North American Development Bank
Ordinary Capital Resources

Consolidated Financial Statements and Supplementary Information
As of December 31, 2022 and 2021

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Contents

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Independent Auditor's Report

The Board of Directors
North American Development Bank
San Antonio, Texas

Opinion

We have audited the consolidated financial statements of North American Development Bank – Ordinary Capital Resources and its subsidiary (collectively, the Bank), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of income, comprehensive income (loss), changes in equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2022 and 2021, 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 Qualified Opinion

The Bank did not include the account balances of the Environment Investment and Capacity Facility (EICF) in the accompanying consolidated balance sheet as of December 31, 2022 and the related consolidated statements of income, comprehensive income (loss), changes in equity, and cash flows for the year then ended. Since the Bank has control over these account balances, accounting principles generally accepted in the United States of America require such balances to be included in the Bank's consolidated financial statements. If the Bank included the account balances of the EICF in the consolidated financial statements, a decrease in due to Environment Investment and Capacity Facility of $8,729,539 and an increase in undisbursed grant funds of $1,229,539 would have been required as of December 31, 2022. Accordingly, the transfer to the Environment Investment and Capacity Facility would have decreased by $7,500,000 and net income and retained earnings would have increased by $7,500,000 as of and for the year ended December 31, 2022. In addition, a reclass of $7,500,000 from undesignated equity to designated equity would have been required as of December 31, 2022.

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 Consolidated 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 Consolidated 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 Consolidated 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 audits were 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 GAAS. 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

May 19, 2023

Consolidated Financial Statements

North American Development Bank
Ordinary Capital Resources

Consolidated Balance Sheets

December 31,	**2022**	2021
Assets		
Cash and cash equivalents:		
Held at other financial institutions	**$ 89,545,186**	$ 26,501,393
Repurchase agreements	**75,200,000**	137,400,000
Cash and Cash Equivalents	**164,745,186**	163,901,393
Held-to-Maturity Investment Securities, at amortized cost	**4,180,726**	4,126,913
Available-for-Sale Investment Securities, at fair value	**949,981,433**	961,786,427
Loans outstanding	**920,296,651**	976,510,337
Allowance for loan losses	**(22,153,814)**	(22,139,332)
Unamortized loan fees	**(6,924,616)**	(6,590,402)
Foreign currency exchange rate adjustment	**(32,171,930)**	(37,886,330)
Hedged items, at fair value	**(106,748,200)**	(93,844,578)
Net Loans Outstanding	**752,298,091**	816,049,695
Interest Receivable	**18,285,105**	11,466,441
Grant and Other Receivable	**3,584,515**	1,600,323
Furniture, Equipment, and Leasehold Improvements, Net	**81,789**	84,033
Other Assets	**100,914,303**	155,597,898
Total Assets	**$1,994,071,148**	$ 2,114,613,123

North American Development Bank
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Consolidated Balance Sheets

December 31,	**2022**	2021
Liabilities and Equity		
Current Liabilities		
Accounts payable	**$ 4,119,604**	$ 842,333
Accrued liabilities	**3,012,294**	2,169,327
Accrued interest payable	**13,658,432**	9,024,926
Due to Environment Investment and Capacity Facility	**8,729,539**	-
Undisbursed grant funds	**-**	494,775
Other liabilities	**23,646,373**	309,166
Short-term debt, net of discounts and unamortized debt issuance costs	**5,264,000**	154,943,254
Hedged item, at fair value	**-**	1,477,591
Net Short-Term Debt	**5,264,000**	156,420,845
Total Current Liabilities	**58,430,242**	169,261,372
Long-Term Liabilities		
Long-term lease payable	**512,977**	-
Long-term post-retirement benefits payable	**3,136,908**	3,236,707
Deferred U.S. capital contribution	**165,000,000**	165,000,000
Long-term debt, net of discounts and unamortized debt issuance costs	**1,058,245,694**	963,232,477
Foreign currency exchange rate adjustment	**17,309,920**	20,504,957
Hedged items, at fair value	**(57,376,728)**	16,513,237
Net Long-Term Debt	**1,018,178,886**	1,000,250,671
Total Long-Term Liabilities	**1,186,828,771**	1,168,487,378
Total Liabilities	**1,245,259,013**	1,337,748,750
Equity		
Paid-in capital	**496,000,000**	486,500,000
General Reserve:		
Retained earnings:		
Designated	**177,224**	7,677,224
Reserved	**266,589,060**	192,382,949
Undesignated	**19,853,416**	85,552,407
Accumulated other comprehensive income (loss)	**(33,812,165)**	4,746,957
Non-controlling interest	**4,600**	4,836
Total Equity	**748,812,135**	776,864,373
Total Liabilities and Equity	**$1,994,071,148**	$ 2,114,613,123

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

North American Development Bank
Ordinary Capital Resources

Consolidated Statements of Income

Year ended December 31,		2022		2021
Interest Income				
Loans	$	**42,163,642**	$	42,245,220
Investments		**11,174,533**		4,828,036
Total Interest Income		**53,338,175**		47,073,256
Interest Expense		**26,110,498**		14,327,878
Net Interest Income		**27,227,677**		32,745,378
Provision for Loan Losses		**14,482**		2,903,850
Net Interest Income, after provision for loan losses		**27,213,195**		29,841,528
Operating Expenses (Income)				
General and administrative:				
Personnel		**17,324,037**		15,538,897
Administrative		**2,227,895**		1,808,658
Consultants and contractors		**1,786,685**		2,132,931
Other		**(917,210)**		(682,142)
Grant administrative reimbursements, net		**(1,430,451)**		(1,320,582)
Depreciation		**57,266**		72,901
Total Operating Expenses		**19,048,222**		17,550,663
Net Operating Income		**8,164,973**		12,290,865
Non-Interest and Non-Operating Income (Expenses)				
Gains (losses) on sale of securities, net		**(402,252)**		938,489
Grant disbursements		**(30,000)**		(478,429)
Fees and other income, net		**226,042**		908,863
Swap settlements, net		**1,819,476**		790,347
Expense from hedging activities, net		**(1,271,355)**		(2,319,328)
Total Non-Interest and Non-Operating Income (Expenses)		**341,911**		(160,058)
Transfer to Environment Investment and Capacity Facility (Board-Approved)		**7,500,000**		-
Net Income		**1,006,884**		12,130,807
Non-Controlling Interest in Net Loss		**(236)**		(207)
Controlling Interest in Net Income	$	**1,007,120**	$	12,131,014

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

North American Development Bank
Ordinary Capital Resources

Consolidated Statements of Comprehensive Income (Loss)

Year ended December 31,	**2022**	2021
Net Income	**$ 1,006,884**	$ 12,130,807
Non-Controlling Interest in Net Loss	**(236)**	(207)
Controlling Interest in Net Income	**1,007,120**	12,131,014
Other Comprehensive Income (Loss)		
Available-for-sale investment securities:		
Change in unrealized gains (losses) during the period, net	**(39,388,872)**	(11,238,857)
Reclassification adjustment for net (gains) losses included in net income	**402,252**	(938,489)
Total Unrealized Loss on Available-for-Sale Investment Securities	**(38,986,620)**	(12,177,346)
Post-retirement benefits liability adjustment	**427,567**	(142,488)
Foreign currency translation adjustment	**(103,908)**	50,317
Unrealized gains (losses) on hedging activities:		
Foreign currency translation adjustment, net	**8,251,033**	16,647,633
Fair value of cross-currency interest rate swaps, and options, net	**(8,147,194)**	(14,894,979)
Total Unrealized Gain on Hedging Activities	**103,839**	1,752,654
Total Other Comprehensive Loss	**(38,559,122)**	(10,516,863)
Total Comprehensive Income (Loss)	**$ (37,552,002)**	$ 1,614,151

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

North American Development Bank
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Consolidated Statements of Changes in Equity

	Paid-in Capital	General Reserve Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interest	Total Equity
Beginning Balance, January 1, 2021	$ 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
Capital contribution	9,500,000	-	-	-	9,500,000
Net income	-	1,007,120	-	-	1,007,120
Other comprehensive loss	-	-	(38,559,122)	-	(38,559,122)
Non-controlling interest	-	-	-	(236)	(236)
Balance, December 31, 2022	$ 496,000,000	$ 286,619,700	$ (33,812,165)	$ 4,600	$ 748,812,135

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

North American Development Bank
Ordinary Capital Resources

Consolidated Statements of Cash Flows

Year ended December 31,		**2022**		2021
Cash Flows from Operating Activities				
Net income	**$**	**1,007,120**	$	12,131,014
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation		**57,266**		72,901
Amortization of net premiums on investments		**4,380,812**		7,878,399
Change in fair value of swaps, options, hedged items, and other non-cash items		**8,521,481**		(39,347,777)
Non-controlling interest		**(236)**		(207)
Losses (gains) on securities, net		**402,252**		(938,489)
Provision for loan losses		**14,482**		2,903,850
Post-retirement benefits payable		**(99,799)**		457,033
Transfer to Environment Investment and Capacity Facility		**7,500,000**		-
Change in other assets and liabilities:				
Decrease (increase) in interest receivable		**(6,818,664)**		883,005
Decrease (increase) in accounts receivable		**(1,984,192)**		720,464
Increase in accounts payable		**3,277,271**		75,151
Increase (decrease) in accrued liabilities		**842,967**		(8,937)
Increase (decrease) in accrued interest payable		**4,633,506**		(457,597)
Net Cash Provided by (Used in) Operating Activities		**21,734,266**		(15,631,190)
Cash Flows from Investing Activities				
Capital expenditures		**(55,026)**		(51,839)
Loan principal repayments		**146,244,118**		267,033,134
Loan disbursements		**(90,030,432)**		(117,213,388)
Purchase of held-to-maturity investment securities		**(2,423,715)**		(3,637,130)
Purchase of available-for-sale investment securities		**(707,174,649)**		(767,629,311)
Proceeds from maturities of held-to-maturity investments		**2,374,000**		2,951,000
Proceeds from sales and maturities of available-for-sale investments		**675,205,861**		727,900,389
Net Cash Provided by Investing Activities		**24,140,157**		109,352,855
Cash Flows from Financing Activities				
Capital contribution		**9,500,000**		11,500,000
Proceeds from other borrowings		**100,000,606**		-
Principal repayment of other borrowings		**(5,264,000)**		(5,264,000)
Principal repayment of notes payable		**(150,002,000)**		-
Grant funds from the EPA		**14,908,316**		12,724,552
Grant funds from other sources		**2,103,797**		1,927,000
Grant disbursements - EPA		**(14,908,312)**		(12,731,879)
Grant disbursements from other sources		**(1,369,037)**		(1,441,137)
Net Cash Provided by (Used in) Financing Activities		**(45,030,630)**		6,714,536
Net Increase (Decrease) in Cash and Cash Equivalents		**843,793**		100,436,201
Cash and Cash Equivalents, beginning of year		**163,901,393**		63,465,192
Cash and Cash Equivalents, end of year	**$**	**164,745,186**	$	163,901,393

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Consolidated Statements of Cash Flows

Year ended December 31,		**2022**		2021
Supplemental Cash Information				
Cash paid during the year for interest	**$**	**11,691,225**	$	12,253,743
Significant Non-Cash Transactions				
Foreign currency translation adjustment	**$**	**8,251,033**	$	16,647,633
Non-cash investing and financing activities during the year upon adoption of the lease standard		**956,393**		-
Change in fair value of cross-currency interest rate swaps, net		**(8,147,194)**		(14,894,979)
Change in fair value of available-for-sales investments, net		**(38,986,620)**		(12,177,346)
Due to Environment Investment and Capacity Facility		**8,729,539**		-

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

1. Organization and Purpose

The North American Development Bank (NADBank 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 (the Board) 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 and administers grant funding provided by other entities.

On June 2, 1998, the Board authorized the establishment of a limited-purpose financial institution (sociedad financiera de objeto limitado, SOFOL) to facilitate 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. 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, 2022, COFIDAN is 99.90% owned by the Bank and 0.10% owned by the Government of Mexico. The accounts of COFIDAN are consolidated in the Bank's Ordinary Capital Resources, 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.

On December 28, 2022, the Board approved the establishment of an Environment Investment and Capacity Facility (EICF) to hold the Bank's grant funds available for construction and technical assistance purposes, including funds provided by third-party donors. These funds will be accounted for separately from those of the Ordinary Capital Resources of the Bank. With the establishment of the EICF, the lending operations of the Bank will be carried out through the Ordinary Capital Resources, while grant financing and technical assistance activities will be carried out through the EICF. Additional information on the EICF is provided in Note 8.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates in Consolidated Financial Statements

The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP), except for the matters described in the Basis for Qualified Opinion section of the report. The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. These estimates include the valuation of investments, allowance for loan losses, the fair value of derivative instruments included in other assets, the fair value of derivative instruments included in other liabilities, long-term post-retirement benefits payable, and debt. Actual results could differ from those estimates.

Principles of Consolidation

The consolidated financial statements include the accounts of the Bank and its subsidiary, COFIDAN. All significant intercompany accounts and transactions with COFIDAN have been eliminated in the consolidation. These consolidated statements are considered the Ordinary Capital Resources following the establishment of the EICF.

The EICF is not included in the consolidated financial statements of the Ordinary Capital Resources. The accounts of the EICF are audited separately.

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, 2022, cash deposits with other financial institutions in demand deposit accounts and interest-bearing accounts totaled $1,434,286 and $88,110,900, respectively. 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.

Repurchase Agreements

The Bank has entered into repurchase agreements with other financial institutions. Shorter term repurchases may occur daily involving U.S. government and federally sponsored agency securities, which are included in cash and cash equivalents. Longer term repurchase agreements may be part of collateralized borrowings. The underlying securities related to the repurchase transaction are held in the possession of that financial institution. Additional information on investment securities and borrowings is provided in Notes 3 and 6, respectively.

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, 2022 and 2021.

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.

Operating Lease

The Bank rents office space for its headquarters in San Antonio, Texas under an operating lease. Beginning January 1, 2022, the Bank implemented Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, which requires the recognition of operating lease obligations on a discounted basis and the recognition of a right-of-use lease asset. The Bank applied the optional modified retrospective method and recorded the lease as of the adoption date without any retrospective adjustment to comparative financial information. Additional information on the Bank's operating lease is provided in Note 13.

Retained Earnings

Retained earnings are classified as either designated for a specific program, reserved, or undesignated. Undesignated retained earnings in excess of 1% 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 and impaired unless well secured and in the process of collection.

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

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

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

The allowance for loan losses is a valuation account used to reasonably estimate loan losses incurred as of the consolidated 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 scorecard methodologies developed by a globally recognized credit rating agency, along with statistical cumulative recovery rates for each sector.

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

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

Loan Portfolio Risk Rating

Beginning in 2022, the Bank replaced its internal credit risk rating methodologies with the credit risk scorecard methodology developed by an internationally recognized credit rating agency. As a result of this change, the Bank also adopted the standard rating scale of that agency in lieu of its previous internal scale. The scorecard methodology is tailored to the characteristics of each transaction and project type. It is based on a model that scores quantitative and qualitative variables to address both project and borrower risks. The analysis includes financial and operating metrics relevant to the overall performance of the project or loan, as well as relevant credit-mitigating measures. The variables are well defined and consistently applied to each individual loan.

For each loan, a letter rating is assessed, and the probability of default is estimated using the risk horizon (remaining maturity) of the loan, which is mapped to the undiscounted default probability table provided by the credit agency. Loans in Mexico with sovereign/sub-sovereign repayment sources or guarantees are capped at BBB, equivalent to the foreign currency issuer rating of Mexico.

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The following table presents the new rating scale, along with the Bank's previous rating scale for comparative purposes.

	2022 Rating Scale		2021 Rating Scale		
Description	Risk Grade	Scale	Borrower Rating	Scale	Risk Grade
Highest credit quality, minimum credit risk	AAA	A	1	A	A-1
Very high quality, very low credit risk	AA+ AA AA-	A	2	A	A-2
High credit quality, strong payment capacity	A+ A A-	A	3	A	A-3
Good credit quality, adequate payment capacity	BBB+ BBB BBB-	B	4	B	B-1
Moderate credit quality, likely to meet obligations, some uncertainty under adverse conditions	BB+ BB BB-	B	5	B	B-2
Low credit quality, still able to meet obligations, highly vulnerable to adverse conditions	B+ B B-	B	6	B	B-3
Very low credit quality, highly vulnerable, high risk of default with some possibility of recovery	CCC+ CCC CCC-	C	7 8	C D	C D
In or near default, lowest possible rating	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 and 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.

Grant Program Activity

Bank-Funded Grants - The Bank funds grants through the Community Assistance Program (CAP), 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. Third-party grant receipts and disbursements are reflected in the consolidated statements of cash flows, not the 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 (loss).

The lending activities of the Bank include making loans that are denominated in Mexican pesos. When such loans are not funded by Mexican peso liabilities, 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, 2022 and 2021, the Bank had entered into counterparty agreements with 12 counterparties, two of which are backed by the federal government of Mexico, and the other ten are commercial financial institutions. The foreign currency translation adjustment on loans denominated in Mexican pesos as of December 31, 2022 and 2021 was $(32,171,930) and $(37,886,330), respectively.

All swaps relating to the lending activities of the Bank are designated as cash flow or fair value hedges and recognized in the accompanying consolidated balance sheets at their fair value. Changes in the fair value of the cash flow hedges are reported in other comprehensive income (loss). 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 (loss) 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 counterparties are subject to a master-netting arrangement. The net fair value of derivatives by counterparty is offset with the outstanding balance of the collateral received from or paid to the counterparty for financial reporting purposes. Additional information on the amounts subject to master netting arrangements and collateral is provided in Note 5.

Fair Value

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Bank carries cross-currency interest rate swaps, interest rate swaps, 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 - This level consists of quoted prices in active markets for identical assets or liabilities that 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 - This level consists of 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. For these consolidated financial statements, the Bank also obtains dealer quotations for comparative purposes to assess the reasonableness of the pricing models.

Level 3 - This level consists of 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.

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

Accumulated Other Comprehensive Income (Loss)

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

Allocable Income

Allocable income is an internal management measure that reflects income available for allocation. The Bank defines allocable income on net income after certain adjustments that relate primarily to non-cash expenses. The Bank will transfer, under a formula-based approach, a proportion of allocable income to the EICF. Additional information on the EICF is provided in Note 8.

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.

December 31, 2022

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity:				
U.S. government securities	$ 3,019,254	$ -	$ (25,963)	$ 2,993,291
U.S. agency securities	1,161,472	-	(44,533)	1,116,939
Total Held-to-Maturity Investment Securities	4,180,726	-	(70,496)	4,110,230
Available-for-sale:				
U.S. government securities	436,321,490	127,413	(20,483,222)	415,965,681
U.S. agency securities	162,313,889	-	(8,380,477)	153,933,412
Corporate debt securities	138,700,987	75,636	(9,614,864)	129,161,759
Other fixed-income securities	79,211,369	24,922	(4,066,741)	75,169,550
Mexican government securities	30,548,265	5,786	(1,216,409)	29,337,642
Securities pledged under collateralized borrowings[1]	142,637,146	-	(1,410,974)	141,226,172
Mortgage-backed securities	5,853,994	-	(666,777)	5,187,217
Total Available-for-Sale Investment Securities	995,587,140	233,757	(45,839,464)	949,981,433
Total Investment Securities	$ 999,767,866	$ 233,757	$ (45,909,960)	$ 954,091,663

[1] Additional information on the securities pledged and collateralized borrowing is provided in Note 6.

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	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

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.

December 31, 2022

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Held-to-maturity:						
U.S. government securities	$ 2,435,460	$ 9,376	$ 557,831	$ 16,587	$ 2,993,291	$ 25,963
U.S. agency securities	-	-	1,116,939	44,533	1,116,939	44,533
Total Held-to-Maturity Securities	2,435,460	9,376	1,674,770	61,120	4,110,230	70,496
Available-for-sale:						
U.S. government securities	145,850,471	4,159,725	227,596,894	16,323,497	373,447,365	20,483,222
U.S. agency securities	1,951,440	52,351	151,981,972	8,328,126	153,933,412	8,380,477
Corporate debt securities	20,219,964	834,376	104,643,455	8,780,488	124,863,419	9,614,864
Other fixed-income securities	13,426,992	526,900	57,591,923	3,539,841	71,018,915	4,066,741
Mexican government securities	6,604,290	592,874	7,842,350	623,535	14,446,640	1,216,409
Securities pledged under collateralized borrowings[1]	141,226,172	1,410,974	-	-	141,226,172	1,410,974
Mortgage-backed securities	1,278,034	132,122	3,909,183	534,655	5,187,217	666,777
Total Available-for-Sale Investment Securities	330,557,363	7,709,322	553,565,777	38,130,142	884,123,140	45,839,464
Total Temporarily Impaired Securities	$ 332,992,823	$ 7,718,698	$ 555,240,547	$ 38,191,262	$ 888,233,370	$ 45,909,960

[1] Additional information on the securities pledged and collateralized borrowing is provided in Note 6.

December 31, 2021

	Less Than 12 Months		12 Months or More		Total	
	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	660,087	-	-	75,971,490	660,087
Mexican government securities	5,506,801	46,804	-	-	5,506,801	46,804
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

None of the unrealized losses identified in the preceding tables are considered to be other-than-temporary or related to a credit impairment of an issuer as of December 31, 2022. 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.

Contractual maturities of investments are summarized in the following table.

December 31, 2022

	Held-to-Maturity Securities		Available-for-Sale Securities	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
Less than one year	$ 4,110,230	$ 4,180,726	$ 280,128,965	$ 284,617,684
1-5 years	-	-	658,060,961	697,918,298
5-10 years	-	-	6,604,290	7,197,164
More than ten years	-	-	-	-
Mortgage-backed securities	-	-	5,187,217	5,853,994
	$ 4,110,230	$ 4,180,726	$ 949,981,433	$ 995,587,140

December 31, 2021

	Held-to-Maturity Securities		Available-for-Sale Securities	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
Less than one 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 ten years	-	-	-	-
Mortgage-backed securities	-	-	7,230,914	7,204,323
	$ 4,117,597	$ 4,126,913	$ 961,786,427	$ 968,405,514

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.

Year ended December 31,	**2022**	2021
Held-to-maturity investment securities:		
Proceeds from maturities	**$ 2,374,000**	$ 2,951,000
Available-for-sale investment securities:		
Proceeds from sales and maturities	**675,205,861**	727,900,389
Gross realized gains	**81,870**	1,008,830
Gross realized losses	**484,122**	70,341

The following table sets forth the net unrealized gains (losses) on securities available-for-sale and the reclassification adjustments required.

Year ended December 31,	**2022**	2021
Net unrealized gain (loss) on investment securities available-for-sale, beginning of year	**$ (6,619,087)**	$ 5,558,259
Net unrealized losses on investment securities available-for-sale, arising during the year	**(39,388,872)**	(11,238,857)
Reclassification adjustments for net losses (gains) on investment securities available-for-sale included in net income	**402,252**	(938,489)
Net Unrealized Loss on Investment Securities Available-for-Sale, end of year	**$ (45,605,707)**	$ (6,619,087)

4. Loans

The following schedule summarizes loans outstanding.

December 31,	**2022**	2021
Loan balance	**$ 920,296,651**	$ 976,510,337
Allowance for loan losses:		
General	**(22,153,814)**	(19,737,912)
Specific	**-**	(2,401,420)
Unamortized loan fees	**(6,924,616)**	(6,590,402)
Foreign currency exchange rate adjustment	**(32,171,930)**	(37,886,330)
Fair value of hedged items	**(106,748,200)**	(93,844,578)
Net Loans Outstanding	**$ 752,298,091**	$ 816,049,695

At December 31, 2022 and 2021, outstanding undisbursed loan commitments on signed loan agreements totaled $174,784,983 and $81,670,001, respectively. As of December 31, 2022, the Bank had loan agreements under development for an additional $257,001,726.

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, 2022 and 2021, the Bank had LIRF loans outstanding of $16,847,839 and $20,330,073, respectively.

The following table presents the loan portfolio by sector.

December 31,	**2022**	2021
Water	**$ 121,611,690**	$ 129,704,494
Solid waste	**1,210,000**	1,780,000
Air quality	**115,736,121**	83,342,652
Sustainable energy	**607,764,116**	696,321,733
Urban development	**16,738,170**	31,150,045
Sustainable food value chains	**10,121,560**	-
ProRec[1]	**47,114,994**	34,211,413
	$ 920,296,651	$ 976,510,337

[1] On May 21, 2020, the Board of Directors approved a ProRec for the purpose of enhancing the economic recovery and the general health and welfare of U.S.-Mexico border communities, while supporting projects with a positive environmental impact. The program was closed as of December 31, 2022.

The following table presents the loan portfolio by borrower type.

December 31,	**2022**	2021
Private	**$ 629,196,767**	$ 717,099,855
Public	**233,446,663**	197,480,140
Public-private	**57,653,221**	61,930,342
	$ 920,296,651	$ 976,510,337

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

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

December 31,	**2022**	2021[1]
AAA	**$ -**	$ 75,037,230
AA+	**-**	-
AA	**26,245,000**	12,285,000
AA-	**-**	-
A+	**1,355,000**	51,072,200
A	**4,580,000**	128,600,000
A-	**114,978,166**	5,224,251
BBB+	**115,440,279**	17,421,413
BBB	**124,634,901**	150,887,499
BBB-	**14,903,936**	27,379,423
BB+	**144,409,772**	177,357,817
BB	**132,346,373**	102,325,724
BB-	**141,038,827**	183,404,581
B+	**28,529,110**	28,958,541
B	**13,077,687**	2,805,000
B-	**58,757,600**	13,751,658
C	**-**	-
	$ 920,296,651	$ 976,510,337

[1] The 2021 figures are presented for comparative purposes since the scorecard rating methodologies became effective in 2022. The mapping for each category does not correlate exactly because the new methodologies consider the risk horizon of the projects when assigning a letter grade and probability of default.

No loans were on non-accrual or impaired as of December 31, 2022. One impaired loan was on non-accrual as of December 31, 2021 with an outstanding balance of $13,464,043, which had been restructured in 2018. There was no charge-off of principal and interest related to this restructured loan. The specific allowance as of December 31, 2022 and 2021 totaled $0 and $2,401,420, respectively. During the years ended December 31, 2022 and 2021, interest income on the impaired loan totaled $854,765 and $679,142, respectively.

No loans were restructured during the years ended December 31, 2022 and 2021. The average impaired loan balance for the years ended December 31, 2022 and 2021 totaled $8,918,080 and $13,642,191, respectively.

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

December 31,	Loans 30-89 Days Past Due	Loans 90+ Days Past Due	Total Loans 30+ Days Past Due
2022	$ -	$ -	$ -
2021	-	-	-

There were no loans past due 90 or more days accruing interest as of December 31, 2022 and 2021.

The following table summarizes the allowance for loan losses by classification.

December 31, 2022

	Allowance for Loan Losses			
	General Allowance	Specific Allowance	Total	Total Loans Outstanding[1]
Mexico:				
Construction	$ 667,629	$ -	$ 667,629	$ 13,864,867
Operation	13,274,228	-	13,274,228	619,683,942
Total Mexico	13,941,857	-	13,941,857	633,548,809
United States:				
Construction	1,391,769	-	1,391,769	66,665,695
Operation	6,820,188	-	6,820,188	220,082,147
Total United States	8,211,957	-	8,211,957	286,747,842
	$ 22,153,814	$ -	$ 22,153,814	$ 920,296,651

December 31, 2021

	Allowance for Loan Losses			
	General Allowance	Specific Allowance	Total	Total Loans Outstanding[2]
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

[1] As of December 31, 2022, there were no impaired loans.

[2] As of December 31, 2021, the Bank had one impaired loan in the amount of $13,464,043.

The following schedule summarizes the changes in the allowance for loan losses.

Year ended December 31, 2022

		Change in Allowance for Loan Losses			
	Beginning Balance	Specific Provisions	General Provisions	Loan Recoveries (Charge-Offs)	Ending Balance
Mexico:					
Construction	$ -	$ -	$ 667,629	$ -	$ 667,629
Operation	17,203,805	(2,401,420)	(1,528,157)	-	13,274,228
Total Mexico	17,203,805	(2,401,420)	(860,528)	-	13,941,857
United States:					
Construction	947,136	-	444,633	-	1,391,769
Operation	3,988,391	-	2,831,797	-	6,820,188
Total United States	4,935,527	-	3,276,430	-	8,211,957
	$ 22,139,332	$ (2,401,420)	$ 2,415,902	$ -	$ 22,153,814

Year ended December 31, 2021

		Change in Allowance for Loan Losses			
	Beginning Balance	Specific Provisions	General Provisions	Loan Recoveries (Charge-Offs)	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

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.

December 31, 2022

	Gross Amount	Master Netting Arrangements	Net Amount
Other Assets			
Cross-currency interest rate swaps	$ 116,994,965	$ (26,014,966)	$ 90,979,999
Interest rate swaps	22,901,624	(5,488,170)	17,413,454
Options	8,913,119	-	8,913,119
Collateral to counterparty	2,820,000	-	2,820,000
Collateral from counterparty	(18,200,000)	-	(18,200,000)
Credit valuation adjustment for swaps	(1,749,740)	-	(1,749,740)
Right-of-use lease asset	737,471	-	737,471
Total Other Assets	$ 132,417,439	$ (31,503,136)	$ 100,914,303
Other Liabilities			
Cross-currency interest rate swaps	$ 22,728,838	$ -	$ 22,728,838
Interest rate swaps	917,535	-	917,535
Total Other Liabilities	$ 23,646,373	$ -	$ 23,646,373

December 31, 2021

	Gross Amount	Master Netting Arrangements	Net Amount
Other 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
Other Liabilities			
Cross-currency interest rate swaps	$ 309,166	$ -	$ 309,166
Total Other Liabilities	$ 309,166	$ -	$ 309,166

6. Debt

The following tables summarize the notes payable and other borrowings.

December 31, 2022

	Issue Date	Maturity Date	Rate (%)	Principal Amount	Unamortized Premium	Unamortized Debt Issuance Costs	FX Translation Adjustment	Fair Value of Hedged Items	Net Debt
Notes Payable									
USD issuance	12/17/12	12/17/30	3.30	$ 50,000,000	$ -	$ (136,867)	$ -	$ (5,260,536)	$ 44,602,597
CHF issuance	04/30/15	04/30/25	0.25	128,706,754	195,292	(193,824)	-	463,081	129,171,303
	04/26/17	10/26/27	0.20	124,443,117	201,081	(344,831)	-	(4,131,808)	120,167,559
	07/24/18	07/24/26	0.30	126,415,858	71,078	(362,925)	-	505,757	126,629,768
	05/28/20	11/28/28	0.20	186,316,116	14,887	(745,254)	8,390,040	-	193,975,789
	05/28/20	05/27/33	0.55	165,614,326	566,715	(848,485)	7,457,813	-	172,790,369
NOK issuance	03/10/17	03/10/31	2.47	86,724,283	-	(172,558)	-	(23,902,415)	62,649,310
	03/10/17	03/10/32	2.47	86,724,283	-	(180,716)	-	(25,050,807)	61,492,760
Total Notes Payable				954,944,737	1,049,053	(2,985,460)	15,847,853	(57,376,728)	911,479,455
Other Borrowings									
USD	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
MXN	12/14/22	11/30/27	TIIE variable	100,000,606	-	(27,242)	1,462,067	-	101,435,431
Total Other Borrowings				110,528,606	-	(27,242)	1,462,067	-	111,963,431
				$1,065,473,343	$ 1,049,053	$ (3,012,702)	$ 17,309,920	$ (57,376,728)	$ 1,023,442,886

CHF = Swiss franc; MXN = Mexican peso; NOK = Norwegian krone; USD = U.S. dollar.

December 31, 2021

	Issue Date	Maturity Date	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									
USD	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

CHF = Swiss franc; NOK = Norwegian krone; USD = U.S. dollar.

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.

The fair value of the hedges relating to interest rate swaps on notes payable denominated in U.S. dollars was reported at December 31, 2022 and 2021 as other assets of $(4,343,000) and $4,799,612, respectively, and as other liabilities of $917,535 and $0, 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, 2022 and 2021 as other assets of $(11,202,057) and $29,595,181, respectively, and as other liabilities of $22,728,838 and $0, respectively. The fair value of hedges relating to options on notes payable not denominated in U.S. dollars was reported at December 31, 2022 and 2021 as other assets of $8,913,119 and $8,701,951, 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 financial institution 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. At December 31, 2022 and 2021, the outstanding balance was $10,528,000 and $15,792,000, respectively.

On December 14, 2022, the Bank entered into a collateralized borrowing with another financial institution in the form of a repurchase agreement to borrow MXN $1,978 million ($100 million USD) with a maturity date of November 30, 2027. The loan carries a variable interest rate referenced to Mexico's Benchmark Interbank Deposit Rate (TIIE). This borrowing is collateralized by U.S. Treasury Notes. The collateral is reflected on the consolidated balance sheets as available-for-sale investment securities.

The following table summarizes the maturities of the notes payable and other borrowings.

December 31,	**2022**	2021
Less than one year	**$ 5,264,000**	$ 155,266,000
1-2 years	**5,264,000**	5,264,000
2-3 years	**128,706,754**	5,264,000
3-4 years	**126,415,858**	128,706,754
4-5 years	**224,443,723**	126,415,858
5-10 years	**409,764,682**	447,483,516
More than ten years	**165,614,326**	252,338,609
Total	**$1,065,473,343**	$ 1,120,738,737

The following table summarizes short-term and long-term debt.

December 31,	**2022**	2021
Short-term debt:		
Notes payable	**$ -**	$ 150,002,000
Other borrowings	**5,264,000**	5,264,000
Total Short-Term Debt	**5,264,000**	155,266,000
Long-term debt:		
Notes payable	**954,944,737**	954,944,737
Other borrowings	**105,264,606**	10,528,000
Total Long-Term Debt	**1,060,209,343**	965,472,737
Total Debt	**$1,065,473,343**	$ 1,120,738,737

7. Equity

Subscribed Capital

At December 31, 2022 and 2021, the shareholders of the Bank had subscribed 600,000 shares of capital stock, with a par value of $10,000 per share. Subscribed capital is divided into paid-in and callable capital. Callable capital are shares that the Bank can request that its shareholders pay under Chapter II, Article II, Section 3(d) of the Bank's Charter. As defined in the Charter, subscribed shares can be unqualified or qualified. Qualified shares are subject to the respective domestic legal requirements of each subscribing country. Unqualified shares have completed the domestic legal requirements. The Bank's capital is shown in the following tables.

December 31, 2022

	Mexico		United States		Total	
	Shares	USD Million	Shares	USD Million	Shares	USD Million
Subscribed capital	300,000	$ 3,000.0	300,000	$ 3,000.0	600,000	$ 6,000.0
Qualified callable capital	(109,934)	(1,099.3)	(102,000)	(1,020.0)	(211,934)	(2,119.3)
Unqualified callable capital	(145,066)	(1,450.7)	(153,000)	(1,530.0)	(298,066)	(2,980.7)
Qualified paid-in capital	(19,400)	(194.0)	-	-	(19,400)	(194.0)
Total Funded Paid-in Capital	25,600	256.0	45,000	450.0	70,600	706.0
Restricted from commitments	-	-	-	(165.0)	-	(165.0)
Transfer to domestic programs	-	(22.5)	-	(22.5)	-	(45.0)
Total Paid-in Capital	25,600	$ 233.5	45,000	$ 262.5	70,600	$ 496.0

December 31, 2021

	Mexico		United States		Total	
	Shares	USD Million	Shares	USD Million	Shares	USD Million
Subscribed capital	300,000	$ 3,000.0	300,000	$ 3,000.0	600,000	$ 6,000.0
Qualified callable capital	(115,317)	(1,153.2)	(102,000)	(1,020.0)	(217,317)	(2,173.2)
Unqualified callable capital	(139,683)	(1,396.8)	(153,000)	(1,530.0)	(292,683)	(2,926.8)
Qualified paid-in capital	(20,350)	(203.5)	-	-	(20,350)	(203.5)
Total Funded Paid-in Capital	24,650	246.5	45,000	450.0	69,650	696.5
Restricted from commitments	-	-	-	(165.0)	-	(165.0)
Transfer for domestic programs	-	(22.5)	-	(22.5)	-	(45.0)
Total Paid-in Capital	24,650	$ 224.0	45,000	$ 262.5	69,650	$ 486.5

In 1994, Mexico and the United States subscribed to the Bank's capital of 300,000 shares ($3 billion) with equal commitments from each country. All shares from the original subscription have been unqualified. In 2015, the member countries agreed to a General Capital Increase (GCI) of 300,000 shares ($3 billion), also with equal commitments from each government, bringing the Bank's subscribed capital to $6 billion. Mexico submitted its letter of subscription on May 6, 2016 and the United States did so on September 1, 2016.

As of December 31, 2022, Mexico has unqualified 3,100 shares of paid-in capital and 17,566 shares of callable capital from its GCI subscription. As of December 31, 2021, Mexico had unqualified 2,150 shares of paid-in capital and 12,183 shares of callable capital from its GCI subscription.

As of December 31, 2022 and 2021, the United States has unqualified 22,500 shares of paid-in capital from its GCI subscription. Of these shares, 16,500 shares were restricted from commitment, until Mexico unqualifies corresponding payments. As such, the restricted shares are recorded as a deferred U.S. capital contribution. As of the same dates, the United States has also unqualified 25,500 shares of callable capital from its GCI subscription.

In accordance with Board Resolution BR 2020-7, the shareholders have until December 31, 2028, or such later dates as the Board of Directors shall determine, to unqualify the remaining shares of their subscriptions.

Retained Earnings

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

December 31,	**2022**	2021
Designated retained earnings:		
Technical Assistance Program	**$ -**	$ 1,814,766
Community Assistance Program	**177,224**	5,862,458
Total Designated Retained Earnings	**177,224**	7,677,224
Reserved retained earnings:		
Debt Service Reserve	**56,533,579**	22,103,000
Operating Expenses Reserve	**26,499,286**	23,913,682
Special Reserve	**30,000,000**	30,000,000
Capital Preservation Reserve	**153,556,195**	116,366,267
Total Reserved Retained Earnings	**266,589,060**	192,382,949
Undesignated retained earnings:		
Operations	**21,981,459**	86,409,095
Mark-to-market hedge valuations	**(2,128,043)**	(856,688)
Total Undesignated Retained Earnings	**19,853,416**	85,552,407
Total Retained Earnings	**$ 286,619,700**	$ 285,612,580

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

Accumulated Other Comprehensive Income (Loss)

The following table presents the changes in accumulated other comprehensive income (loss).

Year ended December 31, 2022

	Beginning Balance	Period Activity	Ending Balance
Net unrealized loss on available-for-sale investment securities	$ (6,619,087)	$ (38,986,620)	$ (45,605,707)
Post-retirement benefit liability adjustment	(142,488)	427,567	285,079
Foreign currency translation adjustment	391,273	(103,908)	287,365
Unrealized gain (loss) on hedging activities:			
Foreign currency translation adjustment	(32,333,581)	8,251,033	(24,082,548)
Fair value of cross-currency interest rate swaps and options, net	43,450,840	(8,147,194)	35,303,646
Net Unrealized Gain on Hedging Activities	11,117,259	103,839	11,221,098
Total Accumulated Other Comprehensive Income (Loss)	$ 4,746,957	$ (38,559,122)	$ (33,812,165)

Year ended 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, and options, net	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

Hedging Activities in Other Comprehensive Income (Loss)

The following table summarizes the net unrealized gain on derivatives designated as cash flow hedges and their related hedged items included in other comprehensive income (loss).

Year ended December 31,	**2022**	2021
Cross-currency swaps and hedged items for loans, net	**$ (3,865,185)**	$ (1,280,660)
Cross-currency swaps, options, and hedged items for debt, net	**3,969,024**	3,033,314
Total	**$ 103,839**	$ 1,752,654

For the years ended December 31, 2022 and 2021, $0 and $787,836, respectively, were reclassified from other comprehensive income (loss) and recorded as a component of swap settlements, net, in the consolidated statements of income.

8. Grant Programs

Bank-Funded Grant Programs

Community Assistance Program

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, 2022, a cumulative total of $14,092,840 has been allocated to the CAP and $10,474,038 has been disbursed. For the years ended December 31, 2022 and 2021, the Bank disbursed $0 under this program.

Technical Assistance Program

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, 2022 and 2021, $0 and $465,131, 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, 2022 and 2021, $0 and $13,298, respectively, were disbursed under this program. These grant disbursements are reported in the consolidated statements of income.

COVID-19 Recovery Program

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, 2022 and 2021, $30,000 and $0, respectively, were disbursed under this program. These grant disbursements are reported in the consolidated statements of income. The program was ended as of December 31, 2022.

The following table summarizes Bank-funded grant disbursements, as reported in the consolidated statements of income.

Year ended December 31,		**2022**		2021
Community Assistance Program	**$**	**-**	$	-
Technical Assistance Program		**-**		465,131
Utility Management Institute		**-**		13,298
COVID-19 Recovery Program		**30,000**		-
Total Grant Disbursements	**$**	**30,000**	$	478,429

Since 2021, the Bank has received grant funding from the U.S. DOS designated for CAP and TAP. For the years ended December 31, 2022 and 2021, the Bank disbursed DOS funds for $802,229 and $1,441,137, respectively, under CAP; $500,975 and $0, respectively, under TAP; and $38,454 and $0, respectively, under UMI. The disbursement of DOS funds is reflected in the consolidated statements of cash flows. As of December 31, 2022 and 2021, the remaining DOS funds totaled $1,021,205 and $460,863, respectively. The remaining funds as of December 31, 2022 were transferred to the EICF. At December 31, 2021, $460,863 was included in undisbursed grant funds in the consolidated balance sheets.

Grant Programs Funded by Third Parties

Border Environment Infrastructure Fund

Through this program, the Bank administers grant funds from the 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, 2022 total $783,055,932. 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 the EPA and receives an allocation of the EPA grant funds for administrative expenses incurred.

As of December 31, 2022, the EPA has approved project funding proposed by the Bank totaling $713,709,980, of which $678,227,951 has been disbursed through the Bank. For the years ended December 31, 2022 and 2021, the Bank disbursed $11,333,441 and $8,979,915, 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 $977,932 and $1,243,430 as reimbursement of expenses incurred for the years ended December 31, 2022 and 2021, respectively. These expenses and reimbursements are reflected in the consolidated statements of income.

Project Development Assistance Program (PDAP)

The Bank administers grant funding from the EPA to provide technical assistance to communities for the development of water and wastewater projects that have been prioritized by EPA to receive a Border Environment Infrastructure Fund (BEIF) grant. For the years ended December 31, 2022 and 2021, the Bank disbursed $1,079,538 and $1,044,684, 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 $854,621 and $878,406 as reimbursement of expenses incurred for the years ended December 31, 2022 and 2021, respectively. These expenses and reimbursements are reflected in the consolidated statements of income.

U.S.-Mexico Environmental Border 2025 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, 2022 and 2021, the Bank disbursed $467,168 and $530,986, 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 $269,932 and $152,007 as reimbursement of expenses incurred for the years ended December 31, 2022 and 2021, respectively. These expenses and reimbursements are reflected in the consolidated statements of income.

Environment Investment and Capacity Facility

In December 2022, the Board approved the establishment of the EICF to hold the Bank’s grant funds available for construction and technical assistance purposes, including funds provided by third-party donors. As of December 31, 2022, the Bank had a due to EICF of $8,729,539, of which $7,500,000 comes from the Bank’s designated retained earnings and $1,229,539 were undisbursed grant funds from third parties. After the transfer, undisbursed grant funds totaled $0 on the consolidated balance sheet as of December 31, 2022. The transfer of the CAP and TAP designated retained earnings is reflected as a Board-approved transfer to EICF in the consolidated statements of income. As of December 31, 2022, the Bank has a due from EICF of $130,106 for reimbursable grant administrative expenses. Additional information regarding the creation of the EICF fund is provided in Note 1.

The administrative expenses of the EICF will be paid by the Bank; no administrative expenses will be reported by the EICF. Administrative expenses incurred for third-party grants are subject to reimbursements to the Bank. As part of the establishment of the EICF, the Board agreed to provide additional support for it from the Bank's Ordinary Capital Resources under a formula-based approach by transferring a portion of the Bank's allocable income.

9. Employee Benefits

401(a) Retirement Plan

The Bank has a 401(a) Retirement Plan for its employees. This plan provides for employee and nondiscretionary employer contributions. For the years ended December 31, 2022 and 2021, the Bank expended $1,293,772 and $1,239,768, 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 $45,232 and $34,455 for the years ended December 31, 2022 and 2021, respectively. As of December 31, 2022, the unfunded portion of the plan totaled $3,215,908 and is reflected in the consolidated balance sheet as a component of accrued liability and long-term liability of $79,000 and $3,136,908, 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 liabilities and long-term liabilities of $60,000 and $3,236,707, respectively.

The following table presents the change in benefit obligations.

December 31,	**2022**	2021
Beginning balance	**$ 3,296,707**	$ 2,840,674
Service expense	**303,000**	267,000
Interest expense	**89,000**	81,000
Net benefits paid	**(45,232)**	(34,455)
Actuarial loss (gain)	**(427,567)**	142,488
Ending Balance	**$ 3,215,908**	$ 3,296,707

The change in post-retirement health plan assets is presented in the following table.

December 31,	**2022**	2021
Beginning balance	**$ -**	$ -
Employer contributions	**45,232**	34,455
Net benefits paid	**(45,232)**	(34,455)
Ending Balance	**$ -**	$ -

The following table presents post-retirement health plan liabilities.

December 31,		**2022**		2021
Current liabilities	**$**	**79,000**	$	60,000
Non-current liabilities		**3,136,908**		3,236,707
Total	**$**	**3,215,908**	$	3,296,707

The net periodic benefit cost of the post-retirement health plan is presented in the following table.

Year ended December 31,		**2022**		2021
Service expense	**$**	**303,000**	$	267,000
Interest expense		**89,000**		81,000
Total	**$**	**392,000**	$	348,000

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

The assumptions used to determine the benefit obligations and net periodic post-retirement benefit costs of the plan are presented below.

December 31,	**2022**	2021
Discount rate (%)	**4.36**	2.71
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

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

Year ending December 31,		
2023	$	79,000
2024		102,000
2025		137,000
2026		177,000
2027		220,000
2028-2032		1,531,000

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.

Available-for-Sale Securities

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.

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 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 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.

Hedged Items for Notes Payable

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

Long-Term Post-Retirement Benefits Payable

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

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

December 31,

	2022		2021	
	Carrying Amount	**Estimated Fair Value**	Carrying Amount	Estimated Fair Value
Assets				
Cash and cash equivalents	**$ 164,745,186**	**$ 164,745,186**	$ 163,901,393	$ 163,901,393
Held-to-maturity securities	**4,180,726**	**4,110,230**	4,126,913	4,117,597
Available-for-sale securities	**949,981,433**	**949,981,433**	961,786,427	961,786,427
Loans, net	**752,298,091**	**757,489,681**	816,049,695	890,844,826
Interest receivable	**18,285,105**	**18,285,105**	11,466,441	11,466,441
Cross-currency interest rate swaps	**90,979,999**	**90,979,999**	151,259,861	151,259,861
Interest rate swaps	**17,413,454**	**17,413,454**	7,811,447	7,811,447
Options	**8,913,119**	**8,913,119**	8,701,951	8,701,951
Liabilities				
Accrued interest payable	**13,658,432**	**13,658,432**	9,024,926	9,024,926
Short-term debt, net	**5,264,000**	**5,264,000**	154,943,254	154,943,254
Long-term debt, net	**1,058,245,694**	**1,057,392,602**	963,232,477	963,354,521
Long-term post-retirement benefits payable	**3,136,908**	**3,136,908**	3,236,707	3,236,707
Cross-currency interest rate swaps	**22,728,838**	**22,728,838**	309,166	309,166
Interest rate swaps	**917,535**	**917,535**	-	-

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The Bank's financial assets and liabilities measured at fair value on a recurring basis 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.

December 31, 2022

	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total Fair Value
Assets				
Available-for-sale securities:				
U.S. government securities	$ 415,965,681	$ -	$ -	$ 415,965,681
U.S. agency securities	153,933,412	-	-	153,933,412
Corporate debt securities	129,161,759	-	-	129,161,759
Other fixed-income securities	75,169,550	-	-	75,169,550
Mexican government securities	29,337,642	-	-	29,337,642
Securities pledged under collateralized borrowings	141,226,172	-	-	141,226,172
Mortgage-backed securities	5,187,217	-	-	5,187,217
Total Available-for-Sale Securities	949,981,433	-	-	949,981,433
Cross-currency interest rate swaps	-	90,979,999	-	90,979,999
Interest rate swaps	-	17,413,454	-	17,413,454
Options	-	8,913,119	-	8,913,119
Hedged items for loans	-	-	(106,748,200)	(106,748,200)
Total Assets, at fair value	$ 949,981,433	$ 117,306,572	$ (106,748,200)	$ 960,539,805
Liabilities				
Cross-currency interest rate swaps	$ -	$ 22,728,838	$ -	$ 22,728,838
Interest rate swaps	-	917,535	-	917,535
Hedged items for notes payable	-	-	(57,376,728)	(57,376,728)
Total Liabilities, at fair value	$ -	$ 23,646,373	$ (57,376,728)	$ (33,730,355)

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December 31, 2021

	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total Fair Value
Assets				
Available-for-sale 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	6,605,832	-	-	6,605,832
Mortgage-backed securities	7,230,914	-	-	7,230,914
Total Available-for-Sale 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
Hedged items for notes payable	-	-	17,990,828	17,990,828
Total Liabilities, at fair value	$ -	$ 309,166	$ 17,990,828	$ 18,299,994

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

Year ended December 31,	**2022**	2021
	Fair Value of Level 3 Instruments	
Assets		
Beginning balance	**$ (93,844,578)**	$ (33,183,106)
Total realized and unrealized gains (losses):		
Included in earnings (expenses)	**(22,615,941)**	(39,892,598)
Included in other comprehensive income (loss)	**-**	-
Purchases	**-**	-
Settlements	**9,712,319**	(20,768,874)
Transfers in/out of Level 3	**-**	-
Ending Balance	**$ (106,748,200)**	$ (93,844,578)
Liabilities		
Beginning balance	**$ 17,990,828**	$ 60,574,814
Total realized and unrealized losses (gains):		
Included in expenses (earnings)	**(75,367,556)**	(42,583,986)
Included in other comprehensive income (loss)	**-**	-
Purchases	**-**	-
Settlements	**-**	-
Transfers in/out of Level 3	**-**	-
Ending Balance	**$ (57,376,728)**	$ 17,990,828

The Bank has no nonfinancial assets or liabilities measured at fair value on a recurring or non-recurring basis as of December 31, 2022 and 2021. The Bank had an impaired loan in the amount of $13,464,043 measured on a recurring basis with a specific allowance of $2,401,420 for a net amount of $11,062,623 as of December 31, 2021.

11. Derivative Financial Instruments

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

The Bank enters into cross-currency interest rate swaps that are matched to the terms of the loans denominated in Mexican pesos that the Bank has entered into directly or through COFIDAN. In the latter case, the swaps are entered into on the exact same terms COFIDAN signs 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 for some loans and certain of its long-term notes payable. The swaps are structured so that the notional amounts match the expected maturity of the loans and the 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.

In the past, the Bank used the London Interbank Offered Rate (LIBOR) as its benchmark interest rate. Like the rest of the industry, the Bank is transitioning to the Secured Overnight Financing Rate (SOFR) rate as its benchmark interest rate.

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 and other collateralized borrowings. Cash collateral and receivables totaling $18,200,000 and $9,600,000 were posted from counterparties to the Bank as of December 31, 2022 and 2021, respectively. As of those same dates, $2,820,000 and $0 collateral were posted by the Bank.

The notional amounts and estimated fair values of the swaps outstanding 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,	**2022**		2021	
	Notional Amount	**Estimated Fair Value**	**Notional** Amount	**Estimated** Fair Value
Cross-currency interest rate swaps	**$1,055,763,596**	**$ 68,251,161**	$ 1,117,228,611	$ 150,950,695
Interest rate swaps	**231,832,891**	**16,495,919**	389,292,605	7,811,447
Options	**175,965,221**	**8,913,119**	175,965,221	8,701,951

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, 2022 and 2021.

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 (loss), while the ineffective portion is included in income (expense) from net hedging activities. The accumulated net unrealized gain related to the swaps and options included in accumulated other comprehensive income (loss) totaled $11,221,098 and $11,117,259 at December 31, 2022 and 2021, 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 31, 2022 and 2021, changes in the aforementioned swaps and options included in the accompanying consolidated statements of income were $2,096,976 and $1,893,133, respectively.

Interest Rate Swaps - The changes in the fair value of the interest rate 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, 2022 and 2021, 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, 2022 and 2021.

Year ended December 31,	**2022**	2021
Fair value hedges with swaps and hedged items for loans	**$ (4,777,558)**	$ (1,013,025)
Fair value hedges with swaps and hedged items for debt	**1,607,055**	(1,507,884)
Cash flow hedges with options and hedged items for debt	**1,073,527**	627,776
Credit valuation adjustment	**825,621**	(426,195)
Expense from Hedging Activities, Net	**$ (1,271,355)**	$ (2,319,328)

The net income (expense) from hedging activities is included as a component of non-operating income (expense) 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 equivalents, investments, loans receivable, options, and swaps. The Bank maintains 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, 2022, 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 consolidated financial statements.

Operating Lease Commitments

The Bank rents office space for its headquarters in San Antonio, Texas under an operating lease that expires on February 28, 2026. As of December 31, 2022, the right-of-use lease asset totaled $737,471 and is reflected in the consolidated balance sheets as a component of other assets. As of that same date, the operating lease obligation is reflected in the consolidated balance sheets in accrued liabilities and as a long-term lease payable of $224,494 and $512,977 respectively. For the years ended December 31, 2022 and 2021, operating lease expenses recognized on a straight-line basis totaled $229,712 and $223,064, respectively, and are included as a component of operating expenses in the consolidated statements of income.

As of December 31, 2022, the weighted-average term of the lease remaining was 3.2 years and the weighted average discount rate used on the lease liability was 1.26%, which is considered a risk-free rate by the Bank in determining the present value of future lease payments, as follows:

Year ending December 31,		
2023	$	232,492
2024		239,436
2025		240,732
2026		40,122
Total Operating Lease		752,782
Discount		(15,311)
Operating Lease Liability	$	737,471

Under the previous lease accounting standard, ASC 840, *Leases*, the total commitment for non-cancelable operating leases was $982,494 for the year ended December 31, 2021. Future minimum lease payments under noncancelable operating leases as of December 31, 2021 were as follows:

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

ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, 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 2019-10 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 LIBOR to alternative reference rates. In January 2021, the Financial Accounting Standards Board (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 evaluated the impact of implementing ASU 2021-01 and determined that the standard will not have a material effect on its consolidated financial statements.

15. Subsequent Events

The Bank has evaluated the events subsequent to December 31, 2022 and through May 19, 2023, the date the consolidated financial statements were available to be issued.

Supplementary Information

North American Development Bank
Ordinary Capital Resources

Third-Party Grant Activity
For the Years Ended December 31, 2022 and 2021

	EPA						Other		
	BEIF	PDAP	Border 2025	Other	Subtotal	DOS	Air Quality Fund	Other	Total
Undisbursed Grant Funds									
Balance, January 1, 2022	$ 1,005	$ -	$ -	$ -	$ 1,005	$ 460,863	$ 25,000	$ 7,907	$ 494,775
Grant receipts	12,301,807	1,885,843	717,007	3,659	14,908,316	1,902,000	201,797	-	17,012,113
Grant disbursements	(12,301,803)	(1,885,843)	(717,007)	(3,659)	(14,908,312)	(1,341,658)	(19,472)	(7,907)	(16,277,349)
Subtotal	1,009	-	-	-	1,009	1,021,205	207,325	-	1,229,539
Transfer to EICF	(1,009)	-	-	-	(1,009)	(1,021,205)	(207,325)	-	(1,229,539)
Balance, December 31, 2022	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

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

North American Development Bank
Ordinary Capital Resources

Operating Expenses by Program

Year ended December 31, 2022

	NADBank	EPA: BEIF	EPA: PDAP	EPA: Border 2025	Air Quality Fund	Other	Total
Operating Expenses (Income)							
General and administrative:							
Personnel	**$ 15,851,841**	**$ 698,168**	**$ 575,261**	**$ 193,954**	**$ 1,568**	**$ 3,245**	**$ 17,324,037**
Administrative	**2,227,895**	**-**	**-**	**-**	**-**	**-**	**2,227,895**
Consultants and contractors	**1,786,685**	**-**	**-**	**-**	**-**	**-**	**1,786,685**
Other	**(917,210)**	**-**	**-**	**-**	**-**	**-**	**(917,210)**
Grant expenses*	**-**	**279,764**	**279,360**	**117,292**	**512**	**845**	**677,773**
Grant expense reimbursements	**-**	**(977,932)**	**(854,621)**	**(269,932)**	**(2,080)**	**(3,659)**	**(2,108,224)**
Grant Expense Reimbursements, Net**	**-**	**(698,168)**	**(575,261)**	**(152,640)**	**(1,568)**	**(2,814)**	**(1,430,451)**
Depreciation	**57,266**	**-**	**-**	**-**	**-**	**-**	**57,266**
Total Operating Expenses	**$ 19,006,477**	**$ -**	**$ -**	**$ 41,314**	**$ -**	**$ 431**	**$ 19,048,222**

Year ended December 31, 2021

	NADBank	EPA: BEIF	EPA: PDAP	EPA: Border 2025	Air Quality Fund	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

* Grant expenses are total reimbursable general and administrative expenses, excluding personnel.

** Net grant expense reimbursements are the sum of grant expenses and grant expense reimbursements.

North American Development Bank
Ordinary Capital Resources

Disbursements by Program and Source

Year ended December 31,		**2022**		2021
By Program				
Loan disbursements	**$**	**90,030,432**	$	117,213,388
Grant disbursements:				
BEIF		**11,333,441**		8,979,915
PDAP		**1,079,538**		1,044,684
Border 2025		**467,168**		530,986
CAP		**802,229**		1,441,137
TAP		**500,975**		465,131
UMI		**38,454**		13,298
ProRec		**30,000**		-
Air Quality Fund		**17,392**		-
Other		**7,907**		-
Total	**$**	**104,307,536**	$	129,688,539
By Source				
NADBank	**$**	**90,060,432**	$	117,691,817
EPA		**12,880,147**		10,555,585
DOS		**1,341,658**		1,441,137
Air Quality Fund		**17,392**		-
Other		**7,907**		-
Total	**$**	**104,307,536**	$	129,688,539