
Total interest income	57.0	47.1
Interest expense	21.2	14.3
Net interest income	35.8	32.8
Provision for loan losses	0.0	2.9
Net interest income after provision for loan losses	$ 35.8	$ 29.9

Interest Income from Investments

Interest income from investments totaled US$4.8 million for the year ended December 31, 2021, a 33% decrease compared to US$7.2 million for 2020. The decrease was primarily due to lower market interest rates.

Interest Expense

Interest expense decreased to US$14.3 million in 2021 compared to US$21.2 million in 2020 due to: (i) a lower interest rate environment and (ii) a reduction in the Bank's total outstanding debt after debt repayments and the Bank's asset-liability management operations in 2020, which resulted in paying down a portion of the debt maturing in 2022.

Operating Expenses

Operating expenses for the year totaled US$17.5 million, a 16% increase compared to US$15.1 million in 2020.

Table 18: Operating Expenses
(Million USD)

	2020	2021
Personnel	$ 14.6	$ 15.5
General and administrative	1.7	1.8
Consultants and contractors	1.7	2.1
Other	(1.6)	(0.7)
Grant expense reimbursements, net	(1.4)	(1.3)
Depreciation	0.1	0.1
Total operating expenses	$ 15.1	$ 17.5

Hedging Activities

NADBank uses derivatives for the sole purpose of hedging its potential exposure to interest rate and foreign exchange fluctuations and does not engage in the use of derivatives for speculative purposes.

Currently, all loans provided in Mexican pesos are hedged through cross-currency swaps. Likewise, the Bank has executed derivative instruments to hedge its debt issued in Swiss francs and Norwegian kroner. Hedges are tailored to match the terms of the underlying loans and debt.

Additionally, to match loan revenue and the cost of funding, NADBank uses interest rate swaps for U.S.-dollar denominated fixed-rate loans and debt, converting both to floating rates, thereby mitigating interest rate risk.

Table 19: Hedged Exposure - Loan Portfolio
(Million USD)

	Outstanding balance	% Total	After Swap	% Total
Total loan portfolio	$ 976.5	100.0	$ 976.5	100.0
Fixed	770.5	78.9	329.6	33.8
Variable	206.0	21.1	646.9	66.2

Table 20: Hedged Exposure - Debt
(Million USD)

	Gross Debt	% Total	After Swap	% Total
Total debt	$ 1,120.7	100.0	$ 976.5	100.0
Fixed	567.7	50.7	367.7	32.8
Variable	553.0	49.3	753.0	67.2

Basis of Financial Reporting

The consolidated financial statements of the Bank are prepared in conformity with generally accepted accounting principles (GAAP) in the United States.

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. Actual results could differ from those estimates.

Disclosure in Accordance with the Recommendations of the Task Force on Climate-related Financial Disclosures

The Task Force on Climate-related Financial Disclosures (TCFD) was established by the Financial Stability Board to promote disclosure of the climate-related financial risks and opportunities within organizations. In 2017, TCFD released its final recommendations, which provide a framework for companies to develop more effective climate-related financial disclosures through their existing reporting processes based on four pillars: governance, strategy, risk management, and metrics and targets.

NADBank published its first TCFD disclosure in its 2020 Annual Report. Since then, the TCFD recommendations have provided a framework to guide the Bank's progress towards integrating climate considerations into its processes and operations.

Governance

Climate-related and other environmental disclosures align well with the mandate of the Bank to finance infrastructure that helps preserve, protect and enhance the environment of the U.S.-Mexico border region. The Board of Directors is the ultimate decision-making body and approves each environmental infrastructure project based on pre-established technical, environmental and financial certification criteria. The management structure of the Bank consists of a Managing Director, a Deputy Managing Director and a Chief Environmental Officer (CEVO). Management conducts the business of the Bank under the direction of the Board, and the CEVO is tasked with ensuring the environmental integrity of its operations, including endorsing projects for Board approval based on their environmental merit and compliance with applicable regulations.

NADBank's clear environmental mandate, organizational structure and robust project due-diligence and approval processes ensure that all its projects have a positive environmental benefit and take into consideration potential environmental and, increasingly, climate risks.

Bank Management supports initiatives for the continuous improvement of its climate-related disclosure. During 2021, NADBank made progress in adopting TCFD recommendations and has undertaken further initiatives to be completed in 2022, such as updating its environmental and social (E&S) policy framework to include an analysis of climate-related risks and opportunities in the design, implementation and operation of projects funded by the Bank, as well as to manage identified risks.

Strategy

Per its mandate, all NADBank-funded projects must have an environmental benefit. Most of these projects also have a climate-specific benefit. NADBank has determined that: (i) all of its renewable energy projects have a clear mitigation benefit; (ii) many water-related projects have a clear adaptation benefit, such as flood control and water conservation, and (iii) the remaining water projects have some level of a mitigation or adaptation component. Under this classification, 59% of investments made in infrastructure projects already in operation have a direct climate benefit, while an additional 28% have less direct benefits related to water.

Much of the focus of the Bank to date has been in water and renewable energy projects. However, in December 2021, the NADBank Board of Directors expanded the types of projects eligible for financing, including sectors such as mobility, sustainable buildings and green manufacturing. These new project types will support the capacity of the region to advance climate change adaptation and mitigation efforts, while providing the Bank with additional opportunities for investment.

In terms of climate-related risks, NADBank is in the process of implementing two strategies to enhance its capacity to identify, evaluate and control risks, thereby recognizing the importance of taking into consideration the potential double materiality of climate change in its operations. First, the Bank is enhancing its existing ESG Scoring Methodology for assessing the environmental and climate-related, social and governance risks of each project and their potential impact on the quality of the overall loan portfolio. Secondly, NADBank is enhancing its Environmental and Social Risk Management System (ESRMS) used during the project development and due-diligence process to assess potential environmental, climate and social risks prior to project approval.

Risk Management

The Bank has strong governance and robust processes for identifying and managing the risks to which it is exposed, including environmental and financial credit risks. Environmental risks are evaluated prior to project approval as part of the standard due-diligence process. This evaluation includes identifying mitigation actions, which are in turn incorporated into loan agreements and monitoring documents. This process is currently being enhanced to include a more detailed assessment of climate-related risks.

In terms of financial credit risks, NADBank has risk management practices in place consistent with industry standards. As of December 31, 2021, all outstanding loans have received an ESG score. An internal analysis of these scores shows that ESG factors have a negligible impact on the credit quality of the NADBank loan portfolio and its internal credit risk ratings. The scoring is a valuable tool in linking the Bank's loan portfolio to its ESG objectives.

In 2022, NADBank will continue developing a more comprehensive and robust ESG risk assessment framework with clear processes and tools to identify and assess climate-related risks and opportunities, aligned to international and generally accepted industry frameworks, such as the Sustainability Accounting Standards Board (SASB) and TCFD.

The main actions required to establish the ESG risk framework include:

i) Developing an environmental and social risk management system (ESRMS) to enhance existing project review processes to better identify and evaluate ESG risks prior to project approval and for monitoring during implementation.

ii) Enhancing the existing ESG scoring methodology to use a multi-variable standardized methodology to improve the analysis and scoring of ESG risks, their potential financial materiality and impact on internal credit risk ratings.

A more robust ESG risk management analysis will enhance the Bank's decision-making processes to mitigate, transfer, accept or control climate-related risks and improve the overall ESG and climate-related risks of its portfolio over time. In addition, the process will support the prioritization of climate-related risks, including how materiality determinations are made and identify which projects require deeper analysis of climate risk sensitivity and determine data gaps to fill.

Metrics and Targets

NADBank has a results measurement system that includes the development of a results matrix in which the anticipated environmental benefits of a project are documented and incorporated as part of the proposal submitted for Board approval. The results matrix is based on a catalogue of indicators that covers several environmental factors, including some related to climate mitigation (e.g., tons of greenhouse gas emissions avoided by renewable energy projects) and adaptation (e.g., water conservation). Upon initiating operations, the actual outcomes of a project are periodically monitored and compared against the impact targets established in the results matrix. The results are compiled into publicly available reports that disclose the overall impact of the operations of the Bank.

While this results measurement system has been effective in monitoring the environmental benefits of all NADBank-funded projects, the Bank needs to enhance the setting of targets and monitoring of climate-related impacts and risks. For this purpose, NADBank is creating the ESG framework previously described. It will include new metrics and targets to evaluate all projects with respect to their financial climate-related risks, both at the individual project-level and for the portfolio as a whole.

NADBank has a sustainability group that identifies and evaluates improvements to its internal operations to reduce its carbon footprint and emissions. Its efforts have resulted in programs aimed at reducing waste generation and energy consumption. Through this internal group, the Bank is working toward identifying and monitoring Scope 1 and Scope 2 emissions in the near future and expanding it to Scope 3 emissions in the medium term.

North American
Development Bank

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

Independent Auditor's Report

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

Opinion

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

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

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

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

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

Other Matter - Supplementary Information

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

BDO USA, LLP

Dallas, Texas
February 15, 2022

Consolidated Financial Statements

Consolidated Balance Sheets

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

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

Consolidated Balance Sheets

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

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

Consolidated Statements of Income

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

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

Consolidated Statements of Comprehensive Income

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

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

Consolidated Statement of Changes in Equity

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

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

Consolidated Statements of Cash Flows

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

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

1. Organization and Purpose

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

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

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

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

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates in Financial Statements

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

2. Summary of Significant Accounting Policies (Continued)

Principles of Consolidation

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

Cash and Cash Equivalents

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

Repurchase Agreements

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

Investment Securities

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

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

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

2. Summary of Significant Accounting Policies (Continued)

Taxation

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

Furniture, Equipment, and Leasehold Improvements

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

Retained Earnings

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

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

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

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

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

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

Loans and Allowance for Loan Losses

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

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

2. Summary of Significant Accounting Policies (Continued)

Loans and Allowance for Loan Losses (Continued)

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

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

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

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

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

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

Loan Portfolio Risk Rating

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

2. Summary of Significant Accounting Policies (Continued)

Loan Portfolio Risk Rating (Continued)

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

Rating Scale

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

Revenue Recognition

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

Third-party Contributions

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

Grant Program Activity

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

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

2. Summary of Significant Accounting Policies (Continued)

Grant Program Activity (Continued)

Third-party grant receipts and disbursements reflected in the consolidated statements of cash flows are not reflected in the accompanying consolidated statements of income, as these grants are approved and funded by the respective grantors. The Bank's role is to administer these funds. The operating expenses and expense reimbursements for these grants are reflected in the consolidated statements of income.

Additional information on grant programs is provided in Note 8.

Foreign Currency

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

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

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

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

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

2. Summary of Significant Accounting Policies (Continued)

Fair Value

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

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

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

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

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

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

Accumulated Other Comprehensive Income

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

Reclassifications

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

3. Investments

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

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

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

3. Investments (Continued)

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

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

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

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

3. Investments (Continued)

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

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

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

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

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

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

3. Investments (Continued)

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

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

4. Loans

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

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

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

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

4. Loans (Continued)

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

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

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

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

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

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

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

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

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

4. Loans (Continued)

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

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

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

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

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

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

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

4. Loans (Continued)

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

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

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

5. Other Assets and Other Liabilities

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

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

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

6. Debt

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

			December 31, 2021					
Issue Date	Maturity Date	Fixed Rate	Principal Amount	Unamortized Premium/ (Discount)	Unamortized Debt Issuance Costs	FX Translation Adjustment	Fair Value of Hedged Items	Net Debt
Notes Payable								
USD Issuance								
12/17/12	10/26/22	2.40%	$ 150,002,000	$ (258,419)	$ (64,327)	$ –	$ 1,477,591	$ 151,156,845
12/17/12	12/17/30	3.30	50,000,000	–	(154,056)	–	3,322,021	53,167,965
CHF Issuance								
04/30/15	04/30/25	0.25	128,706,754	282,521	(276,892)	–	8,294,718	137,007,101
04/26/17	10/26/27	0.20	124,443,117	245,878	(416,378)	–	9,221,997	133,494,614
07/24/18	07/24/26	0.30	126,415,858	92,174	(464,761)	–	11,746,103	137,789,374
05/28/20	11/28/28	0.20	186,316,116	17,628	(871,395)	10,855,566	–	196,317,915
05/28/20	05/27/33	0.55	165,614,326	629,044	(930,025)	9,649,391	–	174,962,736
NOK Issuance								
03/10/17	03/10/31	2.47	86,724,283	–	(193,623)	–	(7,902,543)	78,628,117
03/10/17	03/10/32	2.47	86,724,283	–	(200,375)	–	(8,169,059)	78,354,849
Total notes payable			1,104,946,737	1,008,826	(3,571,832)	20,504,957	17,990,828	1,140,879,516
Other Borrowings								
07/29/15	06/30/22	1.90	266,455	–	–	–	–	266,455
09/16/16	06/30/22	1.90	2,216,528	–	–	–	–	2,216,528
03/17/17	06/30/22	1.90	149,017	–	–	–	–	149,017
03/17/17	12/30/22	1.90	2,632,000	–	–	–	–	2,632,000
03/17/17	06/30/23	1.90	2,632,000	–	–	–	–	2,632,000
03/17/17	12/30/23	1.90	2,632,000	–	–	–	–	2,632,000
03/17/17	06/30/24	1.90	2,632,000	–	–	–	–	2,632,000
03/17/17	12/30/24	1.90	2,170,720	–	–	–	–	2,170,720
11/13/17	12/30/24	1.90	461,280	–	–	–	–	461,280
Total other borrowings			15,792,000	–	–	–	–	15,792,000
			$ 1,120,738,737	$ 1,008,826	$ (3,571,832)	$ 20,504,957	$ 17,990,828	$ 1,156,671,516

6. Debt (Continued)

			December 31, 2020					
Issue Date	Maturity Date	Fixed Rate	Principal Amount	Unamortized Premium/ (Discount)	Unamortized Debt Issuance Costs	FX Translation Adjustment	Fair Value of Hedged Items	Net Debt
Notes Payable								
USD Issuance								
12/17/12	10/26/22	2.40%	$ 150,002,000	$ (573,779)	$ (142,826)	$ –	$ 3,953,433	$ 153,238,828
12/17/12	12/17/30	3.30	50,000,000	–	(171,245)	–	6,845,376	56,674,131
CHF Issuance								
04/30/15	04/30/25	0.25	128,706,754	378,775	(359,961)	–	14,706,973	143,432,541
04/26/17	10/26/27	0.20	124,443,117	297,148	(487,925)	–	16,924,151	141,176,491
07/24/18	07/24/26	0.30	126,415,858	115,888	(566,597)	–	19,317,004	145,282,153
05/28/20	11/28/28	0.20	186,316,116	20,811	(997,535)	17,027,761	–	202,367,153
05/28/20	05/27/33	0.55	165,614,326	705,615	(1,011,565)	15,135,787	–	180,444,163
NOK Issuance								
03/10/17	03/10/31	2.47	86,724,283	–	(214,688)	–	(526,273)	85,983,322
03/10/17	03/10/32	2.47	86,724,283	–	(220,036)	–	(645,850)	85,858,397
Total notes payable			1,104,946,737	944,458	(4,172,378)	32,163,548	60,574,814	1,194,457,179
Other Borrowings								
08/14/14	06/30/21	1.90	1,008,985	–	–	–	–	1,008,985
02/13/15	06/30/21	1.90	1,623,015	–	–	–	–	1,623,015
02/13/15	12/30/21	1.90	1,470,635	–	–	–	–	1,470,635
07/29/15	12/30/21	1.90	1,161,365	–	–	–	–	1,161,365
07/29/15	06/30/22	1.90	266,455	–	–	–	–	266,455
09/16/16	06/30/22	1.90	2,216,528	–	–	–	–	2,216,528
03/17/17	06/30/22	1.90	149,017	–	–	–	–	149,017
03/17/17	12/30/22	1.90	2,632,000	–	–	–	–	2,632,000
03/17/17	06/30/23	1.90	2,632,000	–	–	–	–	2,632,000
03/17/17	12/30/23	1.90	2,632,000	–	–	–	–	2,632,000
03/17/17	06/30/24	1.90	2,632,000	–	–	–	–	2,632,000
03/17/17	12/30/24	1.90	2,170,720	–	–	–	–	2,170,720
11/13/17	12/30/24	1.90	461,280	–	–	–	–	461,280
Total other borrowings			21,056,000	–	–	–	–	21,056,000
			$ 1,126,002,737	$ 944,458	$ (4,172,378)	$ 32,163,548	$ 60,574,814	$ 1,215,513,179

Notes Payable

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

6. Debt (Continued)

Notes Payable (Continued)

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

Other Borrowings

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

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

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

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

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

7. Equity

Subscribed Capital

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

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

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

7. Equity (Continued)

Subscribed Capital (Continued)

In 1994, the initial subscribed capital of the Bank was $3,000,000,000 with equal commitments from Mexico and the United States. Each government subscribed 150,000 shares of capital with a par value of $10,000 per share ($1,500,000,000). By 2009, the Bank had received $225,000,000 in paid-in capital and $1,275,000,000 in unqualified callable capital from each country for a total of $450,000,000 paid-in capital and $2,550,000,000 unqualified callable capital.[5]

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

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

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

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

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

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

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

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

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

7. Equity (Continued)

Retained Earnings

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

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

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

7. Equity (Continued)

Accumulated Other Comprehensive Income

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

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

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

Hedging Activities in Other Comprehensive Income

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

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

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

8. Grant Programs

Bank-funded Grant Programs

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

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

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

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

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

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

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

8. Grant Programs (Continued)

Bank-funded Grant Programs (Continued)

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

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

Grant Programs Funded by Third Parties

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

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

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

8. Grant Programs (Continued)

Grant Programs Funded by Third Parties (Continued)

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

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

9. Employee Benefits

401(a) Retirement Plan

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

Post-retirement Health Insurance Plan

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

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

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

9. Employee Benefits (Continued)

Post-retirement Health Insurance Plan (Continued)

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

December 31,		2021		2020
Beginning balance	**$**	**-**	$	-
Employer contributions		**34,455**		25,845
Net benefits paid		**(34,455)**		(25,845)
Ending balance	**$**	**-**	$	-

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

December 31,		2021		2020
Current liabilities	**$**	**60,000**	$	61,000
Non-current liabilities		**3,236,707**		2,779,674
Total	**$**	**3,296,707**	$	2,840,674

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

December 31,		2021		2020
Service expense	**$**	**267,000**	$	267,000
Interest expense		**81,000**		81,000
Total	**$**	**348,000**	$	348,000

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

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

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

9. Employee Benefits (Continued)

Post-retirement Health Insurance Plan (Continued)

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

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

10. Fair Value of Financial Instruments

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

Cash and Cash Equivalents

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

Securities Held-to-Maturity

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

Securities Available-for-Sale

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

Loans Receivable and Interest Receivable

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

10. Fair Value of Financial Instruments (Continued)

Hedged Items for Loans

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

Cross-currency Interest Rate Swaps

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

Interest Rate Swaps

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

Options

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

Debt and Accrued Interest Payable

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

Hedged Items for Notes Payable

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

10. Fair Value of Financial Instruments (Continued)

Long-Term Post-Retirement Benefits Payable

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

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

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

10. Fair Value of Financial Instruments (Continued)

The Bank's financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2021 and 2020 are summarized in the following table by the valuation level of the inputs used to measure fair value. Additional information on how the Bank measures and classifies the levels of fair-value inputs is provided in Note 2.

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

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

10. Fair Value of Financial Instruments (Continued)

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

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

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

11. Derivative Financial Instruments

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

11. Derivative Financial Instruments (Continued)

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

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

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

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

The notional amounts and estimated fair values of the swaps outstanding at December 31, 2021 and 2020 are presented in the following table. The fair value of these swaps is estimated using internal valuation models with observable market data inputs.

	December 31, 2021		December 31, 2020	
	Notional Amount	**Estimated Fair Value**	Notional Amount	Estimated Fair Value
Cross-currency interest rate swaps	**$ 1,117,228,611**	**$ 150,950,695**	$ 1,165,457,937	$ 156,568,576
Interest rate swaps	**389,292,605**	**7,811,447**	391,724,886	80,571
Options	**175,965,221**	**8,701,951**	175,965,221	12,253,253

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

11. Derivative Financial Instruments (Continued)

Gains and Losses on Derivative Cash Flows

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

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

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

Income (Expense) from Hedging Activities

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

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

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

12. Credit Risk Associated with Financial Instruments

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

13. Commitments

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

Lease Commitments

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

Year Ending December 31,		
2022	$	229,712
2023		232,492
2024		239,436
2025		240,732
2026		40,122
	$	982,494

14. Accounting Standards Updates

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

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

14. Accounting Standards Updates (Continued)

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

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

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

15. Subsequent Events

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

Supplementary Information

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

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

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

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

December 31, 2021	NADB	EPA BEIF	EPA PDAP	EPA Border 2025	Other	Total
Operating expenses (income)						
General and administrative:						
Personnel	**$ 14,119,644**	**$ 577,366**	**$ 637,761**	**$ 204,126**	**$ -**	**$ 15,538,897**
Administrative	**1,808,658**	**-**	**-**	**-**	**-**	**1,808,658**
Consultants and contractors	**2,132,931**	**-**	**-**	**-**	**-**	**2,132,931**
Other	**(682,142)**	**-**	**-**	**-**	**-**	**(682,142)**
Grant expenses	**-**	**666,064**	**240,645**	**46,552**	**-**	**953,261**
Grant expense reimbursements	**-**	**(1,243,430)**	**(878,406)**	**(152,007)**	**-**	**(2,273,843)**
Grant expense reimbursements, net	**-**	**(577,366)**	**(637,761)**	**(105,455)**	**-**	**(1,320,582)**
Depreciation	**72,901**	**-**	**-**	**-**	**-**	**72,901**
Total operating expenses	**$ 17,451,992**	**$ -**	**$ -**	**$ 98,671**	**$ -**	**$ 17,550,663**

December 31, 2020	NADB	EPA BEIF	EPA PDAP	EPA Border 2020	Other	Total
Operating expenses (income)						
General and administrative:						
Personnel	$ 13,198,493	$ 665,250	$ 573,205	$ 192,599	$ 768	$ 14,630,315
Administrative	1,680,801	-	-	-	-	1,680,801
Consultants and contractors	1,651,701	-	-	-	-	1,651,701
Other	(1,558,490)	-	-	-	-	(1,558,490)
Grant expenses	-	824,526	408,297	43,962	203	1,276,988
Grant expense reimbursements	-	(1,489,776)	(981,502)	(185,107)	(971)	(2,657,356)
Grant expense reimbursements, net	-	(665,250)	(573,205)	(141,145)	(768)	(1,380,368)
Depreciation	114,315	-	-	-	-	114,315
Total operating expenses	$ 15,086,820	$ -	$ -	$ 51,454	-	$ 15,138,274

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

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

Appendix

Governance

Board of Directors

Mexico	United States
Secretary of Finance and Public Credit (SHCP)*	Secretary of the Treasury
Secretary of Foreign Relations (SRE)	Secretary of State
Secretary of Environment and Natural Resources (SEMARNAT)	Administrator of the Environmental Protection Agency (EPA)
Border state representative	Border state representative
Border resident representative	Border resident representative

* Board chair, 2021

Bank Organization as of December 31, 2021

Management	
Managing Director	Calixto Mateos Hanel
Deputy Managing Director	John Beckham
Chief Environmental Officer	Salvador López Córdova

Directors	
Chief Financial Officer	Julio R. Zamora
General Counsel	Lisa A. Roberts
Director of Risk Management and Control	Bernardo Salas
Director of Infrastructure Financing and Financial Services	Carlos Carranza
Director of Project and Loan Administration	Michael Ratliff
Director of Grant Financing	Renata Manning-Gbogbo
Director of Technical Assistance	Mario Vázquez
Director of Public Affairs	Jesse J. Hereford
Director of Administration	Eduardo Macías

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Offices Responsible for Publication

Finance and Public Affairs Departments

Graphic design: Ildeliza Antonares

Photography

Page 1: Jon Alonso

Page 5: From left to right: Courtesy of esVolta, LP (1st photo); courtesy of BayWa r.e. (2nd photo)

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