# Consolidated Financial Statements and Supplementary Information

North American Development Bank
Years Ended December 31, 2018 and 2017
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

# North American Development Bank

## Consolidated Financial Statements and Supplementary Information

Years Ended December 31, 2018 and 2017

## Contents

Building a better
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# Report of Independent Auditors

The Board of Directors
North American Development Bank

We have audited the accompanying consolidated financial statements of North American Development Bank (the Bank), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

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

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

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

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## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of North American Development Bank at December 31, 2018 and 2017, and the consolidated results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

## Supplementary Information

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

Ernst & Young LLP

March 29, 2019

# North American Development Bank

## Consolidated Balance Sheets

| | December 31 2018 | December 31 2017 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents: | | |
| Held at other financial institutions in demand-deposit accounts | **$ 374,898** | $ 543,712 |
| Held at other financial institutions in interest-bearing accounts | **48,419,515** | 26,742,869 |
| Repurchase agreements | **126,300,000** | 137,000,000 |
| | **175,094,413** | 164,286,581 |
| Held-to-maturity investment securities, at amortized cost | **3,335,360** | 3,904,396 |
| Available-for-sale investment securities, at fair value | **620,823,835** | 787,282,178 |
| Loans outstanding | **1,284,477,904** | 1,293,806,755 |
| Allowance for loan losses | **(19,154,507)** | (21,107,945) |
| Unamortized loan fees | **(12,685,298)** | (11,711,140) |
| Foreign currency exchange rate adjustment | **(40,516,565)** | (45,997,351) |
| Hedged items, at fair value | **(155,900,516)** | (144,105,721) |
| Net loans outstanding | **1,056,221,018** | 1,070,884,598 |
| Interest receivable | **15,941,621** | 28,781,647 |
| Grant and other receivable | **1,499,144** | 4,523,939 |
| Furniture, equipment, and leasehold improvements, net | **251,731** | 354,961 |
| Other assets | **85,890,652** | 86,241,301 |
| Total assets | **$ 1,959,057,774** | $ 2,146,259,601 |
| **Liabilities and equity** | | |
| Liabilities: | | |
| Accounts payable | **$ 1,064,675** | $ 6,749,106 |
| Accrued liabilities | **2,560,410** | 1,385,789 |
| Accrued interest payable | **18,367,661** | 21,697,668 |
| Undisbursed grant funds | **1,002** | 1,002 |
| Other liabilities | **7,257,372** | – |
| Short-term debt, net of discount and unamortized debt issuance costs | **5,263,000** | 304,660,489 |
| Hedged item, at fair value | **–** | (708,958) |
| Net short-term debt | **5,263,000** | 303,951,531 |
| Long-term debt, net of discounts and unamortized debt issuance costs | **1,304,721,548** | 1,183,283,306 |
| Hedged items, at fair value | **(33,204,590)** | (5,602,130) |
| Net long-term debt | **1,271,516,958** | 1,177,681,176 |
| Total liabilities | **1,306,031,078** | 1,511,466,272 |
| Equity: | | |
| Paid-in capital | **415,000,000** | 415,000,000 |
| General reserve: | | |
| Allocated paid-in capital | **–** | 2,338,897 |
| Retained earnings: | | |
| Designated | **10,988,220** | 11,663,722 |
| Reserved | **162,065,724** | 137,602,160 |
| Undesignated | **55,843,436** | 56,416,631 |
| Accumulated other comprehensive income | **9,124,014** | 11,766,444 |
| Non-controlling interest | **5,302** | 5,475 |
| Total equity | **653,026,696** | 634,793,329 |
| Total liabilities and equity | **$ 1,959,057,774** | $ 2,146,259,601 |

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

# North American Development Bank

## Consolidated Statements of Income

| | Year Ended December 31 2018 | 2017 |
|---|---|---|
| Interest income: | | |
| Loans | **$ 61,981,255** | $ 57,770,501 |
| Investments | **16,938,554** | 10,865,202 |
| Total interest income | **78,919,809** | 68,635,703 |
| Interest expense | **47,242,402** | 31,639,710 |
| Net interest income | **31,677,407** | 36,995,993 |
| Operating expenses: | | |
| Personnel | **12,839,428** | 8,378,651 |
| General and administrative | **2,404,145** | 1,628,852 |
| Consultants and contractors | **2,175,543** | 2,260,139 |
| Provision for loan losses | **(1,953,438)** | (3,967,714) |
| Other | **(4,506)** | (42,598) |
| Depreciation | **156,798** | 167,382 |
| U.S. Domestic Program | **230,535** | 229,059 |
| Total operating expenses | **15,848,505** | 8,653,771 |
| Net operating income | **15,828,902** | 28,342,222 |
| Non-interest income and non-operating expenses: | | |
| U.S. Department of State contribution | **2,902,000** | – |
| Ministry of Environment and Natural Resources (SEMARNAT) contribution | **1,793,750** | – |
| Gains on sales and call of securities | **5,111** | 3,616,047 |
| Income (expense) from hedging activities, net | **2,566,698** | (1,266,924) |
| Income from foreign exchange activities, net | **213,393** | 126,332 |
| Fees and other income | **642,284** | 680,696 |
| Loss on other real estate owned | **(290,300)** | – |
| Total non-interest income | **7,832,936** | 3,156,151 |
| Income before program activities | **23,661,838** | 31,498,373 |
| Program activities: | | |
| Border Environment Infrastructure Fund (BEIF): | | |
| U.S. Environmental Protection Agency (EPA) grant income | **772,003** | 799,248 |
| EPA grant administration expense | **(772,003)** | (799,248) |
| Community Assistance Program expense | **(2,284,995)** | (1,178,056) |
| Water Conservation Investment Fund expense | **–** | (203,901) |
| Technical Assistance Program: | | |
| EPA grant income | **1,872,834** | 360,698 |
| EPA grant administration expense | **(844,211)** | (113,003) |
| Inter-American Development Bank (IDB) Multilateral Investment Fund (MIF) grant income | **10,621** | 16,808 |
| Technical Assistance Program expense | **(1,290,290)** | (1,046,005) |
| Other grant income | **13,776** | – |
| Other grant expense | **(13,776)** | – |
| Net program expenses | **(2,536,041)** | (2,163,459) |
| Income before non-controlling interest | **21,125,797** | 29,334,914 |
| Net loss attributable to non-controlling interest | **(173)** | (146) |
| Net income attributable to NADB | **$ 21,125,970** | $ 29,335,060 |

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

# North American Development Bank

## Consolidated Statements of Comprehensive Income

| | Year Ended December 31 | |
|---|---|---|
| | **2018** | **2017** |
| Income before non-controlling interest | **$ 21,125,797** | $ 29,334,914 |
| Net loss attributable to non-controlling interest | **(173)** | (146) |
| Net income attributable to NADB | **21,125,970** | 29,335,060 |
| Other comprehensive income (loss): | | |
| Available-for-sale investment securities: | | |
| Change in unrealized gains (losses) during the period, net | **96,684** | (1,806,949) |
| Reclassification adjustment for net gains included in net income | **(2,611)** | (68,908) |
| Total unrealized gain (loss) in available-for-sale investment securities | **94,073** | (1,875,857) |
| Foreign currency translation adjustment | **3,803** | (39,664) |
| Unrealized gains (losses) on hedging activities: | | |
| Foreign currency translation adjustment, net | **5,480,786** | 9,029,818 |
| Fair value of cross-currency interest rate swaps, net | **(8,221,092)** | (11,315,131) |
| Total unrealized loss on hedging activities | **(2,740,306)** | (2,285,313) |
| Total other comprehensive loss | **(2,642,430)** | (4,200,834) |
| Total comprehensive income | **$ 18,483,540** | $ 25,134,226 |

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

## North American Development Bank

## Consolidated Statement of Changes in Equity

| | Paid-In Capital | General Reserve: Allocated Paid-In Capital | General Reserve: Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Non-controlling Interest | Total Equity |
|---|---|---|---|---|---|---|
| Beginning balance, January 1, 2017 | $ 415,000,000 | $ 2,460,790 | $ 171,392,217 | $ 15,967,278 | $ 5,621 | $ 604,825,906 |
| Transfer to Targeted Grant Program of the U.S. Domestic Program | – | (121,893) | – | – | – | (121,893) |
| Transfer from the Border Environment Cooperation Commission (BECC) | – | – | 4,955,236 | – | – | 4,955,236 |
| Net income | – | – | 29,335,060 | – | – | 29,335,060 |
| Other comprehensive income | – | – | – | (4,200,834) | – | (4,200,834) |
| Non-controlling interest | – | – | – | – | (146) | (146) |
| Ending balance, December 31, 2017 | $ 415,000,000 | $ 2,338,897 | $ 205,682,513 | $ 11,766,444 | $ 5,475 | $ 634,793,329 |
| Transfer to Targeted Grant Program of the U.S. Domestic Program | **–** | **(250,000)** | **–** | **–** | **–** | **(250,000)** |
| Closeout of U.S. Domestic Program | **–** | **(2,088,897)** | **2,088,897** | **–** | **–** | **–** |
| Net income | **–** | **–** | **21,125,970** | **–** | **–** | **21,125,970** |
| Other comprehensive income | **–** | **–** | **–** | **(2,642,430)** | **–** | **(2,642,430)** |
| Non-controlling interest | **–** | **–** | **–** | **–** | **(173)** | **(173)** |
| Ending balance, December 31, 2018 | **$ 415,000,000** | **$ –** | **$ 228,897,380** | **$ 9,124,014** | **$ 5,302** | **$ 653,026,696** |

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



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# North American Development Bank

# Consolidated Statements of Cash Flows

| | Year Ended December 31 2018 | 2017 |
|---|---|---|
| **Operating activities** | | |
| Net income | **$ 21,125,970** | $ 29,335,060 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation | **156,798** | 167,382 |
| Amortization of net premium (discounts) on investments | **(3,026,257)** | (363,450) |
| Change in fair value of swaps, hedged items and other non-cash items | **(17,976,051)** | (14,852,582) |
| Non-controlling interest | **(173)** | (146) |
| Gains on sales of and call of securities, net | **(5,111)** | (3,616,047) |
| Provision for loan losses | **(1,953,438)** | (3,967,714) |
| Change in other assets and liabilities: | | |
| (Increase) decrease in interest receivable | **12,840,026** | (1,974,802) |
| Decrease in receivable and other assets | **6,129,434** | 2,669,963 |
| Decrease in accounts payable | **(5,684,431)** | (706,981) |
| Increase in accrued liabilities | **1,174,621** | 944,342 |
| Increase (decrease) in accrued interest payable | **(3,330,007)** | 5,103,700 |
| Net cash provided by operating activities | **9,451,381** | 12,738,725 |
| | | |
| **Lending, investing, and development activities** | | |
| Capital expenditures | **(53,534)** | (26,695) |
| Loan principal repayments | **176,337,591** | 219,244,575 |
| Loan disbursements | **(165,984,284)** | (101,425,657) |
| Purchase of held-to-maturity investments | **(610,000)** | (1,011,000) |
| Purchase of available-for-sale investments | **(905,827,329)** | (694,367,608) |
| Proceeds from maturities and call of held-to-maturity investments | **1,178,000** | 54,457,031 |
| Proceeds from sales and maturities of available-for-sale investments | **1,075,412,149** | 212,183,024 |
| Net cash provided by (used in) lending, investing, and development activities | **180,452,593** | (310,946,330) |
| | | |
| **Financing activities** | | |
| Proceeds from other borrowings | **–** | 13,309,017 |
| Proceeds from note issuances | **126,415,858** | 297,891,683 |
| Principal repayment of other borrowings | **(5,262,000)** | (5,262,000) |
| Principal repayment of notes payable | **(300,000,000)** | – |
| Transfer of funds from Border Environment Cooperation Commission (BECC) | **–** | 4,955,236 |
| Grant funds from the Environmental Protection Agency (EPA) | **26,340,883** | 11,903,429 |
| Grant disbursements – EPA | **(26,340,883)** | (11,908,755) |
| Grant activity – U.S. Domestic Program | **(250,000)** | (121,893) |
| Net cash provided by (used in) financing activities | **(179,096,142)** | 310,766,717 |
| | | |
| Net increase in cash and cash equivalents | **10,807,832** | 12,559,112 |
| Cash and cash equivalents at January 1, 2018 and 2017 | **164,286,581** | 151,727,469 |
| Cash and cash equivalents at December 31, 2018 and 2017 | **$ 175,094,413** | $ 164,286,581 |
| | | |
| **Supplemental cash information** | | |
| Cash paid during the year for interest | **$ 35,424,793** | $ 30,977,485 |
| | | |
| **Significant noncash transactions** | | |
| Foreign currency translation adjustment | **$ 5,480,786** | $ 9,029,818 |
| Change in fair value of cross-currency interest rate swaps, net | **(8,221,092)** | (11,315,131) |
| Change in fair value of available-for-sales investments, net | **94,073** | (1,875,857) |

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

## 1. Organization and Purpose

The North American Development Bank (NADB or the Bank) and the Border Environment Cooperation Commission (BECC) were 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 infrastructure projects in the U.S.-Mexico border region (the International Program) and community adjustment and investment projects throughout the U.S. and Mexico (the Domestic Programs). BECC was created to review the environmental aspects of projects seeking Bank financing under the International Program and recommend their certification to the Board of Directors. On March 16, 1994, the President of the United States issued an Executive Order designating the Bank as an international organization under the International Organization Immunities Act.

The Bank is governed by a Board of Directors appointed by the two countries. The operations of the Bank are subject to certain limitations outlined in the Charter. On November 10, 2017, the Second Protocol of Amendment to the Charter entered into force, merging BECC into the Bank. The merger preserved the mission, purposes and functions of both organizations under the International Program, including their environmental mandate and geographic jurisdiction, which is within 100 kilometers north or 300 kilometers south of the U.S.-Mexico border. The Bank is headquartered in San Antonio, Texas, and also has an office in Ciudad Juarez, Chihuahua (Juarez Office).

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

On June 2, 1998, the Board of Directors adopted a resolution authorizing the Bank to establish a limited-purpose financial institution (*sociedad financiera de objeto limitado*, SOFOL) for the purpose of facilitating Bank lending to the Mexican public sector. In January 1999, the *Corporación Financiera de América del Norte, S.A. de C.V. SOFOL* (COFIDAN) began operations in Mexico City and, in October 2006, COFIDAN was converted from a SOFOL to a non-regulated, multipurpose financial institution (SOFOM, E.N.R.), and its name was modified to *Corporación Financiera de América del Norte, S.A. de C.V. SOFOM E.N.R.* As of December 31, 2018, COFIDAN is 99.90% owned by the Bank and 0.10% owned by the Government of Mexico. The accounts of COFIDAN are consolidated with the Bank, and all material intercompany

## 1. Organization and Purpose (continued)

accounts and transactions are eliminated in the consolidation. The non-controlling interest reflected in the consolidated balance sheets and consolidated statements of income represents the ownership of the Government of Mexico through the Ministry of Finance and Public Credit (SHCP).

## 2. Summary of Significant Accounting Policies

### Basis of Presentation and Use of Estimates in Financial Statements

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

### Asset Acquisition: Border Environment Cooperation Commission (BECC) Integration

During 2017, the Bank adopted Accounting Standards Update (ASU) 2017-01, which clarifies the definition of a business and provides a more robust framework to use in determining when a set of assets and activities constitutes a business. ASU 2017-01 is intended to provide guidance when evaluating whether transactions should be accounted for as an acquisition of assets or a business. The Bank determined that the transfer of assets from BECC on November 10, 2017 as described in Note 1 constituted an acquisition of assets under common control. As such, the assets of BECC were recorded at their carrying value and the operations of BECC were accounted for prospectively as of the merger date.

The primary source of funding for the operation of the former BECC was contributions from the federal governments through the U.S. Department of State and the Mexican Ministry of Environment and Natural Resources (SEMARNAT). The Bank continues to receive contributions from these sources, which are reflected in the consolidated statement of income.

## 2. Summary of Significant Accounting Policies (continued)

### Principles of Consolidation

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

### Cash and Cash Equivalents

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

### Repurchase Agreements

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

### Investment Securities

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

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

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

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

## 2. Summary of Significant Accounting Policies (continued)

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 December 31, 2018 and 2017.

### Taxation

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

### Furniture, Equipment, and Leasehold Improvements

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

### General Reserve

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

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

## 2. Summary of Significant Accounting Policies (continued)

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

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

### Loans and Allowance for Loan Losses

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

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

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

**2. Summary of Significant Accounting Policies (continued)**

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

The allowance for loan losses is a valuation account used to reasonably estimate loan losses incurred as of the financial statement date. Determining the appropriate allowance for loan losses involves significant judgment about when a loss has been incurred and the amount of that loss. A general allowance for all loans under the International Program is established based on statistical cumulative default and recovery rates for project finance loans. 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.

**Credit Quality**

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

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

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

**2. Summary of Significant Accounting Policies (continued)**

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

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

**Program Activities**

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

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

Program expenses also represent grant disbursements funded with previously designated retained earnings of the Bank through its Community Assistance Program (CAP), Water Conservation Investment Fund (WCIF) and Technical Assistance Program. Grants are recognized at the date the Bank becomes obligated under the terms of the grant agreements, and associated costs are recognized as incurred.

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

## 2. Summary of Significant Accounting Policies (continued)

### Foreign Currency

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

The lending activities of the Bank include making loans that are denominated in Mexican pesos. For such loans, the Bank enters into cross-currency interest rate swaps that mitigate its exposure to fluctuations in foreign currency exchange rates and interest rates. As of December 31, 2018, the Bank had entered into swap counterparty agreements with Fondo de Apoyo a Estados y Municipios (FOAEM), a fund owned by the Government of Mexico and administered by the federally run development bank, Banco Nacional de Obras y Servicios Publicos, S.N.C. (Banobras); directly with Banobras outside the FOAEM arrangement; and with nine (9) other financial institutions. The foreign currency translation adjustment on loans denominated in Mexican pesos as of December 31, 2018 and 2017 was \$(40,516,565) and \$(45,997,351), respectively. Changes in the foreign currency translation adjustment are reported through other comprehensive income.

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

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

**2. Summary of Significant Accounting Policies (continued)**

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

**Fair Value**

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

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

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

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

**2. Summary of Significant Accounting Policies (continued)**

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

**Accumulated Other Comprehensive Income**

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

## 3. Investments

All investments held by the Bank are classified as either held-to-maturity or available-for-sale securities. The following schedule summarizes investments as of December 31, 2018 and 2017.

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **December 31, 2018** | | | | |
| Held-to-maturity: | | | | |
| U.S. agency securities | **$ 3,335,360** | **$ 2,017** | **$ (23,674)** | **$ 3,313,703** |
| Total held-to-maturity investment securities | **3,335,360** | **2,017** | **(23,674)** | **3,313,703** |
| Available-for-sale: | | | | |
| U.S. government securities | **282,187,720** | **239,637** | **(979,644)** | **281,447,713** |
| U.S. agency securities | **119,904,756** | **59,491** | **(465,849)** | **119,498,398** |
| Corporate debt securities | **149,796,837** | **52,802** | **(737,541)** | **149,112,098** |
| Other fixed-income securities | **55,678,638** | **1,755** | **(106,461)** | **55,573,932** |
| Mexican government securities (UMS) | **15,585,230** | **1,278** | **(394,814)** | **15,191,694** |
| Total available-for-sale investment securities | **623,153,181** | **354,963** | **(2,684,309)** | **620,823,835** |
| Total investment securities | **$ 626,488,541** | **$ 356,980** | **$ (2,707,983)** | **$ 624,137,538** |

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **December 31, 2017** | | | | |
| Held-to-maturity: | | | | |
| U.S. agency securities | $ 3,904,396 | $ – | $ (31,912) | $ 3,872,484 |
| Total held-to-maturity investment securities | 3,904,396 | – | (31,912) | 3,872,484 |
| Available-for-sale: | | | | |
| U.S. government securities | 445,924,619 | 3,109 | (1,270,425) | 444,657,303 |
| U.S. agency securities | 124,224,160 | 56 | (628,950) | 123,595,266 |
| Corporate debt securities | 148,784,887 | 19,064 | (462,854) | 148,341,097 |
| Other fixed-income securities | 60,050,804 | 144 | (143,036) | 59,907,912 |
| Mexican government securities (UMS) | 10,721,127 | 74,734 | (15,261) | 10,780,600 |
| Total available-for-sale investment securities | 789,705,597 | 97,107 | (2,520,526) | 787,282,178 |
| Total investment securities | $ 793,609,993 | $ 97,107 | $ (2,552,438) | $ 791,154,662 |

## 3. Investments (continued)

The following schedule summarizes unrealized losses and the fair value of investments aggregated by category and the length of time individual securities have been in a continuous unrealized loss position as of December 31, 2018 and 2017.

| | Less Than 12 Months | | 12 Months or More | | Total | |
|---|---|---|---|---|---|---|
| | **Fair Value** | **Unrealized Losses** | **Fair Value** | **Unrealized Losses** | **Fair Value** | **Unrealized Losses** |
| **December 31, 2018** | | | | | | |
| Held-to-maturity: | | | | | | |
| U.S. agency securities | **$ 2,705,325** | **$ 23,674** | **$ –** | **$ –** | **$ 2,705,325** | **$ 23,974** |
| Available-for-sale: | | | | | | |
| U.S. government securities | **213,189,806** | **979,645** | **–** | **–** | **213,189,806** | **979,645** |
| U.S. agency securities | **65,854,290** | **465,848** | **–** | **–** | **65,854,290** | **465,848** |
| Corporate debt securities | **123,662,566** | **737,542** | **–** | **–** | **123,662,566** | **737,542** |
| Other fixed-income securities | **51,150,386** | **106,460** | **–** | **–** | **51,150,386** | **106,460** |
| Mexican government securities (UMS) | **14,196,744** | **394,814** | **–** | **–** | **14,196,744** | **394,814** |
| Total available-for-sale investment securities | **468,053,792** | **2,684,309** | **–** | **–** | **468,053,792** | **2,684,309** |
| Total temporarily impaired securities | **$ 470,759,117** | **$ 2,707,983** | **$ –** | **$ –** | **$ 470,759,117** | **$ 2,707,983** |

| | Less Than 12 Months | | 12 Months or More | | Total | |
|---|---|---|---|---|---|---|
| | **Fair Value** | **Unrealized Losses** | **Fair Value** | **Unrealized Losses** | **Fair Value** | **Unrealized Losses** |
| **December 31, 2017** | | | | | | |
| Held-to-maturity: | | | | | | |
| U.S. agency securities | $ 3,872,484 | $ 31,912 | $ – | $ – | $ 3,872,484 | $ 31,912 |
| Available-for-sale: | | | | | | |
| U.S. government securities | 363,453,524 | 1,270,425 | – | – | 363,453,524 | 1,270,425 |
| U.S. agency securities | 122,603,016 | 628,950 | – | – | 122,603,016 | 628,950 |
| Corporate debt securities | 132,554,862 | 462,854 | – | – | 132,554,862 | 462,854 |
| Other fixed-income securities | 56,711,962 | 143,036 | – | – | 56,711,962 | 143,036 |
| Mexican government securities (UMS) | 3,527,600 | 15,261 | – | – | 3,527,600 | 15,261 |
| Total available-for-sale investment securities | 678,850,964 | 2,520,526 | – | – | 678,850,964 | 2,520,526 |
| Total temporarily impaired securities | $ 682,723,448 | $ 2,552,438 | $ – | $ – | $ 682,723,448 | $ 2,552,438 |

**3. Investments (continued)**

None of the unrealized losses identified in the preceding table are considered to be other-than-temporary or related to a credit impairment of an issuer as of December 31, 2018. 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 as of December 31, 2018 and 2017 are summarized in the following tables.

| | Held-to-Maturity Securities | | Available-for-Sale Securities | |
|---|---|---|---|---|
| | Fair Value | Amortized Cost | Fair Value | Amortized Cost |
| **December 31, 2018** | | | | |
| Less than 1 year | **$ 2,248,659** | **$ 2,266,000** | **$ 309,268,703** | **$ 309,628,251** |
| 1–5 years | **1,065,044** | **1,069,360** | **311,555,132** | **313,524,930** |
| 5–10 years | **–** | **–** | **–** | **–** |
| More than 10 years | **–** | **–** | **–** | **–** |
| | **$ 3,313,703** | **$ 3,335,360** | **$ 620,823,835** | **$ 623,153,181** |
| **December 31, 2017** | | | | |
| Less than 1 year | $ 1,171,872 | $ 1,175,396 | $ 651,270,945 | $ 652,469,990 |
| 1–5 years | 2,700,612 | 2,729,000 | 136,011,233 | 137,235,607 |
| 5–10 years | – | – | – | – |
| More than 10 years | – | – | – | – |
| | $ 3,872,484 | $ 3,904,396 | $ 787,282,178 | $ 789,705,597 |

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.

**3. Investments (continued)**

The following table summarizes sale, call, and maturity activity of investment securities for the years ended December 31, 2018 and 2017.

| | Year Ended December 31, 2018 | 2017 |
|---|---|---|
| Held-to-maturity investment securities: | | |
| Proceeds from maturities and call | **$ 1,178,000** | $ 54,457,031 |
| Gross realized gains from call | **–** | 3,547,139 |
| Available-for-sale investment securities: | | |
| Proceeds from sales and maturities | **1,075,412,149** | 212,183,024 |
| Gross realized gains | **4,980** | 73,245 |
| Gross realized losses | **2,369** | 4,337 |

The following table sets forth the net unrealized gains (losses) on securities available-for-sale and the reclassification adjustments required for the years ended December 31, 2018 and 2017.

| | 2018 | 2017 |
|---|---|---|
| Net unrealized losses on investment securities available-for-sale, beginning of year | **$ (2,423,419)** | $ (547,562) |
| Net unrealized gains (losses) on investment securities available-for-sale, arising during the year | **96,684** | (1,806,949) |
| Reclassification adjustments for net (gains) losses on investment securities available-for-sale included in net income | **(2,611)** | (68,908) |
| Net unrealized losses on investment securities available-for-sale, end of year | **$ (2,329,346)** | $ (2,423,419) |

## 4. Loans

The following schedule summarizes loans outstanding as of December 31, 2018 and 2017.

| | International Program | U.S. Domestic Program | Total |
|---|---|---|---|
| **December 31, 2018** | | | |
| Loan balance | **$ 1,284,477,904** | **$ –** | **$ 1,284,477,904** |
| Allowance for loan losses: | | | |
| General | **(16,827,406)** | **–** | **(16,827,406)** |
| Specific | **(2,327,101)** | **–** | **(2,327,101)** |
| Unamortized loan fees | **(12,685,298)** | **–** | **(12,685,298)** |
| Foreign currency exchange rate adjustment | **(40,516,565)** | **–** | **(40,516,565)** |
| Fair value of hedged items | **(155,900,516)** | **–** | **(155,900,516)** |
| Net loans outstanding | **$ 1,056,221,018** | **$ –** | **$ 1,056,221,018** |
| **December 31, 2017** | | | |
| Loan balance | $ 1,293,806,755 | $ – | $ 1,293,806,755 |
| Allowance for loan losses: | | | |
| General | (18,438,398) | – | (18,438,398) |
| Specific | (2,669,547) | – | (2,669,547) |
| Unamortized loan fees | (11,711,140) | – | (11,711,140) |
| Foreign currency exchange rate adjustment | (45,997,351) | – | (45,997,351) |
| Fair value of hedged items | (144,105,721) | – | (144,105,721) |
| Net loans outstanding | $ 1,070,884,598 | $ – | $ 1,070,884,598 |

At December 31, 2018 and 2017, the International Program had outstanding unfunded loan commitments on signed loan agreements totaling $150,637,189 and $188,352,122, respectively. At those same dates, the U.S. Domestic Program did not have any outstanding loan commitments on signed loan agreements. The International Program also had loan agreements under development for an additional $128,904,885 as of December 31, 2018.

The Bank under certain circumstances offered below-market-rate loans. As of December 31, 2018 and 2017, the Bank had below-market-rate loans outstanding for the International Program of $31,504,406 and $35,847,009, respectively. At those same dates, the U.S. Domestic Program did not have any below-market-rate loans.

**4. Loans (continued)**

The following table presents the loan portfolio by sector as of December 31, 2018 and 2017.

| | December 31 | |
|---|---|---|
| | **2018** | **2017** |
| International Program: | | |
| Air quality | **$ 86,833,221** | $ 95,634,593 |
| Basic urban infrastructure | **36,005,319** | 37,093,463 |
| Clean energy: | | |
| Solar | **312,603,682** | 291,197,939 |
| Wind | **644,675,776** | 620,669,578 |
| Other | **3,552,841** | 4,252,565 |
| Public transportation | **38,390,399** | 31,162,332 |
| Storm drainage | **11,974,394** | 52,715,102 |
| Water and wastewater | **150,442,272** | 161,081,183 |
| Total International Program | **1,284,477,904** | 1,293,806,755 |
| U.S. Domestic Program | **–** | – |
| | **$1,284,477,904** | $1,293,806,755 |

The following table presents the loan portfolio by risk category as of December 31, 2018 and 2017. These risk categories are defined in Note 2, along with additional information on how the Bank evaluates credit quality.

| | December 31 | |
|---|---|---|
| | **2018** | **2017** |
| International Program | | |
| Pass | **$1,269,843,286** | $1,279,427,547 |
| Special Mention | **14,634,618** | – |
| Substandard | **–** | 14,379,208 |
| Doubtful | **–** | – |
| Total International Program | **1,284,477,904** | 1,293,806,755 |
| U.S. Domestic Program | **–** | – |
| | **$1,284,477,904** | $1,293,806,755 |

**4. Loans (continued)**

The following table presents non-accrual loans outstanding by program as of December 31, 2018 and 2017.

| | December 31 2018 | December 31 2017 |
|---|---|---|
| International Program | **$ 14,634,618** | $ 14,379,208 |
| U.S. Domestic Program | **–** | – |
| Total | **$ 14,634,618** | $ 14,379,208 |

As of December 31, 2018, the International Program had one non-accrual loan in the amount of $14,634,618 that was restructured as a "troubled debt restructuring" during 2018. No non-accrual loans were restructured during the year ended December 31, 2017.

This non-accrual loan was restructured in July 2018 with a restructured balance of $14,976,865 and an extended amortization period. There was no charge-off of principal and interest related to the restructured loan for the year ended December 31, 2018. The specific allowance for this loan totaled $2,327,101 and $2,669,547 as of December 31, 2018 and 2017, respectively.

As of December 31, 2018 and 2017 the International Program had collateral valued at lower of cost of market from foreclosed loans reported as other assets of $0 and $3,104,639, respectively.

The average impaired loan balance for the years ended December 31, 2018 and 2017 totaled $14,407,620 and $9,155,761, respectively.

**4. Loans (continued)**

An age analysis of past-due loans, including both accruing and non-accruing loans, as of December 31, 2018 and 2017, is shown in the following table.

| | **Loans 30 –89 Days Past Due** | **Loans 90 or More Days Past Due** | **Total Loans 30+ Days Past Due** |
|---|---|---|---|
| **December 31, 2018** | | | |
| International Program | **$ –** | **$ –** | **$ –** |
| U.S. Domestic Program | **–** | **–** | **–** |
| | **$ –** | **$ –** | **$ –** |
| **December 31, 2017** | | | |
| International Program | $ – | $ 14,379,208 | $ 14,379,208 |
| U.S. Domestic Program | – | – | – |
| | $ – | $ 14,379,208 | $ 14,379,208 |

There were no loans past due 90 or more days accruing interest as of December 31, 2018 and 2017.

**4. Loans (continued)**

The following table summarizes the allowance for loan losses by classification as of December 31, 2018 and 2017.

| | Allowance for Loan Losses | | | |
|---|---|---|---|---|
| | **General Allowance** | **Specific Allowance** | **Total** | **Total Loans Outstanding** |
| **December 31, 2018** | | | | |
| International Program: | | | | |
| Private: | | | | |
| Construction | **$ 6,492,135** | **$ –** | **$ 6,492,135** | **$ 185,874,070** |
| Operation | **8,897,754** | **2,327,101** | **11,224,855** | **811,100,357** |
| Public | **976,084** | **–** | **976,084** | **195,216,867** |
| Public-private | **461,433** | **–** | **461,433** | **92,286,610** |
| Total International Program | **16,827,406** | **2,327,101** | **19,154,507** | **1,284,477,904** |
| U.S. Domestic Program | **–** | **–** | **–** | **–** |
| | **$ 16,827,406** | **$ 2,327,101** | **$ 19,154,507** | **$1,284,477,904** |
| **December 31, 2017** | | | | |
| International Program: | | | | |
| Private: | | | | |
| Construction | $ 1,267,448 | $ – | $ 1,267,448 | $ 35,564,527 |
| Operation | 15,425,916 | 2,669,547 | 18,095,463 | 909,235,438 |
| Public | 1,262,795 | – | 1,262,795 | 252,558,904 |
| Public-private | 482,239 | – | 482,239 | 96,447,886 |
| Total International Program | 18,438,398 | 2,669,547 | 21,107,945 | 1,293,806,755 |
| U.S. Domestic Program | – | – | – | – |
| | $ 18,438,398 | $ 2,669,547 | $ 21,107,945 | $1,293,806,755 |

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

**4. Loans (continued)**

The following schedule summarizes the allowance for loan losses for the years ended December 31, 2018 and 2017.

| | Allowance for Loan Losses | | | | |
|---|---|---|---|---|---|
| | | Loan Loss Provisions | | Loan | |
| | Beginning Balance | Specific | General | (Charge-offs) Recoveries | Ending Balance |
| **December 31, 2018** | | | | | |
| International Program: | | | | | |
| Private: | | | | | |
| Construction | **$ 1,267,448** | **$ –** | **$ 5,224,687** | **$ –** | **$ 6,492,135** |
| Operation | **18,095,463** | **(342,446)** | **(6,528,162)** | **–** | **11,224,855** |
| Public | **1,262,795** | **–** | **(286,711)** | **–** | **976,084** |
| Public-private | **482,239** | **–** | **(20,806)** | **–** | **461,433** |
| Total International Program | **21,107,945** | **(342,446)** | **(1,610,992)** | **–** | **19,154,507** |
| U.S. Domestic Program | **–** | **–** | **–** | **–** | **–** |
| | **$ 21,107,945** | **$ (342,446)** | **$ (1,610,992)** | **$ –** | **$ 19,154,507** |
| **December 31, 2017** | | | | | |
| International Program: | | | | | |
| Private: | | | | | |
| Construction | $ 10,417,904 | $ – | $ (9,150,456) | $ – | $ 1,267,448 |
| Operation | 12,741,894 | 2,669,547 | 2,684,022 | – | 18,095,463 |
| Public | 1,441,539 | – | (178,744) | – | 1,262,795 |
| Public-private | 451,134 | – | 31,105 | – | 482,239 |
| Total International Program | 25,052,471 | 2,669,547 | (6,614,073) | – | 21,107,945 |
| U.S. Domestic Program | 23,188 | – | (23,188) | – | – |
| | $ 25,075,659 | $ 2,669,547 | $ (6,637,261) | $ – | $ 21,107,945 |

## 5. Other Assets and Other Liabilities

The following table presents the gross and net balances of other assets and other liabilities, including the result of master netting arrangements for derivatives with certain swap counterparties, at December 31, 2018 and 2017.

| | Gross Amount | Master Netting Arrangements | Net Amount |
|---|---|---|---|
| **December 31, 2018** | | | |
| **Assets** | | | |
| Cross-currency interest rate swaps | **$ 196,524,505** | **$ (8,963,537)** | **$ 187,560,968** |
| Interest rate swaps | **(5,904,367)** | **5,904,367** | **–** |
| Collateral from swap counterparties | **(100,360,000)** | **–** | **(100,360,000)** |
| Credit valuation adjustment for swaps | **(1,310,316)** | **–** | **(1,310,316)** |
| Other real estate owned | **–** | **–** | **–** |
| Total other assets | **$ 88,949,822** | **$ (3,059,170)** | **$ 85,890,652** |
| | | | |
| **Liabilities** | | | |
| Interest rate swaps | **$ 7,257,372** | **$ –** | **$ 7,257,372** |
| Total other liabilities | **$ 7,257,372** | **$ –** | **$ 7,257,372** |
| | | | |
| **December 31, 2017** | | | |
| **Assets** | | | |
| Cross-currency interest rate swaps | $ 223,716,302 | $ (22,102,844) | $ 201,613,458 |
| Interest rate swaps | (4,690,552) | 4,690,552 | – |
| Collateral from swap counterparties | (117,380,000) | – | (117,380,000) |
| Credit valuation adjustment for swaps | (1,096,796) | – | (1,096,796) |
| Other real estate owned | 3,104,639 | – | 3,104,639 |
| Total other assets | $ 103,653,593 | $ (17,412,292) | $ 86,241,301 |
| | | | |
| **Liabilities** | | | |
| Interest rate swaps | $ – | $ – | $ – |
| Total other liabilities | $ – | $ – | $ – |

## 6. Debt

The following tables summarize the notes payable and other borrowings as of December 31, 2018 and 2017.

| | | | December 31, 2018 | | | | |
|---|---|---|---|---|---|---|---|
| **Issue Date** | **Maturity Date** | **Fixed Rate** | **Principal Amount** | **Unamortized Premium/ (Discount)** | **Unamortized Debt Issuance Costs** | **Fair Value of Hedged Items** | **Net Debt** |
| **Notes Payable** | | | | | | | |
| USD Issuance | | | | | | | |
| 02/11/10 | 02/11/20 | 4.375% | **$ 250,000,000** | **$ (72,500)** | **$ (179,574)** | **$ 2,005,955** | **$ 251,753,881** |
| 10/26/12 | 10/26/22 | 2.400 | **250,000,000** | **(328,472)** | **(568,003)** | **(6,889,039)** | **242,214,486** |
| 12/17/12 | 10/26/22 | 2.400 | **180,000,000** | **(1,445,378)** | **(359,787)** | **(6,047,843)** | **172,146,992** |
| 12/17/12 | 12/17/30 | 3.300 | **50,000,000** | **–** | **(205,600)** | **(2,230,811)** | **47,563,589** |
| CHF Issuance | | | | | | | |
| 04/30/15 | 04/30/25 | 0.250 | **128,706,754** | **515,390** | **(526,098)** | **(1,525,496)** | **127,170,550** |
| 04/26/17 | 10/26/27 | 0.200 | **124,443,117** | **340,008** | **(631,020)** | **(2,818,385)** | **121,333,720** |
| 07/24/18 | 07/24/26 | 0.300 | **126,415,858** | **141,226** | **(770,267)** | **2,591,722** | **128,378,539** |
| NOK Issuance | | | | | | | |
| 03/10/17 | 03/10/32 | 2.470 | **173,448,566** | **–** | **(522,672)** | **(18,290,693** | **154,635,201** |
| Total Notes Payable | | | **1,283,014,295** | **(849,726)** | **(3,763,021)** | **(33,204,590)** | **1,245,196,958** |
| **Other Borrowings** | | | | | | | |
| 04/11/14 | 06/30/19 | 1.900 | **2,631,000** | **–** | **–** | **–** | **2,631,000** |
| 04/11/14 | 12/30/19 | 1.900 | **2,632,000** | **–** | **–** | **–** | **2,632,000** |
| 04/11/14 | 06/30/20 | 1.900 | **526,785** | **–** | **–** | **–** | **526,785** |
| 08/14/14 | 06/30/20 | 1.900 | **2,105,215** | **–** | **–** | **–** | **2,105,215** |
| 08/14/14 | 12/30/20 | 1.900 | **2,632,000** | **–** | **–** | **–** | **2,632,000** |
| 08/14/14 | 06/30/21 | 1.900 | **1,008,985** | **–** | **–** | **–** | **1,008,985** |
| 02/13/15 | 06/30/21 | 1.900 | **1,623,015** | **–** | **–** | **–** | **1,623,015** |
| 02/13/15 | 12/30/21 | 1.900 | **1,470,635** | **–** | **–** | **–** | **1,470,635** |
| 07/29/15 | 12/30/21 | 1.900 | **1,161,365** | **–** | **–** | **–** | **1,161,365** |
| 07/29/15 | 06/30/22 | 1.900 | **266,455** | **–** | **–** | **–** | **266,455** |
| 09/16/16 | 06/30/22 | 1.900 | **2,216,528** | **–** | **–** | **–** | **2,216,528** |
| 03/17/17 | 06/30/22 | 1.900 | **149,017** | **–** | **–** | **–** | **149,017** |
| 03/17/17 | 12/30/22 | 1.900 | **2,632,000** | **–** | **–** | **–** | **2,632,000** |
| 03/17/17 | 06/30/23 | 1.900 | **2,632,000** | **–** | **–** | **–** | **2,632,000** |
| 03/17/17 | 12/30/23 | 1.900 | **2,632,000** | **–** | **–** | **–** | **2,632,000** |
| 03/17/17 | 06/30/24 | 1.900 | **2,632,000** | **–** | **–** | **–** | **2,632,000** |
| 03/17/17 | 12/30/24 | 1.900 | **2,170,720** | **–** | **–** | **–** | **2,170,720** |
| 11/13/17 | 12/30/24 | 1.900 | **461,280** | **–** | **–** | **–** | **461,280** |
| Total Other Borrowings | | | **31,583,000** | **–** | **–** | **–** | **31,583,000** |
| | | | **$1,314,597,295** | **$ (849,726)** | **$ (3,763,021)** | **$ (33,204,590)** | **$ 1,276,779,958** |

## 6. Debt (continued)

| | | | December 31, 2017 | | | | |
|---|---|---|---|---|---|---|---|
| **Issue Date** | **Maturity Date** | **Fixed Rate** | **Principal Amount** | **Unamortized Premium/ (Discount)** | **Unamortized Debt Issuance Costs** | **Fair Value of Hedged Items** | **Net Debt** |
| **Notes Payable** | | | | | | | |
| USD Issuance | | | | | | | |
| 02/11/10 | 02/11/20 | 4.375% | $ 250,000,000 | $ (137,750) | $ (341,192) | $ 6,515,389 | $ 256,036,447 |
| 10/26/12 | 10/26/22 | 2.400 | 250,000,000 | (414,472) | (716,716) | (4,875,400) | 243,993,412 |
| 12/17/12 | 10/26/22 | 2.400 | 180,000,000 | (1,823,804) | (453,986) | (4,880,263) | 172,841,947 |
| 12/17/12 | 12/17/30 | 3.300 | 50,000,000 | – | (222,789) | (741,321) | 49,035,890 |
| 10/10/13 | 10/10/18 | 2.300 | 300,000,000 | (341,302) | (260,209) | (708,958) | 298,689,531 |
| CHF Issuance | | | | | | | |
| 04/30/15 | 04/30/25 | 0.250 | 128,706,754 | 591,006 | (609,166) | 815,874 | 129,504,468 |
| 04/26/17 | 10/26/27 | 0.200 | 124,443,117 | 377,672 | (609,049) | 910,792 | 125,122,532 |
| NOK Issuance | | | | | | | |
| 03/10/17 | 03/10/32 | 2.470 | 173,448,566 | 28,666 | (566,551) | (3,347,201) | 169,563,480 |
| Total Notes Payable | | | 1,456,598,437 | (1,719,984) | (3,779,658) | (6,311,088) | 1,444,787,707 |
| **Other Borrowings** | | | | | | | |
| 08/15/13 | 06/30/18 | 1.900 | 2,631,000 | – | – | – | 2,631,000 |
| 08/15/13 | 12/30/18 | 1.900 | 600,467 | – | – | – | 600,467 |
| 04/11/14 | 12/30/18 | 1.900 | 2,030,533 | – | – | – | 2,030,533 |
| 04/11/14 | 06/30/19 | 1.900 | 2,631,000 | – | – | – | 2,631,000 |
| 04/11/14 | 12/30/19 | 1.900 | 2,632,000 | – | – | – | 2,632,000 |
| 04/11/14 | 06/30/20 | 1.900 | 526,785 | – | – | – | 526,785 |
| 08/14/14 | 06/30/20 | 1.900 | 2,105,215 | – | – | – | 2,105,215 |
| 08/14/14 | 12/30/20 | 1.900 | 2,632,000 | – | – | – | 2,632,000 |
| 08/14/14 | 06/30/21 | 1.900 | 1,008,985 | – | – | – | 1,008,985 |
| 02/13/15 | 06/30/21 | 1.900 | 1,623,015 | – | – | – | 1,623,015 |
| 02/13/15 | 12/30/21 | 1.900 | 1,470,635 | – | – | – | 1,470,635 |
| 07/29/15 | 12/30/21 | 1.900 | 1,161,365 | – | – | – | 1,161,365 |
| 07/29/15 | 06/30/22 | 1.900 | 266,455 | – | – | – | 266,455 |
| 09/16/16 | 06/30/22 | 1.900 | 2,216,528 | – | – | – | 2,216,528 |
| 03/17/17 | 06/30/22 | 1.900 | 149,017 | – | – | – | 149,017 |
| 03/17/17 | 12/30/22 | 1.900 | 2,632,000 | – | – | – | 2,632,000 |
| 03/17/17 | 06/30/23 | 1.900 | 2,632,000 | – | – | – | 2,632,000 |
| 03/17/17 | 12/30/23 | 1.900 | 2,632,000 | – | – | – | 2,632,000 |
| 03/17/17 | 06/30/24 | 1.900 | 2,632,000 | – | – | – | 2,632,000 |
| 03/17/17 | 12/30/24 | 1.900 | 2,170,720 | – | – | – | 2,170,720 |
| 11/13/17 | 12/30/24 | 1.900 | 461,280 | – | – | – | 461,280 |
| Total Other Borrowings | | | 36,845,000 | – | – | – | 36,845,000 |
| | | | $ 1,493,443,437 | $ (1,719,984) | $ (3,779,658) | $ (6,311,088) | $ 1,481,632,707 |

**6. Debt (continued)**

**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 a portion of the notes payable denominated in U.S. dollars was reported at December 31, 2018 as other assets of $(5,904,367) and other liabilities of $7,257,372 and at December 31, 2017 as other assets of $(4,690,552) and other liabilities of $0. 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, 2018 as other assets of $(15,958,507) and at December 31, 2017 as other assets of $301,562. Additional information on the fair value of financial instruments and derivatives is provided in Notes 11 and 12.

**Other Borrowings**

On November 8, 2012, the Bank signed a loan commitment with another development bank to borrow up to $50 million to fund eligible projects in Mexico. This loan amortizes semiannually, with the first principal payment paid on December 30, 2015 and final principal payment due on December 30, 2024. As of December 31, 2018, and 2017, the outstanding balance was $31,583,000 and $36,845,000, respectively.

**6. Debt (continued)**

The following table summarizes the maturities of the notes payable and other borrowings as of December 31, 2018 and 2017.

| | December 31 2018 | December 31 2017 |
|---|---|---|
| Less than 1 year | **$ 5,263,000** | $ 305,262,000 |
| 1–2 years | **255,264,000** | 5,263,000 |
| 2–3 years | **5,264,000** | 255,264,000 |
| 3–4 years | **435,264,000** | 5,264,000 |
| 4–5 years | **5,264,000** | 435,264,000 |
| 5–10 years | **384,829,729** | 263,677,871 |
| More than 10 years | **223,448,566** | 223,448,566 |
| Total | **$1,314,597,295** | $1,493,443,437 |

The following table summarizes short-term and long-term debt as of December 31, 2018 and 2017.

| | December 31 2018 | December 31 2017 |
|---|---|---|
| Short-term debt: | | |
| Notes payable | **$ –** | $ 300,000,000 |
| Other borrowings | **5,263,000** | 5,262,000 |
| Total short-term debt | **5,263,000** | 305,262,000 |
| | | |
| Long-term debt: | | |
| Notes payable | **1,283,014,295** | 1,156,598,437 |
| Other borrowings | **26,320,000** | 31,583,000 |
| Total long-term debt | **1,309,334,295** | 1,188,181,437 |
| Total debt | **$1,314,597,295** | $1,493,443,437 |

## 7. Equity

### Subscribed Capital

At December 31, 2018 and 2017, the Bank had subscribed 600,000 shares of capital stock, with a par value of $10,000 per share. As defined in the Charter, capital includes unqualified and qualified subscribed shares. Qualified subscribed shares are subject to the necessary legal requirements of each subscribing country. Unqualified subscribed shares have either been funded or authorized for purchase by the subscribing country. Capital is further classified as callable or paid-in capital at December 31, 2018 and 2017 as shown in the following table.

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

As permitted in the Charter, 10% of each country's initial subscription of paid-in and callable capital was set aside to finance community adjustment and investment programs. Accordingly, the Bank approved transfers in prior years of $45,000,000, equal to 10% of the paid-in capital of $450,000,000 from the initial subscriptions, to support these programs. As of June 29, 1999, the paid-in capital of the Mexican Domestic Program was fully transferred to Mexico. As of December 31, 2018, the paid-in capital of the U.S. Domestic Program was fully disbursed or expended as endorsed by the Finance Committee appointed by the U.S. Government for this program.

On May 6, 2016, Mexico submitted its letter of subscription to conditionally subscribe to 150,000 additional shares of capital stock with a par value of US$10,000 per share, subject to the necessary legal requirements and availability of appropriations. The capital stock is further classified as 22,500 qualified paid-in capital shares or US$225,000,000 and 127,500 qualified callable shares or US$1,275,000,000. On September 26, 2016, Mexico made its first contribution of the additional paid-in capital of $10,000,000 or 1,000 shares of paid-in capital and unqualified 5,666.6667 shares of callable capital.

**7. Equity (continued)**

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

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

## 7. Equity (continued)

### Retained Earnings

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

| | December 31 2018 | December 31 2017 |
|---|---|---|
| **Designated retained earnings** | | |
| International Program: | | |
| Water Conservation Investment Fund (WCIF) | **$ 95,594** | $ 95,594 |
| Technical Assistance Program (TAP) | **2,924,782** | 3,175,828 |
| Community Assistance Program (CAP) | **7,967,844** | 10,252,839 |
| Total International Program | **10,988,220** | 13,524,261 |
| U.S. Domestic Program | **–** | (1,860,539) |
| Total designated retained earnings | **10,988,220** | 11,663,722 |
| **Reserved retained earnings** | | |
| International Program: | | |
| Debt Service Reserve | **49,200,000** | 42,000,000 |
| Operating Expenses Reserve | **21,774,242** | 15,669,072 |
| Special Reserve | **30,000,000** | 30,000,000 |
| Capital Preservation Reserve | **61,091,482** | 49,933,088 |
| Total International Program | **162,065,724** | 137,602,160 |
| U.S. Domestic Program: | | |
| Special Reserve | **–** | – |
| Total reserved retained earnings | **162,065,724** | 137,602,160 |
| **Undesignated retained earnings** | | |
| International Program | | |
| Operations | **51,178,760** | 53,548,372 |
| Mark-to-market hedge valuations | **4,664,676** | 2,868,259 |
| Total undesignated retained earnings | **55,843,436** | 56,416,631 |
| Total retained earnings | **$ 228,897,380** | $ 205,682,513 |
| **Retained earnings by program** | | |
| International Program | **$ 228,897,380** | $ 207,543,052 |
| U.S. Domestic Program | **–** | (1,860,539) |
| Total retained earnings | **$ 228,897,380** | $ 205,682,513 |

**7. Equity (continued)**

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

With the integration on November 10, 2017, BECC transferred to the Bank total assets of $5,202,963, consisting of $4,620,931 in cash and cash equivalents, $33,889 in furniture and equipment, net of accumulated depreciation, and $548,143 in grant and other receivables. Along with the transferred assets, BECC also transferred accrued liabilities of $247,727 and undesignated retained earnings of $4,955,236. These funds have been recorded on the consolidated balance sheet as of December 31, 2017.

### Accumulated Other Comprehensive Income

The following table presents the changes in accumulated other comprehensive income (loss) for years ended December 31, 2018 and 2017.

| | Beginning Balance | Period Activity | Ending Balance |
|---|---|---|---|
| **December 31, 2018** | | | |
| Unrealized gains (losses) on available-for-sale investment securities | **$ (2,423,419)** | **$ 94,073** | **$ (2,329,346)** |
| Foreign currency translation adjustment | **333,444** | **3,803** | **337,247** |
| Unrealized gain (loss) on hedging activities: | | | |
| Foreign currency translation adjustment | **(45,997,351)** | **5,480,786** | **(40,516,565)** |
| Fair value of cross-currency interest rate swaps | **59,853,770** | **(8,221,092)** | **51,632,678** |
| Net unrealized gain (loss) on hedging activities | **13,856,419** | **(2,740,306)** | **11,116,113** |
| Total accumulated other comprehensive income (loss) | **$ 11,766,444** | **$ (2,642,430)** | **$ 9,124,014** |
| | | | |
| **December 31, 2017** | | | |
| Unrealized loss on available-for-sale investment securities | $ (547,562) | $ (1,875,857) | $ (2,423,419) |
| Foreign currency translation adjustment | 373,108 | (39,664) | 333,444 |
| Unrealized gain (loss) on hedging activities: | | | |
| Foreign currency translation adjustment | (55,027,169) | 9,029,818 | (45,997,351) |
| Fair value of cross-currency interest rate swaps | 71,168,901 | (11,315,131) | 59,853,770 |
| Net unrealized gain (loss) on hedging activities | 16,141,732 | (2,285,313) | 13,856,419 |
| Total accumulated other comprehensive income (loss) | $ 15,967,278 | $ (4,200,834) | $ 11,766,444 |

## 8. Domestic Programs

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

### Mexico

The MOU with Mexico specified that 10% of the initial paid-in capital from its initial capital subscription and the related earnings be set aside for the community adjustment and investment program endorsed by Mexico. The Government of Mexico instituted its domestic program, entitled Programa Complementario de Apoyo a Comunidades y Empresas (Mexican Domestic Program), through the offices of SHCP. In June 1996, SHCP entered into a mandate agreement with Banobras to receive and administer the funds allocated for this program. The Mexican Domestic Program funds were fully transferred to Mexico as of June 29, 1999. Accordingly, the activities of the Mexican Domestic Program are not reflected as operations of the Bank.

### United States

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

In accordance with the Charter and MOU with the United States, net assets of the Bank in the amounts of $0 and $478,358 were designated for the U.S. Domestic Program at December 31, 2018 and 2017, respectively. The revenue related to these amounts for the years ended December 31, 2018 and 2017 was $2,177 and $13,750, respectively. Additionally, expenses directly related to the operation of the U.S. Domestic Program of $230,535 and $229,059, are included in the operations of the Bank for the years ended December 31, 2018 and 2017, respectively. All expenses and disbursements are paid out of the U.S. Domestic Program funds. Retained earnings on the U.S. Domestic Program capital funds as of December 31, 2018 and 2017, were $0 and $(1,860,539), respectively.

**8. Domestic Programs (continued)**

In January 2009, the Finance Committee approved a Targeted Grant Program (TGP) to be funded with the remaining balance of the U.S. Domestic Program's allocated paid-in capital. For the years ended December 31, 2018 and 2017, $250,000 and $121,893, respectively, were disbursed through the TGP. These disbursements were reported as a deduction from allocated paid-in capital. As of December 31, 2018, and 2017, the U.S. Domestic Program's allocated paid-in capital totaled $0 and $2,338,897, respectively.

The U.S. Domestic Program was closed as of December 31, 2018 in accordance with the Finance Committee closeout plan. Remaining cash of $107,894 as of December 31, 2018 is committed to pay for retiree health insurance plan benefits and outstanding liabilities that will be liquidated by the Bank. The closeout of the program is reflected in the consolidated statement of changes in equity as of December 31, 2018.

## 9. Program Activities

Program activities are comprised of the following:

| | Year Ended December 31, 2018 | 2017 |
|---|---|---|
| Program income: | | |
| Border Environment Infrastructure Fund (BEIF) | | |
| EPA grant income | **$ 772,003** | $ 799,248 |
| Technical Assistance Program: | | |
| EPA grant income | | |
| Project Development Assistance Program (PDAP) | **1,368,628** | 285,490 |
| U.S.-Mexico Border 2020 Program (Border 2020) | **504,206** | 75,208 |
| IDB Multilateral Investment Fund (MIF) grant income | **10,621** | 16,808 |
| Other grant income | **13,776** | – |
| Total program income | **2,669,234** | 1,176,754 |
| | | |
| Program expenses: | | |
| BEIF | | |
| EPA grant administration | **772,003** | 799,248 |
| Community Assistance Program | **2,284,995** | 1,178,056 |
| Water Conservation Investment Fund | **–** | 203,901 |
| Technical Assistance Program: | | |
| NADB technical assistance and training expense | **251,046** | 781,502 |
| EPA grant administration | **844,211** | 113,003 |
| EPA grant expense – PDAP | **617,111** | 192,070 |
| EPA grant expense – Border 2020 | **411,512** | 55,625 |
| IDB-MIF grant expense | **10,621** | 16,808 |
| Other grant administration | **13,776** | – |
| Total program expenses | **5,205,275** | 3,340,213 |
| Net program expenses | **$ 2,536,041** | $ 2,163,459 |

### Border Environment Infrastructure Fund (BEIF)

The Bank administers grant funds from EPA through the BEIF. EPA grant awards since the initial grant made in April 1997 to December 31, 2018, total $707,722,862. Under the terms of the grants, the Bank reviews and submits prospective projects to EPA, which approves the projects. EPA then disburses funds to the Bank, which directs the grant monies to the specified project. The Bank also oversees progress and compliance requirements for EPA and receives an allocation of the EPA grant funds for administrative expenses incurred.

**9. Program Activities (continued)**

As of December 31, 2018, EPA has approved project funding proposed by the Bank totaling $663,193,429, of which $639,094,366 has been disbursed through the Bank. The Bank recognized $772,003 and $799,248 as reimbursement of expenses incurred for the years ended December 31, 2018 and 2017, respectively. These funds have been recorded as program revenue and expenses in the consolidated statements of income.

**Water Conservation Investment Fund (WCIF)**

In August 2002, the Board of Directors established the WCIF to finance water conservation projects in the U.S.-Mexico border region and designated $80,000,000 of the Bank's undesignated retained earnings to the program. Of that amount, $40,000,000 was reserved exclusively for water conservation projects in each country. For the years ended December 31, 2018 and 2017, $0 and $203,901, respectively, were disbursed under this program. As of December 31, 2018, cumulative disbursements total $38,239,378 for the United States and $39,990,407 for Mexico. These disbursements were funded with previously designated retained earnings and have been reported as a program expense.

In May 2013, the Board agreed to close out the WCIF and transfer any uncommitted funds to the CAP program. As of December 31, 2018, a cumulative total of $1,674,621 in uncommitted WCIF funds was transferred to the CAP program.

**Community Assistance Program (CAP)**

In February 2011, the Board of Directors approved a grant program to support public projects in all sectors eligible for Bank financing. The CAP program is funded from the Bank's undesignated retained earnings as authorized by the Board. As of December 31, 2018, a cumulative total of $14,092,840 has been allocated to the CAP. For the years ended December 31, 2018 and 2017, $2,284,995 and $1,178,056, respectively, were disbursed under this program. These disbursements were funded with previously designated retained earnings and have been reported as a program expense.

**9. Program Activities (continued)**

**Technical Assistance Program**

The Bank uses a portion of its retained earnings as authorized by the Board of Directors to offer technical assistance and training to project sponsors for the purpose of strengthening their financial performance and ensuring the long-term sustainability of their infrastructure. For the years ended December 31, 2018 and 2017, $251,046 and $552,229, respectively, was disbursed under this program. These disbursements were funded with previously designated retained earnings and have been reported as a program expense.

As part of its technical assistance program, the Utility Management Institute (UMI) provides water utility managers and their staff with an opportunity for ongoing professional development aimed at enhancing their managerial and financial skills. For the years ended December 31, 2018 and 2017, $0 and $229,273, respectively, was expended under this program.

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

*Project Development Assistance Program (PDAP)* – The PDAP program was administered previously by BECC. On November 10, 2017, the date of integration, the Bank began administering grants from EPA, on a reimbursement basis, to assist communities in the development of water and wastewater projects that have been prioritized by EPA to receive BEIF grants. For the years ended December 31, 2018 and 2017, the Bank recognized $617,111 and $192,070, respectively, in technical assistance expenses. The Bank also recognized $751,517 and $93,420 in grant administrative expenses for the years ended December 31, 2018 and 2017, respectively. These funds have been recorded as program revenue and expenses in the consolidated statement of income.

*U.S.-Mexico Border 2020 Program* – The Border 2020 program was administered previously by BECC. On November 10, 2017, the date of integration, the Bank began administering grant funds from EPA, on a reimbursement basis, to support joint efforts of the two governments to improve the environment and protect the health of residents within 100 kilometers of the U.S.-Mexico border. The Bank provides logistical and administrative services to identify, contract and manage projects and workshops funded under the program. For the years ended December 31, 2018 and 2017, the Bank recognized $411,512 and $55,625, respectively, in technical assistance expenses. The Bank also recognized $92,694 and $19,583 in grant administrative expenses for the years ended December 31, 2018 and 2017, respectively. These funds have been recorded as program revenue and expenses in the consolidated statement of income.

**9. Program Activities (continued)**

*Multilateral Investment Fund (MIF) Grant* – The MIF grant was administered previously by BECC. On November 10, 2017, the date of integration, the Bank began administering grant funds provided by MIF, on a reimbursement basis, to support the development and implementation of a sustainable e-waste management and recycling system in Mexicali, Baja California. The Bank recognized $10,621 and $16,808 in technical assistance expense for the years ended December 31, 2018 and 2017, respectively. These funds have been recorded as program revenue and expenses in the consolidated statement of income. This grant was completed and closed as of December 31, 2018.

**10. Employee Benefits**

**401(a) Retirement Plan**

The Bank has a 401(a) Retirement Plan for its employees. This plan provides for employee and nondiscretionary employer contributions. For the years ended December 31, 2018 and 2017, the Bank expended $1,143,749 and $814,344, respectively, relating to the plan.

**Retiree Health Insurance Plan**

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

**11. Fair Value of Financial Instruments**

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

**Cash and Cash Equivalents**

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

## 11. Fair Value of Financial Instruments (continued)

### Securities Held-to-Maturity

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

### Securities Available-for-Sale

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

### Loans Receivable and Interest Receivable

The fair value of loans is estimated based on Level 2 observable inputs using discounted cash flow analyses and interest rates currently being offered for loans made by the Bank with similar terms to borrowers of similar credit quality, net of allowance for loan loss, unamortized loan fees, foreign currency exchange rate adjustment and hedged items. The fair value of nonaccrual loans is estimated to equal the aggregate net realizable value of the underlying collateral and guaranties. The carrying amount of accrued interest approximates its fair value. This valuation does not consider liquidity discounts currently being used by certain market participants, since measuring their impact would not be cost-beneficial for the Bank, given the nature of its loan portfolio.

### Hedged Items for Loans

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

## 11. Fair Value of Financial Instruments (continued)

### Cross-currency Interest Rate Swaps

Cross-currency interest rate swaps are reported at fair value using Level 3 unobservable inputs. The fair value of these swaps is estimated based on discounting procedures, whereby each cash flow stream is discounted using the benchmark swap curve of the respective currency and converting the resulting net present value at the spot exchange rate, as well as external pricing models and counterparty pricing. The Bank's cross-currency interest rate swaps are all Mexican-peso for U.S.-dollar operations except for four (4) 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 3 unobservable inputs. The fair value of these swaps is estimated based on discounting procedures, whereby each cash flow stream is discounted using the USD OIS curve, as well as external pricing models and counterparty pricing.

### Other Real Estate Owned

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

### Debt and Accrued Interest Payable

Notes payable and other borrowings are carried at amortized cost. The fair value of the debt is estimated based on Level 2 observable inputs by discounting the cash flow stream using the USD OIS curve. The carrying amount of accrued interest payable approximates its fair value.

### Hedged Items for Notes Payable

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

## 11. Fair Value of Financial Instruments (continued)

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

| | December 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| | **Carrying Amount** | **Estimated Fair Value** | **Carrying Amount** | **Estimated Fair Value** |
| **Assets** | | | | |
| Cash and cash equivalents | **$ 175,094,413** | **$ 175,094,413** | $ 164,286,581 | $ 164,286,581 |
| Held-to-maturity securities | **3,335,360** | **3,313,703** | 3,904,396 | 3,872,484 |
| Available-for-sale securities | **620,823,835** | **620,823,835** | 787,282,178 | 787,282,178 |
| Loans, net | **1,056,221,018** | **1,074,690,417** | 1,070,884,598 | 1,110,949,537 |
| Interest receivable | **15,941,621** | **15,941,621** | 28,781,647 | 28,781,647 |
| Cross-currency interest rate swaps | **193,465,335** | **193,465,335** | 206,304,010 | 206,304,010 |
| Interest rate swaps | **(5,904,367)** | **(5,904,367)** | (4,690,552) | (4,690,552) |
| Other real estate owned | **–** | **–** | 3,104,639 | 3,104,639 |
| | | | | |
| **Liabilities** | | | | |
| Accrued interest payable | **18,367,661** | **18,367,661** | 21,697,668 | 21,697,668 |
| Short-term debt | **5,263,000** | **5,263,000** | 304,660,489 | 304,660,489 |
| Long-term debt, net | **1,304,721,548** | **1,304,693,268** | 1,183,283,306 | 1,183,863,120 |
| Interest rate swaps | **7,257,372** | **7,257,372** | – | – |

## 11. Fair Value of Financial Instruments (continued)

The Bank's financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2018 and 2017 are summarized in the following table by the valuation level of the inputs used to measure fair value. Additional information on how the Bank measures and classifies the levels of fair-value inputs is provided in Note 2.

| | Fair Value Measurements Using | | | Total |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Fair Value** |
| **December 31, 2018** | | | | |
| **Assets** | | | | |
| Available-for-sale (AFS) securities: | | | | |
| U.S. government securities | **$ 281,447,713** | **$ –** | **$ –** | **$ 281,447,713** |
| U.S. agency securities | **–** | **119,498,398** | **–** | **119,498,398** |
| Corporate debt securities | **–** | **149,112,098** | **–** | **149,112,098** |
| Other fixed-income securities | **–** | **55,573,932** | **–** | **55,573,932** |
| Mexican government securities (UMS) | **–** | **15,191,694** | **–** | **15,191,694** |
| Total AFS securities | **281,447,713** | **339,376,122** | **–** | **620,823,835** |
| Cross-currency interest rate swaps | **–** | **–** | **193,465,335** | **193,465,335** |
| Interest rate swaps | **–** | **–** | **(5,904,367)** | **(5,904,367)** |
| Hedged items for loans | **–** | **–** | **(155,900,516)** | **(155,900,516)** |
| Total assets at fair value | **$ 281,447,713** | **$ 339,376,122** | **$ 31,660,452** | **$ 652,484,287** |
| | | | | |
| **Liabilities** | | | | |
| Cross-currency interest rate swaps | **$ –** | **$ –** | **$ –** | **$ –** |
| Interest rate swaps | **–** | **–** | **7,257,372** | **7,257,372** |
| Hedged items for notes payable | **–** | **–** | **(33,204,590)** | **(33,204,590)** |
| Total liabilities at fair value | **$ –** | **$ –** | **$ (25,947,218)** | **$ (25,947,218)** |

## 11. Fair Value of Financial Instruments (continued)

| | Fair Value Measurements Using | | | Total |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Fair Value |
| **December 31, 2017** | | | | |
| **Assets** | | | | |
| Available-for-sale (AFS) securities: | | | | |
| U.S. government securities | $ 444,657,303 | $ – | $ – | $ 444,657,303 |
| U.S. agency securities | – | 123,595,266 | – | 123,595,266 |
| Corporate debt securities | – | 148,341,097 | – | 148,341,097 |
| Other fixed-income securities | – | 59,907,912 | – | 59,907,912 |
| Mexican government securities (UMS) | – | 10,780,600 | – | 10,780,600 |
| Total AFS securities | 444,657,303 | 342,624,875 | – | 787,282,178 |
| Cross-currency interest rate swaps | – | – | 206,304,010 | 206,304,010 |
| Interest rate swaps | – | – | (4,690,552) | (4,690,552) |
| Hedged items for loans | – | – | (144,105,721) | (144,105,721) |
| Total assets at fair value | $ 444,657,303 | $ 342,624,875 | $ 57,507,737 | $ 844,789,915 |
| **Liabilities** | | | | |
| Cross-currency interest rate swaps | $ – | $ – | $ – | $ – |
| Interest rate swaps | – | – | – | – |
| Hedged items for notes payable | – | – | (6,311,088) | (6,311,088) |
| Total liabilities at fair value | $ – | $ – | $ (6,311,088) | $ (6,311,088) |

The following table summarizes the changes to the financial assets and liabilities measured at fair value on a recurring basis using unobservable inputs (Level 3) during the years ended December 31, 2018 and 2017. Additional information on how the Bank measures fair value is provided in Note 2.

## 11. Fair Value of Financial Instruments (continued)

| | Fair Value of Level 3 Instruments | | |
|---|---|---|---|
| | **Cross-currency Interest Rate Swaps** | **Interest Rate Swaps** | **Hedged Items** |
| **Assets** | | | |
| Beginning balance, January 1, 2018 | **$ 201,613,458** | **$ –** | **$ (144,105,721)** |
| Total realized and unrealized gains (losses): | | | |
| Included in earnings (expenses) | **(5,831,398)** | **–** | **(11,794,795)** |
| Included in other comprehensive income (loss) | **(8,221,092)** | **–** | **–** |
| Purchases | **–** | **–** | **–** |
| Settlements | **–** | **–** | **–** |
| Transfers in/out of Level 3 | **–** | **–** | **–** |
| Ending balance, December 31, 2018 | **$ 187,560,968** | **$ –** | **$ (155,900,516)** |
| Beginning balance, January 1, 2017 | $ 227,719,003 | $ 4,065,766 | $ (151,854,451) |
| Total realized and unrealized gains (losses): | | | |
| Included in earnings (expenses) | (12,635,914) | (4,065,766) | 7,748,730 |
| Included in other comprehensive income | (11,315,131) | – | – |
| Purchases | – | – | – |
| Settlements | (2,154,500) | – | – |
| Transfers in/out of Level 3 | – | – | – |
| Ending balance, December 31, 2017 | $ 201,613,458 | $ – | $ (144,105,721) |
| **Liabilities** | | | |
| Beginning balance, January 1, 2018 | **$ –** | **$ –** | **$ (6,311,088)** |
| Total realized and unrealized (gains) losses: | | | |
| Included in (earnings) expenses | **–** | **8,083,214** | **(26,893,502)** |
| Included in other comprehensive income | **–** | **–** | **–** |
| Purchases | **–** | **–** | **–** |
| Settlements | **–** | **(825,842)** | **–** |
| Transfers in/out of Level 3 | **–** | **–** | **–** |
| Ending balance, December 31, 2018 | **$ –** | **$ 7,257,372** | **$ (33,204,590)** |
| Beginning balance, January 1, 2017 | $ – | $ – | $ 2,931,548 |
| Total realized and unrealized (gains) losses: | | | |
| Included in (earnings) expenses | – | – | (9,242,636) |
| Included in other comprehensive income | – | – | – |
| Purchases | – | – | – |
| Settlements | – | – | – |
| Transfers in/out of Level 3 | – | – | – |
| Ending balance, December 31, 2017 | $ – | $ – | $ (6,311,088) |

## 11. Fair Value of Financial Instruments (continued)

The Bank entered into seven (7) cross-currency interest rate swaps and one (1) interest rate swap during the year ended December 31, 2018. Upon issuance, the fair value of the swaps is $0 and, therefore, is not portrayed in the purchases line item in the preceding table. The change in fair value of these instruments is included within the total gains (losses) line item.

The Bank has no nonfinancial assets or liabilities measured at fair value on a recurring basis. Certain nonfinancial assets and liabilities measured at fair value on a nonrecurring basis include foreclosed assets (upon initial recognition or subsequent impairment) and other nonfinancial long-lived assets measured at fair value for impairment assessment. The fair value of the collateral from foreclosed loans is measured using Level 3 unobservable inputs and is reported in other assets as other real estate owned of $0 and $3,104,639 at December 31, 2018 and 2017, respectively. For the years ended December 31, 2018 and 2017, the Bank did not remeasure any existing real estate owned and did not record any impairment of long-lived assets.

## 12. Derivative Financial Instruments

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

The Bank enters into cross-currency interest rate swaps that are matched to specific fixed, variable or adjustable rate loans denominated in Mexican pesos that the Bank has entered into directly with the borrower or with COFIDAN. In the latter case, COFIDAN then enters into loans denominated in Mexican pesos under the exact same terms with its borrowers. The Bank has also entered into 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.

## 12. Derivative Financial Instruments (continued)

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

Under its arrangement with FOAEM, neither the Bank nor the counterparty is required to post collateral to support the outstanding fair value of the swaps. Beginning in July 2009, under counterparty relationships with other financial institutions, collateral may be required to be posted by either the Bank or the counterparty. Cash collateral of $100,360,000 and $117,380,000 was posted from counterparties to the Bank as of December 31, 2018 and 2017, respectively. No collateral was posted by the Bank as of those same dates.

The notional amounts and estimated fair values of the swaps outstanding at December 31, 2018 and 2017 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, 2018** | | **December 31, 2017** | |
|---|---|---|---|---|
| | **Notional Amount** | **Estimated Fair Value, Net** | **Notional Amount** | **Estimated Fair Value, Net** |
| Cross-currency interest rate swaps | **$ 1,071,857,976** | **$ 193,465,335** | $ 934,856,215 | $ 206,304,010 |
| Interest rate swaps | **951,701,197** | **(13,161,739)** | 1,318,431,886 | (4,690,552) |

The referenced exchange rate received for the cross-currency interest rate swaps outstanding was 5.09% at December 31, 2018 and 2017.

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, 2018 and 2017.

## 12. Derivative Financial Instruments (continued)

### Gains and Losses on Derivative Cash Flows

*Cross-currency Interest Rate Swaps* – The effective portion of the gain or loss due to changes in the fair value of cross-currency interest rate swaps designated as cash flow hedges is included in the accompanying consolidated statements of comprehensive income, while the ineffective portion is included in income (expense) from net hedging activities. The accumulated gain (loss) is reclassified into earnings as the hedged cash flows are received to offset the foreign currency gains (losses) that would have been recognized in earnings if the Bank had not been a party to the swaps. The accumulated net gain (loss) related to the swaps included in accumulated other comprehensive income totaled $11,116,113 and $13,856,419 at December 31, 2018 and 2017, respectively.

Gains or losses due to changes in the fair value of cross-currency interest rate swaps designated as fair value hedges and ineffective swaps are reported in income (expense) from net hedging activities. For the years ended December 31, 2018 and 2017, changes in the aforementioned swaps included in the accompanying consolidated statements of income were $2,009,937 and $(1,393,658), respectively.

*Interest Rate Swaps* – With regard to the interest rate swaps on outstanding loans and a portion of the long-term notes payable, the changes in the fair value of the swaps offset the changes in the fair value of the loans and debt due to changes in the USD OIS curve, while the ineffective portion is included in income (expense) from net hedging activities. For the years ended December 31, 2018 and 2017, changes in the aforementioned swaps included the accompanying consolidated statements of income were $790,508 and $0, respectively.

## 13. Credit Risk Associated with Financial Instruments

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

## 14. Commitments

In the normal course of business, the Bank has various outstanding commitments, in addition to the loans receivable disclosed in Note 4 and the long-term borrowings disclosed in Note 6. Under agreements with consultants and contractors in effect at December 31, 2018, the Bank has obligations to make payments contingent upon the future performance of the consultants and contractors under the terms of their respective contracts and, therefore, they are not recorded in the financial statements.

### Lease Commitments

The Bank rents office space for its headquarter in San Antonio, Texas, under an operating lease that expires on February 28, 2026. The Bank also rents office space for its Juarez Office under an operating lease that expires on April 3, 2019. Rent expense totaled $255,444 and $211,364 for the years ended December 31, 2018 and 2017, respectively. The following schedule summarizes the minimum future expenses for the forgoing leases.

| | |
|---|---|
| Year ended: | |
| December 31, 2019 | $ 225,080 |
| December 31, 2020 | 221,831 |
| December 31, 2021 | 223,064 |
| December 31, 2022 | 229,712 |
| December 31, 2023 | 232,493 |
| Thereafter | 520,289 |
| | $ 1,652,469 |

## 15. Accounting Standards Updates

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

**15. Accounting Standards Updates (continued)**

and (v) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 is effective for the Bank on January 1, 2019. The Bank evaluated the impact of implementing ASU 2014-09 and determined that the standard will not have a material effect on its consolidated financial statements.

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

ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02, among other things, require lessees to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. ASU 2016-02 does not significantly change lease accounting requirements applicable to lessors; however, certain changes were made to align, where necessary, lessor accounting with the lessee accounting model and ASC Topic 606: Revenue from Contracts with Customers. ASU 2016-02 will be effective for the Bank on January 1, 2020 and will require transition using a modified retrospective approach for leases existing at or entered into after, the beginning of the earliest comparative period presented in the financial statements. Notwithstanding the foregoing, in January 2018, the Financial Accounting Standards Board issued a proposal to provide an additional transition method

**15. Accounting Standards Updates (continued)**

that would allow entities to not apply the guidance in ASU 2016-02 in the comparative periods presented in the financial statements and instead recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Bank is evaluating the potential impact of ASU 2016-02 to its consolidated financial statements and disclosures.

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

ASU 2017-12, *Derivatives and Hedging (Topic 815) – Targeted Improvements to Accounting for Hedging Activities*. ASU 2017-12 amends the hedge accounting recognition and presentation requirements in ASC 815 to improve the transparency and understandability of information conveyed to financial statement users about an entity's risk management activities to better align the entity's financial reporting for hedging relationships with those risk management activities and to reduce the complexity of and simplify the application of hedge accounting. ASU 2017-12 will be effective for the Bank on January 1, 2020 and is not expected to have a significant impact on its consolidated financial statements.

**16. Subsequent Events**

The Bank has evaluated subsequent events for potential recognition and/or disclosure through March 29, 2019, the date these consolidated financial statements were issued.

# Supplementary Information

# North American Development Bank

## Combining Balance Sheet by Program

### December 31, 2018

| | International Program | U.S. Domestic Program (A) | Eliminations | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents: | | | | |
| Held at other financial institutions in demand deposit accounts | $ 374,898 | $ – | $ – | $ 374,898 |
| Held at other financial institutions in interest-bearing accounts | 48,311,621 | 107,894 | – | 48,419,515 |
| Repurchase agreements | 126,300,000 | – | – | 126,300,000 |
| | 174,986,519 | 107,894 | – | 175,094,413 |
| Held-to-maturity investment securities, at amortized cost | 3,335,360 | – | – | 3,335,360 |
| Available-for-sale investment securities, at fair value | 620,823,835 | – | – | 620,823,835 |
| Loans outstanding | 1,284,477,904 | – | – | 1,284,477,904 |
| Allowance for loan losses | (19,154,507) | – | – | (19,154,507) |
| Unamortized loan fees | (12,685,298) | – | – | (12,685,298) |
| Foreign currency exchange rate adjustment | (40,516,565) | – | – | (40,516,565) |
| Hedged items, at fair value | (155,900,516) | – | – | (155,900,516) |
| Net loans outstanding | 1,056,221,018 | – | – | 1,056,221,018 |
| Interest receivable | 15,941,621 | – | – | 15,941,621 |
| Grant and other receivable | 1,499,144 | – | – | 1,499,144 |
| Due from U.S. Domestic Program | 47,420 | – | (47,420) | – |
| Furniture, equipment and leasehold improvements, net | 251,731 | – | – | 251,731 |
| Other assets | 85,890,652 | – | – | 85,890,652 |
| Total assets | $ 1,958,997,300 | $ 107,894 | $ (47,420) | $ 1,959,057,774 |
| **Liabilities and equity** | | | | |
| Liabilities: | | | | |
| Accounts payable | $ 1,064,675 | $ – | $ – | $ 1,064,675 |
| Accrued liabilities | 2,499,936 | 60,474 | – | 2,560,410 |
| Due to International Program | – | 47,420 | (47,420) | – |
| Accrued interest payable | 18,367,661 | – | – | 18,367,661 |
| Undisbursed grant funds | 1,002 | – | – | 1,002 |
| Other liabilities | 7,257,372 | – | – | 7,257,372 |
| Short-term debt | 5,263,000 | – | – | 5,263,000 |
| Long-term debt, net of discounts and unamortized debt issuance costs | 1,304,721,548 | – | – | 1,304,721,548 |
| Hedged items, at fair value | (33,204,590) | – | – | (33,204,590) |
| Net long-term debt | 1,271,516,958 | – | – | 1,271,516,958 |
| Total liabilities | 1,305,970,604 | 107,894 | (47,420) | 1,306,031,078 |
| Equity: | | | | |
| Paid-in capital | 415,000,000 | – | – | 415,000,000 |
| General Reserve: | | | | |
| Retained earnings: | | | | |
| Designated | 10,988,220 | – | – | 10,988,220 |
| Reserved | 162,065,724 | – | – | 162,065,724 |
| Undesignated | 55,843,436 | – | – | 55,843,436 |
| Accumulated other comprehensive income | 9,124,014 | – | – | 9,124,014 |
| Non-controlling interest | 5,302 | – | – | 5,302 |
| Total equity | 653,026,696 | – | – | 653,026,696 |
| Total liabilities and equity | $ 1,958,997,300 | $ 107,894 | $ (47,420) | $ 1,959,057,774 |

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

# North American Development Bank

## Combining Statement of Income by Program

### Year Ended December 31, 2018

| | International Program | U.S. Domestic Program (A) | Total |
|---|---|---|---|
| Interest income: | | | |
| Loans | $ 61,981,255 | $ – | $ 61,981,255 |
| Investments | 16,936,377 | 2,177 | 16,938,554 |
| Total interest income | 78,917,632 | 2,177 | 78,919,809 |
| Interest expense | 47,242,402 | – | 47,242,402 |
| Net interest income | 31,675,230 | 2,177 | 31,677,407 |
| Operating expenses: | | | |
| Personnel | 12,839,428 | – | 12,839,428 |
| General and administrative | 2,404,145 | – | 2,404,145 |
| Consultants and contractors | 2,175,543 | – | 2,175,543 |
| Provision for loan losses | (1,953,438) | – | (1,953,438) |
| Other | (4,506) | – | (4,506) |
| Depreciation | 156,798 | – | 156,798 |
| U.S. Domestic Program | – | 230,535 | 230,535 |
| Total operating expenses | 15,617,970 | 230,535 | 15,848,505 |
| Net operating income (loss) | 16,057,260 | (228,358) | 15,828,902 |
| Non-interest income and non-operating expenses | | | |
| U.S. Department of State contribution | 2,902,000 | – | 2,902,000 |
| SEMARNAT contribution | 1,793,750 | – | 1,793,750 |
| Gains on sales of securities | 5,111 | – | 5,111 |
| Income from hedging activities, net | 2,566,698 | – | 2,566,698 |
| Income from foreign exchange activities, net | 213,393 | – | 213,393 |
| Fees and other income | 642,284 | – | 642,284 |
| Loss on other real estate owned | (290,300) | – | (290,300) |
| Total non-interest income | 7,832,936 | – | 7,832,936 |
| Income (loss) before program activities | 23,890,196 | (228,358) | 23,661,838 |
| Program activities: | | | |
| BEIF: | | | |
| EPA grant income | 772,003 | – | 772,003 |
| EPA grant administration | (772,003) | – | (772,003) |
| CAP expense | (2,284,995) | – | (2,284,995) |
| Technical assistance: | | | |
| EPA grant income | 1,872,834 | – | 1,872,834 |
| EPA grant administration expense | (844,211) | – | (844,211) |
| IDB-MIF grant income | 10,621 | – | 10,621 |
| Technical assistance expenses | (1,290,290) | – | (1,290,290) |
| Other grant income | 13,776 | – | 13,776 |
| Other grant expense | (13,776) | – | (13,776) |
| Net program expenses | (2,536,041) | – | (2,536,041) |
| Income (loss) before non-controlling interest | 21,354,155 | (228,358) | 21,125,797 |
| Net loss attributable to non-controlling interest | (173) | – | (173) |
| Net income (loss) | $ 21,354,328 | $ (228,358) | $ 21,125,970 |
| **General Reserve, January 1, 2018** | | | |
| Allocated paid-in capital | $ – | $ 2,338,897 | $ 2,338,897 |
| Retained earnings | 207,543,052 | (1,860,539) | 205,682,513 |
| Current period activity: | | | |
| Net income (loss) | 21,354,328 | (228,358) | 21,125,970 |
| TGP disbursements of the U.S. Domestic Program | – | (250,000) | (250,000) |
| Closeout of U.S. Domestic Program – allocated paid-in capital | – | (2,088,897) | (2,088,897) |
| Closeout of U.S. Domestic Program – retained earnings | – | 2,088,897 | 2,088,897 |
| **General Reserve, December 31, 2018** | | | |
| Allocated paid-in capital | – | – | – |
| Retained earnings | 228,897,380 | – | 228,897,380 |
| | $ 228,897,380 | $ – | $ 228,897,380 |

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

# North American Development Bank

## Combining Statement of Comprehensive Income by Program

### Year Ended December 31, 2018

| | International Program | U.S. Domestic Program (A) | Total |
|---|---|---|---|
| Income (loss) before non-controlling interest | $ 21,354,155 | $ (228,358) | $ 21,125,797 |
| Net loss attributable to non-controlling interest | (173) | – | (173) |
| Net income (loss) | 21,354,328 | (228,358) | 21,125,970 |
| Other comprehensive income (loss): | | | |
| Available-for-sale investment securities: | | | |
| Change in net unrealized gain during the period, net | 96,684 | – | 96,684 |
| Reclassification adjustment for net gain included in net income | (2,611) | – | (2,611) |
| Total unrealized gain on available-for-sale investment securities | 94,073 | – | 94,073 |
| Foreign currency translation adjustment | 3,803 | – | 3,803 |
| Unrealized gains (losses) on hedging activities: | | | |
| Foreign currency translation adjustment, net | 5,480,786 | – | 5,480,786 |
| Fair value of cross-currency interest rate swaps, net | (8,221,092) | – | (8,221,092) |
| Total unrealized loss on hedging activities | (2,740,306) | – | (2,740,306) |
| Total other comprehensive loss | (2,642,430) | – | (2,642,430) |
| Total comprehensive income (loss) | $ 18,711,898 | $ (228,358) | $ 18,483,540 |

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

# North American Development Bank

## Combining Statement of Cash Flows by Program

### Year Ended December 31, 2018

| | International Program | U.S. Domestic Program (A) | Total |
|---|---|---|---|
| **Operating activities** | | | |
| Net income (loss) | $ 21,354,328 | $ (228,358) | $ 21,125,970 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | |
| Depreciation | 156,798 | – | 156,798 |
| Amortization of net premium (discount) on investments | (3,026,257) | – | (3,026,257) |
| Change in fair value of swaps, hedged items and other non-cash items | (17,976,051) | – | (17,976,051) |
| Non-controlling interest | (173) | – | (173) |
| Gain on sales of securities, net | (5,111) | – | (5,111) |
| Provision for loan losses | (1,953,438) | – | (1,953,438) |
| Change in other assets and liabilities: | | | |
| Decrease in interest receivable | 12,839,977 | 49 | 12,840,026 |
| Decrease in receivable and other assets | 6,129,434 | – | 6,129,434 |
| Increase in due from U.S. Domestic Program and increase due to International Program | (42,732) | 42,732 | – |
| Decrease in accounts payable | (5,684,431) | – | (5,684,431) |
| Increase in accrued liabilities | 1,142,310 | 32,311 | 1,174,621 |
| Decrease in accrued interest payable | (3,330,007) | – | (3,330,007) |
| Net cash provided by (used in) operating activities | 9,604,647 | (153,266) | 9,451,381 |
| **Lending, investing, and development activities** | | | |
| Capital expenditures | (53,534) | – | (53,534) |
| Loan principal repayments | 176,337,591 | – | 176,337,591 |
| Loan disbursements | (165,984,284) | – | (165,984,284) |
| Purchase of held-to-maturity investments | (610,000) | – | (610,000) |
| Purchase of available-for-sale investments | (905,827,329) | – | (905,827,329) |
| Proceeds from maturities of held-to-maturity investments | 1,178,000 | – | 1,178,000 |
| Proceeds from sales and maturities of available-for-sale investments | 1,075,412,149 | – | 1,075,412,149 |
| Net cash provided by lending, investing, and development activities | 180,452,593 | – | 180,452,593 |
| **Financing activities** | | | |
| Proceeds from note issuances | 126,415,858 | – | 126,415,858 |
| Principal repayment of other borrowings | (5,262,000) | – | (5,262,000) |
| Principal repayment of notes payable | (300,000,000) | – | (300,000,000) |
| Grant funds – EPA | 26,340,883 | – | 26,340,883 |
| Grant disbursements – EPA | (26,340,883) | – | (26,340,883) |
| Grant activity – U.S. Domestic Program | – | (250,000) | (250,000) |
| Net cash used in financing activities | (178,846,142) | (250,000) | (179,096,142) |
| Net increase (decrease) in cash and cash equivalents | 11,211,098 | (403,266) | 10,807,832 |
| Cash and cash equivalents at January 1, 2018 | 163,775,421 | 511,160 | 164,286,581 |
| Cash and cash equivalents at December 31, 2018 | $ 174,986,519 | $ 107,894 | $ 175,094,413 |

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

# North American Development Bank

## Statement of Income of NADB Office in Juarez, Chihuahua

### For the Year Ended December 31, 2018

| | EPA | | | | | |
|---|---|---|---|---|---|---|
| | PDAP | Border 2020 | IDB-MIF | Other | Operation | Total |
| Income: | | | | | | |
| U.S. Despartment of State contribution | $ – | $ – | $ – | $ – | $ 2,902,000 | $ 2,902,000 |
| SEMARNAT contribution | – | – | – | – | 1,793,750 | 1,793,750 |
| U.S. Environment Protection Agency | | | | | | |
| Project Development Assistance Program (PDAP) grant income | 1,368,628 | – | – | – | – | 1,368,628 |
| U.S.-Mexico Border 2020 Program grant income | – | 504,206 | – | – | – | 504,206 |
| Inter-American Development Bank (IDB) Multilateral Investment Fund (MIF) grant income | – | – | 10,621 | – | – | 10,621 |
| Other grant income | – | – | – | 13,776 | – | 13,776 |
| Interest income | – | – | – | – | 28,172 | 28,172 |
| Other income | – | – | – | – | 5,381 | 5,381 |
| Total income | 1,368,628 | 504,206 | 10,621 | 13,776 | 4,729,303 | 6,626,534 |
| Operating expenses: | | | | | | |
| Personnel | 613,884 | 36,639 | – | 10,890 | 3,289,803 | 3,951,216 |
| General and administrative | 137,633 | 56,055 | – | 2,886 | 410,700 | 607,274 |
| Consultants | – | – | – | – | 192,323 | 192,323 |
| Other | – | – | – | – | (10,986) | (10,986) |
| Depreciation | – | – | – | – | 16,127 | 16,127 |
| Total operating expenses | 751,517 | 92,694 | – | 13,776 | 3,897,967 | 4,755,954 |
| Income before program activities | 617,111 | 411,512 | 10,621 | – | 831,336 | 1,870,580 |
| Technical assistance expenses | 617,111 | 411,512 | 10,621 | – | 76,496 | 1,115,740 |
| Net income | $ – | $ – | $ – | $ – | $ 754,840 | $ 754,840 |

# North American Development Bank

## Border Environment Infrastructure Fund (BEIF)

### As of and for the Year Ended December 31, 2018

**Balance Sheet**

| | Region 6 | Region 9 | Total |
|---|---|---|---|
| **Assets** | | | |
| Cash | $ 501 | $ 501 | $ 1,002 |
| Total assets | $ 501 | $ 501 | $ 1,002 |
| | | | |
| **Liabilities** | | | |
| Undisbursed grant funds | $ 501 | $ 501 | $ 1,002 |
| Total liabilities | $ 501 | $ 501 | $ 1,002 |

**Statement of Income**

| | Region 6 | Region 9 | Total |
|---|---|---|---|
| Income: | | | |
| U.S. Environmental Protection Agency grant income | $ 423,089 | $ 348,914 | $ 772,003 |
| Total income | 423,089 | 348,914 | 772,003 |
| | | | |
| BEIF operating expenses: | | | |
| Personnel | 159,278 | 162,374 | 321,652 |
| Consultants | 253,833 | 153,224 | 407,057 |
| General and administrative | 80 | – | 80 |
| Operational travel | 9,898 | 33,316 | 43,214 |
| Total BEIF operating expenses | 423,089 | 348,914 | 772,003 |
| Net income | $ – | $ – | $ – |

**Statement of Cash Flows**

| | Region 6 | Region 9 | Total |
|---|---|---|---|
| **Operating activities** | | | |
| Net income | $ – | $ – | $ – |
| Net cash provided by operating activities | – | – | – |
| | | | |
| **Financing activities** | | | |
| Grant funds – EPA | 14,436,394 | 11,904,489 | 26,340,883 |
| Grant disbursements – EPA | (14,436,394) | (11,904,489) | (26,340,883) |
| Net cash provided by financing activities | – | – | – |
| | | | |
| Net decrease in cash and cash equivalents | – | – | – |
| Cash and cash equivalents at January 1, 2018 | 501 | 501 | 1,002 |
| Cash and cash equivalents at December 31, 2018 | $ 501 | $ 501 | $ 1,002 |

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

**EY** | Assurance | Tax | Transactions | Advisory



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